Institution

DISSERTATION: DISCLOSURE OF RISK AND RISK APPETITE IN UK BANKS INDUSTRY AND BUILDING SOCIETIES

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Abstract

Financial institutions are obligated by internal and external controls to report periodically to the stakeholders. The stakeholders comprise of the owners, managers, investors, and regulatory entities amongst other parties in the command chain. The UK financial institutions offer similar services; however, some aspects of operations and ownership differ. Therefore, this study focussed on UK banks and building societies to understand their risk appetite and disclosure system. The rationale for the study was pegged on the premise the UK banks and Building Societies are always subjected to multiple uncertainties that seem to be inherent. Consequently, the managers have embraced a new modality of accepting some risk as they pursue the firms' objectives. The paper analysed risk appetite that shows the amount of risks that the banks and building societies are willing to accept so as to accomplish their goals. Additionally, it conducted a comparative analysis of risk appetite of banks and building societies. Methodologically, the study employed a mixed research that integrates both qualitative and quantitative techniques using sequential exploratory design. Secondary data was collected from trade journals, firms' websites, archival records, and other related books and journals. The primary data collected was conducted through in-depth and telephone interviews coupled with questionnaire surveys. Empirically, the findings of the study approved the null hypothesis that risk appetite and disclosure systems of UK banks and building societies are uninformative and boilerplated. In conclusion, UK firms have made strides in annual statutory reporting; however, the proper disclosure framework is yet to be instituted.

Abbreviations and Acronyms

BCBS	Basel Committee on Banking Supervision
BoD:	Board of Directors
CEO:	Chief Executive Officer
CRD	Capital Requirement Directive
DV	Dependent Variable
EBA	European Banking Authority
ECMLGP:	European Conference on Management, Leadership and Governance, & Politics
ERM	Enterprise Risk Management
IMF	International Monetary Fund
IV	Independent Variable
OECD:	Organisation for Economic Co-Operation and Development
PRA	Prudential Regulation Authority
R & O:	Risks and Opportunities
UK:	United Kingdom
WB	World Bank

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1.0. CHAPTER ONE

1.1. Introduction

Business enterprises or organizations operate against a backdrop of daily risks as they strive to pursue their objectives. Therefore, the fundamental issue that strike the managers and other concerned oversight bodies is to estimate the amount and scope of risks that are acceptable and incorporable during the pursuit of the set objectives (Abraham & Shrives 2014, p. 92). In essence, it is essential for the concerned parties to describe and define the scope of the principles and procedures to ensure that business risks are managed sustainably. As a result, the study uses a comparative notion to reveal the risks and risk appetites coupled with how businesses disclose them to the stakeholders. The contextual setting of the study is based in the United Kingdom (UK) where some case studies from the banking industry and building societies are used. Most banks and building societies in the UK have been subject to many studies; however this research goes a notch high to prove the inconclusive hypothesis. Notably, most studies hypothesize that operational reports from the banks and societies have always been boiler-plating; which is a core revelation that risk management and disclosures from the financial reports are not comprehensive (Collier & Agyei-Ampomah 2008, p. 53).

Objectively, the study aims to provide a guideline for the establishment of measurement standards that could be used in the assessment of risk appetites of the UK firms. As such, that may be used as reference point for revealing how the risk appetites affect the firms' disclosure preferences (Conrow 2003, p. 116). Through descriptive assessment, evaluation, and discussion of the case studies, the findings are essential rudiments for the British banks and Building Societies apply so as to realize sustainable management of the risks. Conceptually, all enterprises are subjected to multiple risks such as market risks, financial risks, operation risks, security risks, insurance risks, and liquidity risks depending on the type

of the business. For example, banks experience many risks that relate to resources that need pre-emptive management such as those that relate to the market, credit facilities, operation, compliance, and liquidity amongst others (Schmitt 2012, p. 82). Markedly, if the risks are internalized and understood properly, business performance upsurges. The performance of firms depends greatly on the mechanisms of risk management.

Strikingly, the management requires proper identification of the potentiality of the risks. After which, the possible amount of risks can be estimated and correlated with the organizations' capabilities to determine the risk tolerance threshold (Harner 2010, p. 5). The threshold helps in the development of proactive action plans that are appropriate in mitigation of the risks. In a nutshell, this study gives the ground and keystones that are necessary for efficient management of the business risks that have proved intricate and detrimental to effective performance of the firms (Harner 2010, p. 25). By using periodical financial reports from the UK banks and building societies, the research explores the extent to which the cases tolerate and expose their risks. Risk tolerance depends on the stature or capacity of the firms; for instance, large and mature banks and societies have an upper hand in taking more risks as compared to the small ones (Boyd 2011, p. 61). In addition, the paper provides the reasons why most businesses are sceptical in disclosing all of their risks.

Essentially, the paper discloses how business management is dependent on the internal processes and systems of risk governance. Every bank or society shows some form of comprehensive and robust internal controls to risk tolerance and exposure so as to achieve multiple objectives. Such procedures and controls aim at protecting the financial strengths and reputation, managing business accountability and institutionalizing of independent controls (Collier & Agyei-Ampomah 2009, p. 201). As such, risk disclosure to the investors,

board of directors, credit agencies, regulators, and other stakeholders can be regulated for the betterment of the firm. In sum, the research focuses on the UK Banks and Building Societies to show how and why business risks are tolerated and disclosed within and outside the organizations.

1.1.1. Background Study

Since the world is increasingly competitive, fast-pacing, and complex, most organizations are inevitably inclined to advance their risk management strategies. Evidently, strong protection and compliance foundation are built so as to expand focus on risk factors that influence operational performance and decision-making strategies. Contemporarily, many institutions invest large amounts of money in order to change their models to suit the current demands and maximize the possible advantages (AL-Thani & Merna 2013, p. 14). For example, the money investments go towards the development of new products, concepts, or operational practices. Such development and business dynamisms are triggered by the need to improve the service delivery approaches and the overall performance of enterprises. Therefore, enterprise managers and executives use analytics and big data to develop new ways or approaches that are focussed on optimizing the achievement of the objectives. However, amid the changes, many organizations indulge in risk taking programs that are incorporated into viable strategies in their operational managements. Additionally, many global firms still see risk management as a high-order compliance exercise when educating the audit committee or their Board of Directors (BoDs) (Frenkel et. Al. 2005, p. 66). Therefore, companies have devised the methodology of incorporating risk management into their systems as opposed to bolting up programs that are conducted as aftermaths.

Conceptually, business risks entail the future uncertainties and randomness that blur

definition projection of the operations and performance levels. Evidently, banks and building societies in the UK are always subjected to a multiple junk of risks that pertain to their resources (Schmitt 2012, p. 11). For example, market risks result due to the market dynamism and movements of variables such as share prices and interest rates. Peculiar price falls and liquidity crunch may have profound impacts on the financial status of most businesses due to overhauls in income and expenditures. Similarly, the economic downturn due to the global financial crisis that commenced in 2007 has had a major impact on the markets which in turn affect business performance (Khan & Zsidisin 2011, p. 97). Additionally, liquidity risks arise when the firms fall due to their incapability to meet or settle payment obligations. The obligation may become stringent due to increased interest rates or reduction in the financial status of business which results to pilling up of liabilities beyond the capacity of the firms (Kumar & Persaud 2002, p. 402). Other risks such as security breaches, business errors, and failed internal processes are regarded as operational risks. Moreover, some risks may emanate from the business strategies, regulation deviance, and reputational breaches that have cumulative impacts on the overall performance of businesses.

Moreover, several studies indicate that the UK banks and building enterprises face a lot of non-financial risks. For example, in the political context, the changes in political regimes and policies have had a profound influence on the local taxation systems and investment procedures amongst other challenges. Therefore, the business practitioners must stay abreast and informed about the political commentaries so as to ensure that the enterprise proactively anticipates and institute plans for future changes. In addition, distribution risks constitute the non-financial aspect where supply and delivery channels show inefficiencies. Therefore, companies tend to identify the risks of particular distribution dependency as a way of mitigation or to develop other new systems. Again, competition between companies poses a

lot of challenges as particular firm face the possibility of losing their clients to the counterparts. Such events may be exacerbated by market changes, loss of the core investment professionals, and lack of adequate training. As a result, the banks and societies must streamline their operational units and principles in the quest to gain competitive advantage.

Empirically, it is right to conclude that the UK firms face multiple challenges and to thrive, they require proper risk management systems. The system involves identification of the possibility of risks so as to measure the risk scope. The scope gives the boundary information of the risks in terms of likelihood and probabilities. Such checklists are viable in correlating the possible risks and the capability of the firms to accommodate them in their operations, which in turn determines the optimal risk tolerance threshold (Li & Wearing 2012, 227). After understanding the threshold of the company, it becomes easier for them to define the risk appetite. Defining the risk appetite is the key to the formulation of key risk management strategy. Sequentially, the risk appetite has to be set which is a prerequisite of instituting and approving the frameworks and policies for risk management. Nevertheless, all companies must acknowledge the reality that some risks are beyond approval discretion since they cause multiple and networked challenges. As such, companies lean towards identifying the acceptable risks from the risk profile to shape the current and future requisitions.

Theoretically, risk appetite articulate and allocates the risk capacity that companies are willing to accept as they pursue their strategies. A company may voluntarily accept some risks in order to realize superior returns that would otherwise not be possible without taking the risks. However, in a practical context, some firms in the UK do not clearly define their risk appetite. As seen in the report schemes of the banks and building societies, some confusions and considerations still need to be outlined. The accounting reports do not fully

qualify and quantify the essence of the risk appetite since the variable used are mostly not precise and do not elicit the recommended analytical studies. As a result, most researchers have focused on how the firms prioritize their risk appetite. Notably, different organizations show variation in prioritization since greater appetite may be towards a particular risk. At the same time, the company may decide to maintain an aversion attitude on risks that are not conspicuous to a certain operation. In essence, most companies have varied orientations by undertaking different measures on different categories of risks. Overall, qualification and quantification of the risk appetite depends on the general risk attitude.

Arguably, this research is based on the ground that enterprise risk management (ERM) is a contemporary business aspect in the UK. Mostly, ERM is peculiar to the banking system and the building societies which are inevitably subjected to multiple internal and external risks. From the case studies descriptive analysis and quantitative analysis of the risk variables, it is evident that businesses use different ERM to achieve their objectives. ERM guides organizations to focus more on relevant risks and discriminate the less urgent ones in the process of soliciting success. Perceptively, uncertain future outcomes are extricable with the risks. However, the question that emanates from the UK banking and building societies is that; how much risk do those organizations accept and assume? And, what factors determine the acceptance and assumptions. The expedition for answering such questions and relating the concepts of risks and risk appetite between the banking sector and building societies of UK form the basis of this study.

1.1.2. Problem Statement

Historically, companies and societies have perceived risks as indispensable threats that should be mitigated or reduced using whatever means possible. However, recently, there have been increased regulations and compliance systems that force firms to expend many

resources in addressing the risks. Additionally, the institutions' shareholders and members have developed the tendency of scrutinizing whether the businesses thrive in the right direction or not by monitoring the performance indicators. Consequently, there has been increased pressure on the need for transparency and accountability on risk factors that affect the businesses. Nevertheless, there has been a paradoxical quagmire where CEOs endeavours in taking risks instead of mitigating or minimizing them. Despite the multiple risks that companies especially financial institutions are subjected to, risk-taking has been a new strategy for achieving better performance. Evidently, when the business leaders take the risk, they are confined by the nature of the risks to conceal certain information from their annual financial reports. The idea of transparency and accountability in disclosing the risks taken to the BoDs or investor is breached due to the essence of multiple risks.

The current events concerning the financial market dynamism and changes in regulatory aspects have significantly impacted on financial institutions. Banks and building societies are financial institutions that have fall victims to the financial market changes. As a result, there is an urgent need for qualified and efficient risk modelling and management. As hinted, risk management involves proactive planning and mitigation measures that are subject to understanding the risks and risk appetites of companies. However, different financial institutions show varied approaches to risk management since risks can be viewed as threats, opportunities, barriers, or uncertainty (Barakat & Hussainey 2013, p. 254). Because of the disparities in the viewpoints, this research aims to discuss the rationale behind the approaches and conduct a comparative analysis of risk attitudes between the banks and societies. If those aspects are made clear, then it is easy to approve or disapprove the notion that UK financial institutions boilerplate their financial reports. The inconclusive statutory reports seem not to disclose all the risks accepted and assumed by the organizations. Therefore, the findings of

the study offer appropriate guiding principles and insights for organizational accountability and transparency.

Therefore, this document adds knowledge for policy makers to formulate the most appropriate mechanisms and guideline that assist the financial institutions in disclosing their risks or opportunities. With that, the statutory reports will seem comprehensive and integrated which will facilitate proper auditing programs. Understanding the Risk and risk appetite of the selected companies serves as the cornerstone for proposing the best Risk and Opportunities (R & O) management and disclosure protocols (Opoku & Ahmed 2014, p. 94). As a result, the communication system between the financial institutions and their stakeholders will be enhanced. For communication to be enhanced, a risk appetite statement needs to be developed in a way that shows simplicity in the structure. Additionally, its design should be focused and precise to particular risk variables in order to facilitate efficient monitoring and auditory services. Evidently, many studies only focus on the conceptualization of risks and risk appetite without recommending the suitable mechanisms for risk disclosure. That research gap on risk disclosure serves as the fertile ground for the rationale of this study.

Furthermore, many readers have the problem of relating risk appetite and disclosure to practical context. Therefore, this research uses case study description of the risk taking realities in the banks and building societies to explore the practical aspect of risk appetite. Such methodology heralds apposite understanding of how executive managers take risks when pursuing best results. Practically, organization chief executive officers (CEO) always make many promises or bets on the operation strategies and how they wish to execute their mandates and improve the overall performance of the company. The bets involve risk-taking;

for example, pursuing new markets, new investments, adopting new technologies, merging and acquisitions, and expansion of market footprint (Miihkinen 2012, p 489). Implicitly, such undertakings or programs that the CEOs initiate involve taking risks, which provides the insight for risk tolerance and attitude. Subsequently, the risks taken need to be communicated particularly to the investors and other external regulators such as auditors. In this context, the study adds a new concept of risk appetite by viewing it as a useful tool that is necessary for evaluation of strategic business options. Also, the research purports that risk appetite should incorporate proper communication with the board of directors (BoDs) and, eventually with the investors. In sum, the paper provides the definitive linkage of risks and opportunities that emanate from the process of setting and executing strategies.

1.1.3. Objectives of the study

This research is motivated by multiple rudiments that are entailed in risk management and governance systems. Objectively, the study aims to develop an appropriate standard of measurement that is necessary for assessing the risk appetite of firms. In addition, it looks into how the risk appetites of different UK financial institutions influence the scope of disclosure preferences. Contextually, the subject of analysis and assessment is pegged on the main financial institutions in the UK, which include banks and building societies. The institutions demonstrate the best case studies since they are largely affected by the global financial crises that commenced in 2007-2008. As a result, such enterprises operate against a backdrop of many challenges. Some of the challenges or risks can be incorporated into the business operations; hence, termed as acceptable or on-strategy risks. On the other hand, some risks are beyond the capability of the firms; thus the firms cannot tolerate them because of their magnitudes; such risks are called off-strategic risks. Therefore, this study also provides the procedure for identification and classification of the risks. Also, through conclusive assessment programs, the study aims to herald detailed analysis and discussion of

the industrial quagmires that influence the risk preference, appetite, and disclosure of the British firms (Buckle & Thompson 2004, p. 59).

Also, on a critical notion, the research acts as the point of reference for CEOs and policy makers to make decisions about the magnitude of disclosure in the financial reports. Undoubtedly, it has been observed that the UK financial institutions do not remit detailed financial reports supposedly because they fear the ultimate risks of BoD objections and diversion of the potential investors (Philip & Michael 2005, p. 9). Explicitly, investors are always sceptical when it comes to committing their funds to a particular institution. As a result, the British banks and building societies have devised the tendency of not disclosing all their risks or state of vulnerability as a way to hoodwink the expected investors. As such, this document unveils the best methodology that will facilitate remission of convincing financial reports that are detailed and at the same time encouraging the investors. The aforementioned objective is attached to the fact that the success of banks, building societies, and other financial institutions greatly depend on the contributions of the investors (Cordella & Levy 1997, p. 21).

Again, the research purposes to analyse and evaluate the differences that exist between the British banks and financial institutions in relation to risk appetite and disclosure mechanisms. Conventionally, the financial institutions have differential ownership that dictates how their operations are conducted and managed. For instance, bank owners are the shareholder that causes variability and complexity in transaction operations. On the other hand, building societies that are formed, as a result, of mutual relationships are owned by their customers (Raimbault & Barr 2011, p. 194). The idea of mutualism in the building societies reduces the complexity and variability of transactions as compared to the banks. Notably, banks are

companies; hence, they are found in the stock market list where organization and individuals can buy shares. As such, the shareholders are the investors who benefit or peril depending on the financial reports of performance (Ahmed & Khaled 2013, p. 254). Therefore, the bank CEOs constantly strive to ensure that their institutions succeed to avoid withdrawal of shares by the stakeholders. With that, the managers are forced to take some risks in order to make more profits whatever the cost so as to retain and attract more investors.

Conversely, the building societies are known as mutual institutions that are owned by members. Therefore, there is a comparably less pressure for the institutions to realize more profits. Because the majority of the people who benefit from the services are the members, in case of the need for critical decisions, members are required to vote (Solomon 2007, p. 45). For example, when the management wants to take some risks in their endeavours then a mutual decision can be reached through voting. Additionally, when there is a need for demutualization so as to divert to banks, the members make the decision (Greuning & Brajovic 2009, p. 138). In sum, this research explores the differences between the banks, owned by shareholders, and building societies, owned by member, to provide the insight of risk management and governance (Bohn 2012 p. 113). Added to that, the paper explains how the idea of demutualization can impact on risk management. The difference is elicited through qualitative descriptions of the organizations and quantitative analysis of the statutory reports from the financial institutions.

1.1.4. Research Questions

Based on the objectives and the purpose of the study, the key parameters that feature in the research questions includes quantification and qualification of the risk appetites of the financial institutions. Also, the research investigates the differences of risk appetites and attitudes between the UK banks and building societies. Subsequently, the study demonstrates

how the banks and societies make the risk disclosure decisions. First, qualification of the risk appetite heralds a comparative analysis of what happens at the financial institutions and the recommendations from the literature. Additionally, the quantification that bases on the financial report provides discrete information of the concept of the appetite and disclosure variables. Besides, a relative study of the bank and societies risk appetites will add knowledge on the distinctive nature of banks and building institutions. As a result, the questions and objective rudiments give the idea of how the UK financial institutions disclose their financial reports with a specific focus on the risk appetite. In a nutshell, all the research issues can be summarized in three precise questions below:

1. How can the risk appetite of the UK firms and building institutions be qualified and quantified so as to enhance their measurements and evaluation?
2. What is the difference between the risk appetites of the UK banks and building institutions that influences their disclosure systems?
3. How do the risk the risk appetites of the financial institutions affect their overall risk disclosure patterns and other financial reporting mechanisms?

1.1.5. Hypothesis

In consistence with the archival review, it has been presumed that governmental standards do not directly influence the risk appetite and disclosure preference of the financial institutions. It, therefore, means that the disposition of the risk appetite and the disclosure parameters are entirely predetermined by the firms' systems and principles. A previous study on the Finnish financial firms indicated that the financial reports and their incorporations are majorly dictated by the managers (Raimbault & Barr 2011, p. 197). The leaders of the firm have the audacity to include or exclude risk management variables in their reports. Based on that

background information, this research developed both null and alternative hypotheses that that relate to risk appetite and disclosure systems:

1 Null Hypothesis (H_0): The financial reports from the UK banks and building societies are always boiler-plating and inconclusive as some risk parameters are intentionally omitted.

2. Alternative Hypothesis (H_1): The financial reports from the UK banks and building societies are conclusive and include all the risk parameters without any intentional omission.

Notably, the null hypothesis has to be tested for approval or disapproval. For it to be approved, sufficiently persuasive data and information must be available to confirm that the financial reports of the financial institutions are inconclusive. Therefore, all the risk and disclosure variables have to be analysed and evaluated in order to test their consistencies and validity to the set hypothesis. According to the argument of the research, the UK financial reports that are submitted to the auditing and monitoring agencies do not include all the aspects of risks (Buckle & Thompson 2004, p. 124). The previous studies purported that the CEOs of the financial institutions do not disclose the sensitive risks that might breach their reputation or scare away the potential investors.

1.1.6. Purpose and Rationale of the study

Cumulatively, this research contributes immensely to risk management mechanisms by providing deeper insights about the appropriate strategies. The subjects of the contribution are the UK banking and building societies, but other entities to benefit from the research include the policy makers, government agencies, and other chains of stakeholders in the

financial institutions of UK. It provides the guiding principle of risk disclosure that does not breach the internal controls of the institutions and at the same time upholding transparency and accountability (Baker, Singleton, & Veit 2010, p. 73). In particular, the study explores and examines the explanation for the argument the most UK banks and building institutions do no submitted conclusive financial reports. On a broader perspective, this research aims to provide the best understanding and comprehension of strategic risk management that should be adopted by the financial service deliverers of the UK. Essentially, proper risk management requires conceptualization of risk appetite that is another key area that this study reiterates on.

Undoubtedly, when the concept of risk appetite is completely defined and understood, it becomes a powerful tip and tool for the management of risks. In turn, the management enhances overall improvement of business performance. Organizations commonly use the term risk appetite in a conventional way which means that its proper contextual meaning and practicality is not well articulated and conceptualized (Au Yong 2006, p. 29). As a result, this document heralds the precise framework for understanding risk appetite with relation to governance environment and regulatory systems. Some literature and studies have oversimplified the idea where organizations view it as mere taking of risks in the event of seeking better results. However, according to this study, risk appetite requires deeper insights as opposed to the information gap between the theoretical concepts and practically. Ideally, most of the previous definitions and applications of risk appetite have been contradicting and confusing coupled with the unfound efforts of quantifying the appetite, which have led to illusionary precision.

Therefore, this research aims at providing greater clarity about the concept of risk appetite that is a prerequisite for proper organizational risk management. As a result, the financial

enterprises shall demonstrate and clearly understand how to articulate risk appetite statement. The statement is very crucial for unlocking values and aligning the process of decision-making that concerns the organizational risks (Philip & Philip 2005, p. 76). In essence, the recommendations of this research shall serve as points of reference for organizations to efficiently manage their definite and potential risks. As hinted, the paper provides practical insights that the financial institutions of the UK can use to formulate and define their risk appetites. It is also imperative to add that it is not only the banks and the societies to benefit by understanding the concepts, but also the overall chain of stakeholders of the institutions. The stakeholders include the bank shareholders, building society members, employees, regulatory entities, auditing or rating agencies, and customers who are all functions of the risk appetite of the organizations.

Additionally, the paper provides the inner notion of risks in terms of their magnitude and likelihood of occurrence. With that, the banks and financial institution shall be well informed of the classes of risks that could possibly affect their operations and those that would not. Therefore, the firms will be in a better position of making clear distinctions of risks that can be integrated into the strategies from those that are very sensitive to accept. Markedly, the amount and magnitude of risks that companies can accept when pursuing their objectives depend on the unique circumstances that the institutions operate. That is, different factors such as the external environment, regulatory policies, business systems, and people influence the risk appetite of organizations (Schmitt 2012, 33). Therefore, through this study, the banks and building societies can better understand all the factors that influences and shape their risk appetite that are derivatives for proper operational management. In addition, the firm can clearly comprehend the internal and external controls that are within and beyond their operational capabilities so as to avoid risky risks.

By helping the financial institutions to avoid very sensitive ventures, the paper recommends a new approach for organizations to avoid fraudulent operations. Notably, some business managers have the tendency of involving in fraudulent and unethical ventures as shortcuts to success. Such acts may result in more adverse consequences to the reputations of the banks or building societies. For example, some banks CEOs of UK have breached the reputations of their organizations by indulging in unethical operations that elicit adversities than losses from lending. The institutions that engage in such acts are said to have set lower and improper risk appetite that enhances the use of fraudulent and unethical operation mechanisms (Abraham & Cox 2007, p. 46). For example, that studies that analyse the reputation of the British firms realized there have been increasing complaints from the customers that indicate the growing breach of ethics in service delivery. As a result, this research acts as a cornerstone for institution managers and other stakeholders to emulate so as to uphold compliance with the government and regulatory recommendations.

Most importantly, the investigation shall help the UK financial firms to develop well-defined risk appetite statement that encompasses all the required parameters. That is, a comprehensive and detailed risk appetite must be reflective of the organization's strategies and objectives. Implicitly, the risk appetite must integrate the operations of the business by outlining and auguring well with the plans and expectations of the stakeholders. All the business key aspects must be incorporated when defining the risk appetite so as to make the policy makers to acknowledge the capacity and willingness of the organization to take risk (Kendrick 2009, p. 47). Markedly, for the regulators to confirm the legitimacy of the risk appetite statement, it should be entrenched as a document to make it formal. Also, several considerations must be made prior to the articulation of the statement where issues like

available resources, skills, and technology that are required for the management and monitoring of the exposure to the risk. It should also tolerate the reality of possible losses or negative aspects of taking the risk. Moreover, the risk appetite must be reviewed and reconsidered on a periodical basis to ensure conformance with the current business situations. Ultimately and most importantly, the risk appetite has to be approved by the BoDs and the investors which bring the concept of risk disclosure (Burtonshaw-Gunn 2009, 61-63). Evidently, the BoDs and investors together with the other stakeholders can better assess and evaluate the fundamental risks of the financial institutions when the risk factors are detailed disclosed.

So, in addition to the formulation of the risk statement, the study looks into the principles and pillars of risk disclosure that the UK banks and building societies need to adopt. The idea of risk disclosure is dependent on the communication system and how the organization chain of command is operated (ECMLGP 2012, 8-9). By providing a comparative analysis of the how risk disclosure differs between the banks and building societies, the paper provides a clear methodology for the company executives to follow. In essence, the communication with the stakeholders is enhanced; thus, increasing transparency and accountability between the managers and the board, investors, customers, and regulatory agencies amongst other stakeholders. Undeniably, a comprehensive disclosure of the risks important for improving the market variable since it makes the investors make decisions that are informed and grounded. Additionally, the banks and building societies become more open and accountable to their investors and supervisors.

1.1.7. Research structure

Notably, this document is consistent with the conventional structure of dissertation papers. First, the preliminary pages give the introductory information about the paper; for example

about the title and acknowledgement and declaration of the originality of the paper despite accredited information that is borrowed from other sources. Ideally, the initial section of the paper prepares the reader of what they expect from the document by looking into the title and the table of content amongst others. Additionally, the abstract provides the summary of the whole content by providing the tip of what (content), how (methodology), where (setting), when (time), and why (rationale) the research was conducted.

Chapter one is the introduction section that define the concepts in the abstract by putting them in their contextual aspects. In addition, it provides the background study and scope of the issues and aspect to be discussed that concern UK banks and building societies in the overall body. Besides, it explains the technical and complex aspects and words and empirically reveals the research methodology. It also states the major findings and summarizes the conclusion. Chapter two is the literature review the puts the issues into context by reviewing the background or theoretical literature to measure if the topic and problem statement are consistent with the previous studies. A range of positions is analysed and evaluated to provide the readers with a clue of the expected findings and recommendations. Chapter three is the methodology section that explains how the research was conducted. It describes the procedures, sampling techniques, selection methods, variables, tests and measurements that are used to ensure the findings' validity and reliability (Atkins, Gill, & McConnell 2014, p. 30). It also shows the assumptions, ethical issues, and limitations of the research with their possible delimitation techniques. Chapter four entails the analysis, results, and discussion sections. The results clearly present the findings by use of charts, table, and other diagrams so as to facilitate proper illustrations and visualization of the findings to enhance readers' conceptualization. Further, the discussion sector interprets the findings and constructs consistent and logical argument based on the findings.

Other sections include the recommendation and conclusion that finally wrap up on the content and what need to be done by the British banks and building societies. In addition, the references section lists the literature from which the secondary data and information were sourced. The appendices further present the additional illustrations of the content issues.

2.0. CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction to corporate governance& corporate disclosure

Corporate governance is a broad perspective of the processes, mechanisms and relations that are used to control and direct the corporations. The governance structure schedules and assigns roles and responsibilities to the different stakeholders of the corporate bodies. According to Khan and Zsidisin (2011, 28), the banks and building societies have a conglomerate of stakeholders such as the BODS, managers, owners, auditors, creditors, legislators, and investors amongst other participants. Notably, the idea of corporate governance arises as a mechanism to meet the interest of the stakeholders; particularly through upholding accountability and transparencies. Legislatively, the governance if fostered through annual reportings and standard-setting so as to enhance monitoring and auditing of the corporate operations (Khan & Zsidisin 2011, 19). Overall, the governance principles are derived from the enrechments of the Financial Reporting Council (FRC) recommendations that enshrines all the legal requisitions concerning corporate governance and disclosures. According to Linsley and Shrives (2005 p. 209) the UK corporate code outlines the standard measures that should be complied with during the reporting and disclosure processes so as to uphold quality and inclusivity.

The UK National Securities Regulators (NSR) and FRC have the mandate to update the recommendations of the Corporate Governance Code (CGC). By doing so, the recommendations are adjusted to suit the contemporary context and to refine reporting and disclosure mechanisms in accordance with the present regulations. Evidently, as Khan and Zsidisin (2011, 22) explained, annual reporting and disclosure of the risk appetite is imperative for enhancing effective corporate risk management and internal control systems.

According to Au Yong (2006, 44), the statutory reports entails the information of the board in terms of their roles, tenures, organization and values. Additionally, as Linsley and Shrives (2005 p. 208) postulated, other reports include the chairman and board evaluations that show the insight of processes and operations of the previous years. Nominal information also reveals the diversity and succession plans that the corporate bodies have. Most critically, the audit committee report provides the risk appetite and management systems coupled with the remunerating information. Above all, the banks and building societies are bound by the FRC and CGC amongst other auditing entities to submit annual financial reports and disclose their risk appetite to all the relevant stakeholders, particularly the investors and regulators (Linsley & Shrives 2006, p. 391). Corporate governance and disclosure are geared towards ensuring engagement the stakeholders and enhance effective communication rather than mere compliance.

According to Au Yong (2006, 45), risk disclosures are the revelations that corporate societies and business operators should make to their investors and clients about the potential enigmas that may compromise operatives in a business. Conrow (2003, 56) and Khan and Zsidisin (2011, 21) noted that there are significant risks inherent in investing in most financial markets and instruments as well as the construction industry in the UK. Such factors are globally common. Accordingly, it is mandatory for a corporate business to keep all its stakeholders informed about all the risks just as they would about the developments. That is because, as Khan and Zsidisin (2011, 23) highlighted the investment derivatives, options and futures are often characterized by factors that may not necessarily be profundities, but that are capacitated to puncture ambitions. Such factors are often unknown to investors. However, companies were described by Greuning and Brajovic (2009, 89) as *the holders of the inside information*, and hence should make their elaborations on the investment uncertainties known to the investors.

However, that has not been the case in the UK where companies have developed the inclination and tendencies to keep such risks unknown to clients and stakeholders (Baker, Singleton and Veit (2010, 45). According to Youngberg (2011, 32), some UK banking and construction industries' operations are guided by unusual precepts and beliefs that have been founded on unethical projections. For instance, such companies have believed that uniformed clients are often more likely to invest, compared to informed clients. This, as Khan and Zsidisin (2011, 41) explained, is exploitation as it eliminates all the factors that characterize a mutual relationship in which case both the stakeholders and the concerned company stand to benefit.

Solomon's literature (2007, 45) highlights the elements that may have sired the contradictory and unethical business foundations. The author elaborated that the elementary principles are compromised by the desire to amass profits. However, such are often done with *hope* and not professionalism. That implies that the corporate business create the belief that there are distinctly limited chances that may compromise the elements that factor to an operation. According to Starita and Malafronte (2014, 59), some companies of the ilk even proceed to conduct forecasts to determine the projections in a business plain but keep the negative projections in their closet. These are contributory factors to the *information gap*, a factor that keeps most stakeholders to business in the dark about the essential risks that relate to the businesses of their interests.

Miihkinen (2012, 37) stated that an investor should be made privy to all the information that relate to a business as an investment opportunity should be a choice and not an obligation. He further elaborated that the mutual relationship that develops from information may be the biggest catalyst for growth for all the parties involved in a business. Risk disclosure complements the desire to work together. It so justifies chosen options and helps the investors to prepare reserves and beef up their psychological strength to deal with the *expected*

unexpected. According to Collier and Agyei-Ampomah, (2009, 47), it is an obligation and a tool that would elevate the investment chances of investors. European Conference on Management, Leadership and Governance and Politis (2012, 45) explained that such would probably happen catalyzed by success and the understanding about the navigations that should be made to avoid the risks.

Operating to this disregard has exposed the inconsistencies in the risk narratives that so project the management strategies amongst other contributory elements of the UK firms. When analyzing the economic growth of the UK banking industry, Solomon (2007, 35) explained that amongst other identified banks, Barclays has suffered sufficient economic strain in the UK. That is down to the fact that the company may have adopted a discriminative strategy. Ideally, such firms only explain some risks but ignore the underlying and definitive risks. For instance, depending on the situation, a firm may opt to explain the liquidity and currency risks, or the economic risks and emerging market trends while paying no attention to political risks. In essence, such kind of a strategy would even make the investor oblivious of the political contribution that mires all business across the nation.

Miihkinen (2012, 40) made a contributory remark to the risk management approaches. He stated that whilst paying attention to the risk disclosures is fundamental for firms, it is very essential to integrate the disclosure policies with the firm's appetite. Essentially, *Risk Appetite* is the amount, type and approach to a risk that a given company may be willing to assume in its operations. According to Linsley and Shrives (2006, 79), it is the definitive feature of the financial capacity and the management strategies of firms. Kumar and Persaud (2002, 49) opined that poor management may freak away from operations that are characterized by great risks. On the other hand, exemplary management may develop strategies that may make the risks surmountable.

Risk appetite, as was examined by Collier and Agyei-Ampomah, (2009, 47) is the psychological interpretation of the strength of firms. He further elaborated that economists have been compelled to grade companies and firms into different levels depending on their approaches and management strategies. For instance, there are the averse firms that are preliminarily scared of risks. The *minimal* firms are characterized by their choices of the safer options. Essentially, such firms are not blessed with the large capital bases. The intermediate level has the open companies that have the will and power to conduct risk characterized businesses. Lastly, the senior companies are the *hungry* companies that exploit the large economic benefits of the opportunities that may bear risks to most other firms (Linsley & Shrives 2006, 79).

Regardless of the level of the risk in which a firm is graded, they should always consider ethics and information as forefront pointers in the integration of the disclosures and appetite (Kumar & Persaud 2002, 78). That would imply that in their risk management strategy, the UK firms would use ethics as a tool to involve the stakeholders to in all agreements. They would hence adopt the position of transparency and friendliness. Harner (2010, 52) explained that however harsh a risk disclosure may sound to an investor, they are often at the positions of considering such revelation as friendly. Elementary strategies would demand that the firm and the investors agree to the risks involved in the deal. Hamilton and Micklethwait (2006, 56) explained that the company being aware of its risk capacity and management approaches, and the investors being aware of the risks into which they may plunge, should mutually support each other. In such a scenario, both the company and the investors may mutually benefit from any deal, or may share the costs of a failure and make the losses cheaper to bear.

Abrahaz and Shrives (2014, 67) explained that a distinctive risk information gap in the UK banking and construction industries are factored by one side approaches to risk management. Characteristically, the involved firms only consider their risk appetites and evaluate their

capacity to handle a risk. Kumar and Persaud (2002, 56) explained that firms' disclosure preferences are subject to their financial capacity and economic ambition strategies. Related to the appetite levels, the junior firms with aversive characteristics may keep off the risks and avoid informing the investors of the reasons behind the decisions. That is so because, according to Miihkinen (2012, 40), they may want to keep the impression that they are well established and can plunge into the markets at whatever the conditions just so to impress the investors. On the other hand, the established firms may operate on the basis that the clients may be scared away by their desire to plunge into the risk-defined markets. Barakat and Hussainey (2013, 42) explained that such companies are guided by the unethical desire to make profits and not to satisfy the need for the maintenance of the operative standards in the UK.

Harner (2010, 34) opined that the UK companies can transform risk disclosures and appetites into platforms that highlight common grounds of interests. That implies that they can be tools that get used by the firms to create a rapport with the investors. He further elaborated that the factors, if not well exploited as risk management tools, may compromise the objectives and strategies that are drawn by firms as they may lose trust with their stakeholders. Collier and Agyei-Ampomah, (2009, 54) explained that trust is the primary ingredient in risk management strategies that involve more than one party in a business. However, such formal relations have been negated by the ambitions of the concerned firms, a factor that has become highly common in the past decade.

Linsley and Shrives (2006, 80) highlighted that the UK banking and construction industries should not be unethical when striving to gain profits in the otherwise competitive markets. Accordingly, strategies that would favor firms to assume the dominant roles in the markets may be minimal but substantial applications can always guarantee economic success and stability for all the parties involved. When addressing an ethics conference, Kumar and

Persaud (2002, 21) explained that *minimal* is the term used as most companies have taken to employing similar strategies, a factor that has intensified competition in the UK markets. The disclosure and appetite integration should hence be supplemented with the lucid regulation policy that would elevate the risk approaches and management.

According to Kaplan and Mikes (2012, 36), *Risk Regulation* is the creation of standardized precepts that govern allowances, barriers and the exploitation of opportunities in the markets. It should be the definitive drive that elevates the risk management approaches and in the process, make it easy to exploit and benefit from market risks. Barakat and Hussainey (2013, 37) explained that the application of risk regulation would involve the sieving of the risks and the repositioning of both the firms' and stakeholders' interests. That would create the precepts that enable the stakeholders to maximally reap or avoid the risk markets. Harner (2010, 52) and Au Yong (2006, 44) supported that fact and made it clear that regulation is the creation of standards and abiding by them. Therefore, it is apparent that regulation would not just prepare all parties in a proposal for the risks; it would also make the risks and uncertainties bearable and exploitable. Abrahaz and Shrives (2014, 78) pointed out that regulation is the significant *breather* that strengthens the positions of stakeholders in a risk market and makes every deal worthy of a negotiation.

The definitive management feature has been underexploited or misused by firms in the UK. According to Khan and Zsidisin (2011, 25), the UK firms only regulate the risks when they are faced with compulsive elements that threaten their success in a risk market. Au Yong (2006, 52) elaborated that though few UK firms operate with the ideal precepts that govern the regulation, some still exploit it as a measure that only favor one side of the team. That implies that they have developed the inclination to avoid disclosure at all costs and at all levels. Considerably, such firms avoid revealing the nature and amount of risks involved in a risk market, and avoid informing the investors of the regulatory measures as well. Hence, as

Abrahaz and Shrives (2014, 78) elaborated, they are the only sides that stand to reap maximum benefits from a deal as they ideally only protect themselves.

Well used, risk regulation would, according to Hamilton and Micklethwait (2006, 80), not just complement the UK firms' appetite, but would also make the objectives of the firms achievable. However, Bohn (2012, 67) pointed out that some banking and construction firms in the UK have adopted the strategy in an imbalanced approach to risk management. He so stated that regulating the risks would require that all the involved parties act sufficiently to reveal their motives in an investment. Accordingly, most stakeholders do plunge resources in a market with varied motives as some aim at the economic and financial gain in a market. On the other hand, others use investment as a competitive strategy to destabilize their adversaries.

Regulating risks while at the same time maintaining the precepts of risk disclosure and appetite would require involving all the stakeholders in the public incentives, franchising, licensing, command, and regulation. Harner (2010, 57) explained that because the risk disclosure is not limited to investors alone, other factors should involve the banking and construction clients. That is a regulatory measure that would improve the marketing position of the UK firms both in the local markets and internationally as well. The UK firms are yet to adopt strategies like the limited intervention levels, a factor that would definitely increase the democratic options and potentials in a market. Such kind of a strategy would enlighten the clients and guide in them making choices with which they are comfortable. Moreover, as the Organisation for Economic Co-operation and Development (2011, 61) explained, the factor would the firms loyalty and in turn increase their benefits.

According to Kaplan and Mikes (2012, 34), risk regulation in the superlative has repositioned companies in other nations like the US as it is the biggest contributory element to the success

rates of the rapidly developing nations. In a contradictory statement, Hamilton and Micklethwait (2006, 77) elaborated that success rates in the UK and the rest of the world are not comparable as the nation boasts some of the most successful and dominant companies despite is diminutive size. However, Bohn (2012, 21) explained that the resourceful nature of the country coupled with its rapidly expanding population has created market opportunities that have seen to the rise of the banking and construction industries. Notably, these factors have also multiplied the competition and risks in the market and call for the adoption of strategies that elevate the risk markets in the UK.

Regulating the risks would make investors open to investments, a process that would definitely factor into the reduction of losses. It would also act as a financial security as firms would be free of reprimanding situations, the kind in the kind of legal battles. Such often distract firms and may even cause them tremendous financial losses that result from tarnished reputations. According to Hamilton and Micklethwait (2006, 23), the failure to regulate risks often make it more than likely to experience crises, and stagnation and failures. Regulation makes a company weary of the dangers and opportunities alike and arms it possible to handle the factors that would otherwise be very challenging.

2.2. Disclosure and Appetite Similarities and Differences

In a risk management study in the UK, Kaplan and Mikes (2012, 42) made the revelation that despite their different business operatives, the banking and construction industries in the UK have exhibited vast similarities. According to World Bank and International Monetary Fund (2005, 12), that factor may have been propagated by the regional markets and the similar regulations that the industries have been subjected to. For instance, companies in London may be required to handle their clients in a particular pattern. However, the Organisation for Economic Co-operation and Development (2011, 78) projected that the similarities may not be subject to the localities only. That is because the definitive feature that the industries have

in common is a marketing objective that seeks to maximally benefit from the risks markets. Abraham and Paul (2007, 50) supported the factor and highlighted that similar objectives often demand the creation of similar precepts that would inspire the realization of the set goals.

In the first instance, Abraham and Paul (2007, 50) explained that the industries are characterized by a significant risk appetite that was sired by the desire to exploit the market benefits and make maximum profits. Bohn (2012, 86) quoted the CEO of Barclays, Antony Jenkins, as stating that every risk that threatens the advancement of other companies creates the pathway for growth for the daring firms. The bankers and the builders in UK have unanimously indulged in a post economic depression expansion as they seek to out compete themselves. World Bank and International Monetary Fund (2005, 16) explained that a common and definitive feature of the marketing propositions adopted by the two industries is how they have basically aligned their interest and targeted benefits alongside the strategies. These are the elements that have made the market somewhat unfavourable for the investors and other stakeholders. It is required of the banking and construction industries to consider not just their interests, but also the interests if the investors they seek to partner with. It is not ethical to use investors as a stepping stone collect most of the proceeds.

Referring to Bohn (2012, 86), Starita and Malafronte (2014, 39) noted that the alignment of the strategies and benefits at the expense of the interests of the investors is discriminatory and selfish. Essentially, it is the industries' biggest undoing and has been projected in inconsistencies in the risk narratives. Starita and Malafronte then proceeded to explain that risk narratives' inconsistencies and lucid information gaps are the other most common feature of the industries as they are both indulged in attempts to conceal their dubious operations (Starita and Malafronte 2014, 40).

The other similarity, as Collier and Agyei-Ampomah (2008, 32) opined, are the numerous regulations that compel the industries to disclosure. For instance, there are regulations and rules that require banks to maintain public records. On the other hand, the construction firms have been subjected to the interstate, national and international rules that govern their environmental policies. These factors, as Cordella and Levy (1997, 32) elaborated, have made the companies in the industries subject to scrutiny as their public expectations that demand their transparency. For instance, when the public demands transparency, they may also question the reasons for failures and success. Though most companies may evade such questions, answers are often indicators of the kind of approaches that they implement in an expansive strategy that seeks to exploit the risk market.

In what has been perceived to be hilarious by British economists, Conrow (2003, 78) stated that the industries have succeeded in making the state rules and regulations seem simple. He explained that the industries are some of the most regulated by the government as they not only handle factors that directly concern the people, but also because they have positioned themselves as exchange earners and contributors to the government's budget. Despite all the measures, the industries' records are hardly consistent and nor compliant with the set standards, a factor largely exhibited by the common information gap (Abraham & Paul 2007, 56).

However, the two industries are not short of features that highlight their differences albeit they share so much in common. According to Cordella and Levy (1997, 54), the financial risks faced by the construction firms are majorly propagated by the environmental and climatic risks along with the geographical regions intended for exploits. That is because geography defines the kind of structures that may be erected at a place and consequently, the financial benefits. On the other hand, the banking industry is often threatened with insurance, market, credit and liquidity risks.

As was elaborated by Buckle and Thompson (2004, 29), the differences in the kinds of risks faced by the industries make the strategies and ills that define their strategies different. In the instance, the industries have to use different strategies to lure their investors. For instance, in an unethical practice, the construction industries have created the strategy of overlooking the population shifts, or often fail to disclose such information to investors. Schmitt (2012, 32) explained that such intention is often driven by the desire to reap maximally in the event that the shifts realign the market to favor an investment in a locality. On the other hand, banks may fail to make revelations about the insurance risks that face a financial investment.

2.3. The Importance of Risk Disclosure

Risk Disclosure, according to Conrow (2003, 63), may have been used by most UK firms to target the interest of the stakeholders. However, he expressed idea that risk disclosure is not an impulsive process, and that there are several factors that play in the issuance of elaborative risk statements. Essentially, the statements are not the first definitive feature of the process, as it was referred to by Boyd (2011, 21). The first of them all is research. Research, as was explained by European Conference on Management, Leadership and Governance and Politis (2012, 89), is the preceeding feature of the risk disclosure. It makes the initial revelation to the firm and defines the kind of indulgence that may be inclined to engage in. Accordingly, the research defines the risks and makes paves the way for the elementary consideration of the gravity of the risks and the available options.

In the UK, the research prepares the firm for the confrontation of the risk, a factor that has made the risk market outstanding. Ahmed Barakat and Khaled Hussainey (2013, 29) concluded after a research that the UK construction firms have developed a precept that has molded the market to fit their interests. In the book, *Corporate governance and accountability*, Schmitt (2012, 56) explained that risk disclosure has been essential in the manipulation of the market to the benefit of the firms. Such manipulation has also benefited

the investors and other stakeholders in ethical situations. According to Frenkel, Hommel, Rudolf and Dufey (2005, 78), these elements have ensured financial stability for the banking and construction firms in the UK.

The other essential benefit that firms and their stakeholders stand to accrue is the global exposure, a factor that results from the improvements and strategizing that the firms may adopt as a management strategy. Starita and Malafronte (2014, 98) considered the resultants of risk exposure. He so elaborated that the exposure would position the UK firms for financial success. As a result, the firms would then get investment opportunities beyond the national borders.

When analyzing the elements that result from the common risk information gaps, Buckle and Thompson (2004, 22) stated that there are gross effects that may result from such unethical practices. For instance, there often stands the greatest projection and possibility of a risk evolution. According to Al-Thani and Merna (2013, 41), evolving risks often compromise the objectives of the stakeholders in a project. As Boyd (2011, 25) explained, it is a lot easier to handle the common risks as they become overly familiar and subject to strategies devised as measures for solutions. Risk disclosure that would eliminate the information gaps would hence make it easy to operate by theories that would catalyze success by making the risks less threatening.

Lastly, the UK firms would maintain operations guided by the certainties in the market. For instance, they would be sure that the investors who have pulled resources for an investment would by little chances pull out (Ahmed Barakat & Khaled Hussainey 2013, 29). That is because they would be informed of the details of the endeavor unlike in situations where a project is fraudulently covered with little or no disclosure.

In sum, risk disclosure creates transparency and accountability about the risks, which are prerequisites for determining whether the organizations are well-functioning (Linsley & Shrives 2006, p. 388). Proper risks disclosure informs all the stakeholders; thus, allowing improved communication and enhances sound judgement. Undoubtedly, since the 2008 global financial crisis or credit crunch led to the need of the UK banks and institutions to adopt proper risk reporting. Ideally, the reports allow institutionalization of integrated strategies that help in identification and anticipation of future risks. According to Linsley and Shrives (2000, p. 116), the UK regulatory entities that oversee the reports demand quantity and quality improvements in reporting. Linsley and Shrives (2006, p. 388) also added that in the current environment, the UK financial institutions are forced to embrace operational and risk disclosures so as to fit complexities of their structures, need for international transactions, and compliance issues.

3.0. CHAPTER THREE: METHODOLOGY

3.1. Introduction

Overall, the research was conducted using a combined framework where both qualitative and quantitative methodologies were applied. The mixed method proved essential since it allowed a detailed theoretical analysis to qualify concepts and provision of concrete quantitative data. Conceptually, a qualitative method is applicable when there is a need to assess and analyse issues in relation to the theoretical information (Tashakkori & Teddlie 2010, 42). For example, in this research, the approach was used when assessing the relationship that exists between the banks and building societies risk factors against their corresponding risk disclosure systems. Through the proper description of the case studies, the information about the firms' risk and risk appetite were determined and compared to the recommendations from the literature. At the same time, quantitative research was necessary to allow statistical analysis that would strong back the findings of the study (Creswell & Plano 2011, p. 3). Therefore, statistical results were then discussed further using qualitative parameters so as to herald precise comparison of the findings to the argument of the related literature.

According to Kempf, Baros and Regener (2000, p. 45), a combination of qualitative and quantitative research allows excellent explanation of the research findings and description of the similarities and disparities. As such, the readers get easy time to conceptualize the comprehensive aspects of the relationships in the findings and other factors or variables. For instance, the research requires the description of the risk and risk appetite of different banks and building societies in the UK and subsequently relates the ideas to their respective risk disclosures. Also, according to the objective of the research, another relationship should be shown on risk factors and disclosure between the UK banks and Building Societies. Undeniably, for a comprehensive analysis to be achieved, the research had to acquire data

from both primary and secondary sources (Tashakkori & Teddlie 2010, 40).

Empirically, the study relied on secondary data that was sourced from the financial reports of the financial institutions. Additionally, other sources included the trade journals and records from the risk management departments of the banks and building societies. Other recently approved journal articles and books concerning the financial institutions and risk management also served as essential resources for the study. In addition, primary data was collected using surveying method and interviews of the managers and CEOs of the selected banks and building societies in the UK (Creswell & Plano 2011, p. 14). The selection method was simple since it was based on the financial institutions that are in the UK and remit annual financial reports to the senior managers, investors, or regulators. Other aspects and materials of data collection included questionnaires, phone calls, and emailing since they were considered as fast, less costly and facilitated efficient collection and communication (Tashakkori & Teddlie 2010, 13).

The data collected entailed the risk, risk appetite, and disclosure preferences of the selected banks and building societies. In particular, the banks that were selected included Barclays, HSBC, Lloyds Banking Group, NatWest, Santander, Standard Chartered, and other small-scale banks in the UK (Raimbault & Barr 2011, p. 19). Also, there were about five building societies that offered current accounts such as Yorkshire Building Society, Nationwide Building Society, Leeds Building Society, Coventry Building Society, and Cumberland Building Society (Raimbault & Barr 2011, p. 21). Annual financial reports from the financial firms were analysed so as to determine their risk and risk appetite and subsequently evaluate the risk disclosure systems. Nevertheless all the ethical and legal guiding principles of

research such as confidentiality were adhered to; hence, creating a good rapport with the research participants.

3.2. Qualitative Analysis of the Annual Reports of the Banks and Building Societies

It is important analyze the annual reports and balance sheets of the selected banks and building societies so as to facilitate qualitative categorization. The qualification elicits in-depth evaluation and understanding of the risk statements of the various corporate bodies and ranking them vis-à-vis their risk appetite. As such, this section focuses on the annual reports of every corporate firm so as to allow the readers first to grasp the insights of the risk statements, risk appetite, and disclosure systems. According to Khan and Zsidisin (2011, 20) the risk appetite could be qualified as high, low, or medium depending on the magnitude or the number risks taken. Linsley and Shrives (2005 p. 209) also added that risks could be categorized as strategic, top-down, down-up, or down-side risks. Therefore, the qualification methodology formed an essential part of this research so as to necessitate conceptualization of the ideal risk situations. The highlights below provide the qualification terms used during the research, which were integral in understanding the UK banks and building societies.

Strategic risks: Corporate bodies with strategic risks reveal in their reports untapped opportunities and uncertainties that are embedded and impinged in their wholesome strategic intentions as opposed to unit isolation (Linsley & Shrives 2006, p. 392).

Top-Down risks: Banks or business societies may have top-down risks if it clarifies or show distinct insights of considering major risks or the important ones while discriminating others (Raimbault & Barr 2011, p. 23). Such organizations employ copula functions to prioritize on

the main risks while omitting others by applying the concept of marginal distributions in terms of profits and losses from risks (Linsley & Shrives (2005 p. 209).

Bottom-up risks: Such risk-taking strategy occurs when a common framework is used to measure and model for all risks simultaneously. That is, there is no risk aggression or discrimination as all of them are considered similarly as important or critical to the organization (Tashakkori & Teddlie 2010, 14).

Downside risks: Downside risks are financial risks linked to losses as the returns from taking the risks become low than expected. A company may also be uncertain about the degree of difference between the actual and uncertain return; that causing the downside risks (Creswell & Plano 2011, p. 16).

3.2.1. Barclays Bank

The UK Barclays bank has a well-stated risk appetite statement. Notably, its framework of risk management is organized by the Principal risks. The bank has an impinged and integrated risk management system that outlines the tools, techniques, activities, and arrangements that are set for identification, monitoring, and management of risks (Opoku & Ahmed 2014, p. 94-95). Additionally, its risk appetite is stated as a set and verified to allow the company to use appropriate procedures and level that protect its stakeholders who are the customers, communities, and colleagues (Santhosh & Paul 2007, 53). Critically, the bank has an approach to accounting judgments and estimates that model for the variability of expectations that determine the stressing parameters in case of downside and upside scenarios (Santhosh & Paul 2007, 50). Qualitatively, Barclays considers risks to certain acceptable ranges that mean it has a medium risk range.

3.2.2. HSBC

HSBC strategically classify its risks as ‘emerging’ or ‘top.’ The former are considered as future uncertain outcomes in a context beyond a year while the latter are the current risks that affect the sustainability, reputation and financial status of the firm within a year (Linsley & Shrives (2000, p. 118). The bank’s risk appetite is embedded in its strategic planning and management of the risks. Qualitatively, the company has a wide range of risks that it accepts as their risk profile reveals multiple risks that the Group risk committee oversees. The company assesses both upside and downside risks against the objectives of capital management so as to devised the appropriate mitigation measures in either of the scenarios (Ahmed & Khaled 2013, p. 255)

3.2.3. Lloyds Banking Group

According to Morton (2005, p.47) Lloyds Banking Group conduct their operations using a low level of risk taking as revealed in the minimal limits and metrics of their risk appetite. Santhosh and Paul (2007, 55-56) added that the company has a strategy that is simple, low-risk oriented and focused on commercial, retail banking, and insurance.Notably, its risk appetite is hinged and integrated within the strategies, policies, principles, authorities, and development. The company strives to be the best for the audience or customers in Britain and outside. Evidently, the company does not discriminate risks as it considers all are using a common framework. Again, it has devised a model to sustain recovery when the unexpected outcomes arise. Similarly, its downside risks remain particularly for external operations beyond the UK (Opoku & Ahmed 2014, p. 96).

3.2.4. Standard Chartered

Explicitly, the company assigns credit risk a high priority in relation to others. The bank intensively focuses on the interest of its shareholders and the overall stakeholder base. It prioritizes on maintaining proper capitalized, diverse, and highly liquid balance sheet. Also, it defines its risk appetite in terms of maintenance of the regulatory capital and risks such as

reputational risk, liquidity risk, and operational risk (Buckle & Thompson 2004, p. 58). Analytically, the bank uses a bottom-up approach to executing the risk appetite that cannot be compromised to pursue higher returns. It takes selected risks so as to generate value to the shareholders and mitigate their risk to tolerable and compensatable levels.

3.2.5. Royal Banks of Scotland Group

Notably, the company relates their risk appetite to benefits; hence, has the strategy of impinging the risk appetite to business operations and policies. Objectively, the company's key aim is to with the customer's trust. RBS's risk appetite is wide-leveled, cascaded, and embedded to all the business franchises. It does not discriminate risks and also considers the downside scenarios by devising appropriate countermeasures that necessitate increased return on investment (Morton 2005, p.46).

3.2.6. Nationwide Building Society

The society prioritizes on the top and emerging risks. Its risk management system is hinged to all the business strategy. The principal risks are guided by a more detailed and wide-risk appetite metrics, procedures, controls, and corporate strategy (Ahmed & Khaled 2013, p. 257). It models for the downside risks related to liquidity so as to project for unexpectations.

3.2.7. Coventry Building Society

The society's operations are based on low-risk sectors. Its strategy focuses on few selected uncertainties and risks such as operational, market, credit, and liquidity risks (Buckle & Thompson 2004, p. 60). The society that has a below medium risk appetite has a strong risk culture embedded in its objectives.

3.2.8. Yorkshire Building Society

The Society reports on its risk management through an orientation towards the major or principal risks or uncertainties. Its risk management ensures the proactive identification and addresses the core risks that are clinged to the objectives. Notably, the society has a medium

risk range; however, its downside and upside scenarios are not well articulated and implemented (Linsley & Shrives, 2005 p. 210).

3.2.9. Cumberland Building Society

The society operates against a backdrop of stiff competition. Therefore, it accepts multiple risks without much prioritization. Their high-risk appetite is integrated into the objectives and plans of the organization. Additionally, the company tolerates the downside scenarios by developing corresponding countermeasures that assist in identification and mitigation of unexpected financial instances (Morton 2005, p.44-45).

3.2.10. Leeds Building Society

The society's BOD is the center of oversight for risk management. The society uses a relatively low-risk appetite that is integrated into its objectives and goals. However, the risks are not treated the same; for example, business and reputational risk are considered as standalone from the core risks. The two risks are peripheral hence not given much attention. The downside risks are not well established or incorporated into the system (Ahmed & Khaled 2013, p. 256).

Table 1: Information Concerning the Selected Financial Institutions

Banks/building societies	Risk appetite statement	Strategic Yes/No	Top down Yes/no	Risk/refund or down side Yes/no
Barclays	Risk level should not exceed the the acceptable ranges (Medium overall risk range)	YES	YES	YES

HSBC	Has wide range risk profile that relates to all levels of the business (High overall risk range)	YES	YES	YES
Lloyds Banking Group	Simple and low-risk oriented towards being the customers's preference (Low-risk Appetite)	YES	NO	YES
Standard Chartered	High risk priority and addhereance	YES	NO	YES
Royal Banks of Scotland Group	High a customer-centric risk appetite (High risk appetite)	YES	NO	YES
Nationwide Building Society	Safeguards the financial interest of members using high risk-taking (High risk appetite)	YES	YES	YES
Coventry Building Society	Prioritize on the interest of the members (Low risk appetite)	YES	YES	NO

Yorkshire Building Society	Focuses on key ojectives and moderates the risk appetite (Medium risk appetite)	YES	YES	NO
Cumberland Building Society	Fosters for the members interest through high risk taking (High risk appetite)	YES	NO	YES
Leeds Building Society	Building the members' future together by accepting few risks (low risk appetite)	YES	YES	NO

3.3. Qualitative and Quantitative Study

As aforementioned, the research was conducted using a mixed methodology that combined both qualitative and quantitative approaches. Despite the fact that the two research methods are distinctive, analysis of the findings always shows a lot of overlaps. Primarily, qualitative research is exploratory in nature; hence, it was used to provide a deeper understanding of the reasons or motivations that underlie the risk appetites of the financial institutions (Matt 2013, 299). In addition, it gave insights into the research problem and allowed development of ideas that relate to the risk factors and disclosure of the UK firms. It helped to uncover the opinions of the managers of the financial institutions concerning the trend of their risk management. Through a deeper exploration of the risk management systems of the companies in relation to the literature entrenchment, the reader will have ease time to understand the problem

statement and research findings. Qualitative research was applied in the earlier phase of the study so as to provide a clear picture or description of the research objectives and questions (Creswell & Plano 2011, p. 12). For example, through the use of in-depth interviews, archival research, and documentary analysis, it became easy to qualify the risk appetites of the different banks and building societies in the UK (Tashakkori & Teddlie 2010, 47-49).

On the other hand, quantitative study was used as a data-led approach that provided the numerical or statistical perspective of the study (Creswell & Plano 2011, p. 14). Through surveys, telephone interviews and questionnaires, the research provided the quantitative data that allowed measurement of the risk appetite variables and disclosure factors. The method was used to test pre-determined concepts and hypothesis on risk management of the financial companies. Additionally, the quantification was ideal for cause-effect analysis between the risk appetite or disclosure of the banks and societies and to make future predictions and recommendations.

Notably, by mixing the methodologies and the corresponding data on risk appetite and disclosure, the researcher and readers gain a deeper and broader corroboration and understanding. At the same time, the researcher is able to offset the weaknesses involved when using a single based methodology. Also, the concept of triangulation is elicited as it becomes possible to use several data sources and materials in order to provide conclusive evidence towards or against the hypothesis. In sum, the mixed method allowed the research design to be developed from both perspectives of qualification and quantification of risk appetites (Creswell & Plano 2011, p. 22). It also permitted continual interpretation and influence of different stages of the research. Is sum, the mixed research was very essential for the study since it applies multiple perspectives, research methods, and theories that were

important for critical analysis of the financial reports of the financial institutions (Creswell & Plano 2011, p. 23). Therefore, the research methodology had a complementary strength of integrating both qualitative and quantitative approaches that formed the rationale for application of the method.

3.4. Rationale of the Research used

First, it is important to assert that the mixed method was feasible for this study that gives the general reason it was chosen. Overall, the methodology is trending in most educational researchers due to its integrative nature in approaching the study. The most fundamental principle of the method is its mixed nature that uses varied procedures and characteristic paradigms (Tashakkori & Teddlie 2010, 48). Since either of the research methods, qualitative and quantitative, has ambivalence of strengths and weaknesses, the mixed approach has the advantage of complementary strength. In metaphoric concept, when a fish net is constructed from several holed fishnets, the final one will not have holes that give the analogy of how the mixed methodology works. Explicitly, when different methods focus on a particular phenomenon, superior evidence is arrived at due to the idea of corroboration (Creswell & Plano 2011, p. 25-27). Therefore, detailed data on the financial records, operations, and reports were assembled through the application of the method in order to answer the multiple research questions.

Second, the use of different procedures of approaches is essential in case the research has multiple objectives and research questions. The different aspects and data enhanced comprehensive answering of the questions that required different modalities in searching for the evidence. In essence, the multi-method improve the reliability and validity of the evaluation data that enhance better comparative assessment and analysis of the risk appetites of the different UK banks and building societies. (Baban 2008, p. 67) supported that

combining pay off by improving instrumentation and in turn sharpening the evaluation process and reliability of the findings. Sequentially, the research was designed in a way that the researcher first used a qualitative method so as to alert the evaluator on the concepts to be explored. After which, quantitative survey and subsidiary qualitative interviews form an integrated triangulation for a comprehensive study (Tashakkori & Teddlie 2010, 69).

Additionally, the mixed research allowed the evaluator to do modification and expansion the method of collecting data. For example, through the application of more than one data collection method, it proved efficient to solicit more data concerning risk appetite and disclosure preferences of the banks and societies. Moreover, it permitted a re-examination of the data collected to uncover the issues of discrepancies and inconsistencies (Baban 2008, p. 78). For instance, when the risk appetites of the financial institutions were not correspondingly matching with the risk management mechanism, the methodology gave room for a re-evaluation of the data. As Kempf, Baros and Regener (2000, 60) pointed out, combining both quantitative and qualitative methodologies improves the effective evaluation performance due to the cumulative summation and formativeness. Again, the research method allowed merging, connecting, and embedding of the data in order to herald detailed cause-effect relationships between risk appetites and disclosure preferences of the UK banks and building societies (Kempf, Baros & Regener 2000, 69).

Undeniably, through the integration of qualitative exploration and quantization of risk factors and appetite, multiple perspectives were used to enhance understanding of the relationships. The objectives and research questions were viewed in diverse aspects that enriched their meaning. As a result, the findings can be adequately compared, validated, and triangulated so as to provide better illustrations and examination of the financial reports (Tashakkori &

Teddlie 2010, 52). All the reports from the different financial societies were assessed and evaluated using the multiple perspectives to elicit conclusive results. Also, the disclosure preference of the institutions was determined by employing critical relational analysis of the risk factors in correspondence with the reports.

3.5. Research design

The research design chosen for this study properly outlined the procedures used during the collection, analysis, interpretation and final reporting of the data collected. However, it is imperative to acknowledge that the designing process elicited some form of complexity since the mixed research method is integrative and composite in nature. Notably, the study used a sequential exploratory design where the study was viewed in two phases. The scheduling of the project in two phases allowed prior conceptualization of the aspects through in-depth qualitative study followed by quantization (Kempf, Baros & Regener 2000, 79). Quantitative data collection then succeeded the qualitative data collection with a greater emphasis put qualification of the risk appetites and disclosure systems of the financial companies. First, the qualitative diary entries and reports from the firms were collected and analysed to provide thematic concepts of the risk appetite and disclosure patterns of the banks and building societies. Secondly, instruments were developed by putting the focus on the themes as a way to measure the attitudes using a subsequent quantitative survey.

As noted, the qualitative exploration of the risk appetites and disclosure patterns first alert the researcher of the attribute factors and possible variable. After which, the identified parameters and variables are used to develop the instrumentation using a relatively large samples in a quantitative notion. Obviously, it is always important to grasps the detailed ideas of the study before initiating the numerical or statistical aspects of the research. Explicitly, the initial qualification allowed identification of the important variables to be incorporated in

the quantitative measures. The purpose of the two-phase design was to enable an initial exploration of the research participants who majorly comprised of the banks and building societies' managers or CEOs (WB, & I M F. (2005, p. 314).

Such exploratory introduction was used as a prerequisite for developing and testing of instruments from the sampled population. The qualitative exploration of the risk appetite was done by collecting data from the managers of the UK financial institutions that were selected. The thematic concepts from the qualification of the risk and disclosure factors were then used to support the survey method where the research questions and hypothesis were tested. The testing involved distinction of the independent variable (IV) from dependent variable (DV) in order to determine relationships that exist. In correspondence to the research questions, the main relationship to be identified was the determinants of the disclosure patterns of the financial institutions (Kempf, Baros & Regener 2000, 56). Also, it was necessary to highlight the comparison between the risk disclosure systems of the banks and that of the building societies.

Cumulatively, the research used the design to develop a comprehensive two-phased framework. The results of the initial qualitative phase preceded instrumentation, identification of the variable, and facilitated the testing proposition. Testing and measurements are important for determining the level of reliability or validity of the findings. However, the first phase must be complimentary to the subsequent quantification of the risk and disclosure variables. Nevertheless, greater emphasis was put on the qualitative study so as to allow in-depth exploration of the risk factors and how they relate to the previous literature works. The primary purpose of the design adopted was to elicit general qualitative findings based on small samples of the financial institution followed by larger sample development in the second phase. Implicitly, the design was done on the basis of the premise

that prior exploration helps to identify variables and instruments and provide the guiding principle for quantification of the risk appetites of the financial service sector.

3.6. The Background and Scope of Study Area

As aforementioned, this research was based in the UK on a large context but with a specific focus on the financial institutions. Moreover, not all the financial institutions were chosen but only the banks and building societies. The table below shows the independent banks of the UK that dominates the financial service sector due to their large market capitalization. It is from the main list that selection of the banks was based on as a way to monitor how the dominant banks disclosure their financial reports. Notably, the list shows few banks since of the massive consolidation programs of the British banking system that has resulted in few main independent enterprises. Also, there is no major stratum for categorizing the independent local banks.

Table 2: The Dominant UK Banks

BANK	HEADQUARTER	MARKET VALUE (billion euros)	APPROX. TOTAL ASSETS (billion euros)
HSBC	Canary Wharf	126.6	1,679
Lloyds Banking Group	City of London	53.7	956
Royal Bank of Scotland Group	Edinburgh	45	1,408

Barclays	Canary Wharf	43.8	1,623
Standard Chartered	City of London	36.9	399

Adopted from: Miihkinen (2012)

Notably, the list of the UK banks significantly shrank in 2008 when the UK government nationalized the Northern Rock; however, it is currently owned by Virgin Money (Miihkinen 2012, 46). Additionally, Santander acquired Alliance & Leicester and Bradford & Bingley to form a large merge called Santander UK. Similarly, banks like Lloyds TSB plc took over the HBOS plc to gain its current dominant status (Ahmed & Khaled 2013, p. 257). In essence, since the 2008 global financial crisis, many local banks have been absorbed or acquired by other larger counterparts. In order to tame the surging acquisition and merger programs that deter the thriving of small scale financial enterprises, the government embarked on buying of shares from some of the main banks (Ahmed & Khaled 2013, p. 259). Such actions would enhance the regulatory mandates of the government and at the same time facilitate internal monitoring and auditing systems. For example, the UK owns 25% shares of the dominant Lloyds Banking Group (LBG), but the bank still operating a private venture. Also, it owns 84% of the ordinary shares of Royal Bank of Scotland Group (RBS) while the bank still operating nominally independent (Miihkinen 2012, 53).

Evidently, the commercial and retail banking sector is dominated by the five main that were selected for this study. They include the Royal Bank of Scotland Group, HSBC, Standard Chartered, Lloyds Banking Group, Barclays, and Santander UK, which is a Spanish-owned bank (Miihkinen 2012, 57). The selection criterion favoured the main banks people the statutory regulations on financial reporting are so stringent on them, and the government is keen on annual auditing of their programs. Also, the literature shows that the large financial

institutions are obliged to comply with the need to keep proper financial records and trade journals that are vital archival sources for this study. Moreover, there are other several retail groups that conduct banking services at the local scales such as Harrods Bank, Tesco Bank, Sainsbury's Bank and Co-operative Bank amongst other numerous small-scale banking institutions (Schmitt 2012, 33-37). The government of UK also runs its saving bank known as the National Savings and Investment (NSI) that is also listed on the national stock market coupled with other specialised financial service enterprises. However, banks are not the only financial firms as the building societies are also included in the sector.

Building societies are also consumer financial service institutions that are owned by the consumers or members. However, the building society sector is much smaller that the banking industry because of demutualization and consolidation programs (Schmitt 2012, 53). Demutualization involves the conversion the mutual financial organizations or cooperatives that are owned by customers to legal companies listed in the joint stock market. Therefore, many of the building societies have converted to operate as banks that are owned by shareholders. Consolidations through acquisitions, takeovers, and mergers have also reduced the number of the small-scale societies. Consequently, the societies have been diminishing, with the overall UK only having about 50 of them from 1700 a century ago (Miihkinen 2012, 87). The drastic drop is because the building societies strive to operate like the banks which leave their customers unsatisfied and sometimes call for their *payoff or windfalls*. As opposed to banks that depend on the shareholders and taxpayers, the building societies entirely source their funds from the customers or members. The financial societies also show little help to the depositors or savers since they currently orient their operations just like banks that are profit oriented. As such, the interest of the savers or corporate members is breached; for example, there has been a notable change in the interest rates to averagely 1.4% as compared to banks'.

1.2% (Miihkinen 2012, 117).

Nevertheless, the dominant building societies selected for this study included Leeds Building Society, Nationwide Building Society, Coventry Building Society, Yorkshire Building Society, and Cumberland Building Society. They are the dominant societies that offer mortgage services to many individuals and organizations in the UK. Most importantly, all the mentioned banks and building societies show different forms of risks and risk appetite hence the regulators insist on annual reporting so as to enhance communication and disclosure of the risks. Prudential Regulation Authority (PRA) is the entity responsible for regulating the financial institutions. It regulates their Capital Requirement Directive (CRD), and provides the reporting guidance and forms (Schmitt 2012, 123). PRA enshrines that all the financial institutions must submit regulatory reports for auditing. As such, the PRA catalogue served as an important sample frame from which the banks and building societies were chosen.

3.7. Data Collection and Sampling

The study of corporate risk disclosure called for an analysis of the contents of the annual reports submitted by the UK banks and building societies. The reports are always published and distributed to various audiences or stakeholders of the financial institutions as credible information concerning the operation of the institutions (Solomon 2007, 82). Such reports that narrate the financial performance of the firms served as the core sources of secondary data for qualitative exploration of the risk appetites. Therefore, content analysis was carried out on the reports that were sourced from the firms' websites and PRA database in order to explore the risk factors of the selected cases. Markedly, it was intricate to verify the completeness or consistency of the reported information. Therefore, the researcher focused on analysing the risk disclosure of the recruited cases based on the total sections of the information published that cover the financial statements. As hinted, PRA acted as the

sampling frame from which non-random sampling technique was used to select five banks and five building societies (Solomon 2007, 212). The annual financial reports of the chosen institutions were then downloaded directly from the websites of the banks and building societies. For the relevance of temporal scale, the reports were considered up to the latest June 2015.

The sampling method was non-random in nature, and the sample size was five banks and five building societies and 24 officials. The ten financial institutions provided the maximum number of reports pursuant to the reality that the study had time and resource limitations. Markedly, the sample size was representative of the overall population despite the biasness of the non-random selection. The sample was justified for statistical measurements since it surpassed the 10% threshold of the overall population and allowed differential measurements between the groups (Solomon 2007, 12). Ideally, the samples were recruited from the UK pool of banks and building societies as listed on the PRA website. The recruitment criterion selected the dominant financial institutions that had a standard annual report and must be available in English. Despite the high extent of representation to the overall population, there was some lack of cross-sectionality of the temporal scale. Most researchers acknowledge that the selection of sample size may deter result variety; nevertheless, from the perspective of investment, reporting patterns of the listed firms have a similar focus on investors and senior stakeholders. Additionally, the limited choice of financial institutions smoothed up result interpretation and comparative analysis.

Also, the managers or CEOs of the selected financial were purposefully selected for in-depth qualitative interviews. The interviews helped the researcher in conceptualizing the officials' opinions concerning the risk appetite and disclosure preferences of their institutions. The

chosen officials must have had access to the financial reports or rather worked in the firms' departments of financial reporting, analysis, or publication. Purposefully, the non-probability sampling was employed as a technique to select judgementally so as to recruit the necessary cases that are in coherence to the study's objectives and questions (Atkins, Gill, & McConnell 2014, p. 45).

In addition to the secondary data from the financial reports, trade journals, and other related archives, it was imperative to conduct primary collection of data. The two main methodologies used to collect data involved the use of survey questionnaires and interviews. Qualitatively, individual in-depth interview with the firms' official elicited a descriptive research of the case studies in terms of their financial reporting. It enabled identification and description of the risk variability and the risk management disclosures of the selected financial institutions. Additionally, questionnaires were used to collect data and information using predetermined questions. Both open-ended and close-ended questions were used in different contexts; for example, views of the bank officials and regulatory bodies were asked using open-ended questions (Atkins, Gill, & McConnell 2014, p. 64). On the other hand, closed-ended questions were used to collect information about how the participants rated the risk appetites and management disclosure by use of a Likert scale. Other mechanisms such as telephone calls and emailing were used prior to and during the collection of data as to inform and reminded the participants of their roles in the study.

3.7.1. Sampling Groups

The sampling was done in five groups, where each of the groups had 10 persons from that were randomly chosen. Different groups were asked questions that entailed the risk appetite levels, risk disclosure level, reporting level, compliance level and the overall communication level. Each level was rated 1-5 that corresponded to weak, moderate, good, very good, and

excellent expected feedbacks. Objectively, the research aimed to measure the equality of means of the four groups so as to approve or disapprove the null hypothesis. Ideally, ANOVA was employed as the statistical method to determine the F-factor and P-factor (Middleton 2004, p. 23).

3.8. Research Validity

The validity measure the level of reliability of the findings. It describes the extent to which the study measures what it intends. The validity could be internal to the measurements or test themselves or external on how it represents the overall population. Markedly, the research adhered to three main aspects of the validity that include construct, internal, and external validity (Atkins, Gill, & McConnell 2014, p. 132). Construct validity tests the operational measures for the study's concepts to ensure consistency between the defined construct and the theory. Studies argue that most operational studies lack the essence of construct validity since subjective judgements could manipulate data. Fortunately, this study minimized the effects of the problem by acquiring the essential data from the website of the selected financial institutions and PRA. Additionally, the internal validity of the research was guaranteed since the coding manual used in the quantitative collection and analysis was pursuant to the PRA recommendations (Atkins, Gill, & McConnell 2014, p. 136). Moreover, external validity measures the extent to which the findings are representative of the overall target population. The integration of qualitative and quantitative techniques minimized the limitations of the former techniques in terms of generalization.

Similarly, reliability measures the degree to which the data collection and analysis methods produce consistent findings. The data normally become reliable only when it integrates the concepts of transparency and sensibility. In order to ensure reliability, the raw data were

treated with critical measures and analysed on a contextual basis. Also, relevant ethical compliance needs and rapport creation were ensured during the data collection to win the trust and confidence of the respondents.

3.9. Research Tests and Measurements

Statistically, it is necessary to test the hypothesis so as to back the approval or rejection. A collective statistical model was used to analyze the variation and distribution of the discrete data that was quantified from the concepts of the research (Muller & Fetterman 2002, p. 45). In particular, the relationships in the variables were analyzed using a single-factor ANOVA to show whether the means from the different groups were the same or not. In essence, the ANOVA was employed to generalize the t-test in more that two samples so as to avoid the subscription to type 1 error. Type 1 error that is also called the first kind error occurs if the second (null) hypothesis becomes true but still rejected (Rutherford 2011, p 67). The error causes false hit or asserts what is absent; hence eliciting a false positive conclusion. Therefore, to avoid the error, the measurement was done using t-test on more than two samples. The aim of the test was to reject the null hypothesis using F-factor that preliminarily required the t-test to affirm whether the means of the population were the same. If at least one of the means vary, then the opposite argument is adopted (Middleton 2004, p. 23).

All data is variable or “noisy” naturally; thus, the ANOVA was employed to partition the variance within the samples (Rutherford 2011, p 67). Critically, the statistical method was used to relate the calculated function (F) and the critical function (Fcrit). If F is greater than Fcrit (F> Fcrit), then the null hypothesis is rejected (Rutherford 2011, p 67). Additionally, the analysis was used to determine the p-value in relation to the significance level when p=0.05. Similarly, if the P<0.05, then the null hypothesis is rejected (Muller & Fetterman 2002, p. 43).

3.10. Research Assumptions

The study on risk disclosure of the UK banks and building societies had to acknowledge the need for some assumptions. The research on the corporate governance necessitated the following assumptions

- ✓ If the financial institutions were to disclose the risk management information to the customers of shareholders, the yearly financial reports would only be practicable and logical media choice. The assumption is pegged on the premise that the proper corporate communication of the risk management aspects is done entirely through the reporting. Therefore, the annual statutory reports were considered as logical and reliable sources of data and information.

- ✓ Also, the study effectively assumed that when any of the selected financial firms fails to remit the annual report for assessment and auditing, then that is considered non-compliance with the specific disclosure. As such, for those financial institutions that probably failed to show their reports were considered as non-compliant to the PRA regulations.

- ✓ Methodologically, the researcher used the assumption that by integrating both qualitative and quantitative research techniques, the validity and reliability of the measurements and analysis was improved. It alluded that the multi-methodology research led to synergistic benefits in data collection and analysis due to the corresponding divergence in perspectives and approaches. Again, the biasness nature of non-probability sampling on the results was reduced by the mixed research since

the strengths of the quantitative research overshadowed the non-generalizability of qualitative research.

3.11. Limitations of the research method

- First, the time scale proved limited since the overall research could require prolonged monitoring of the annual reports. It was also because of limited temporal issue that called for the selection of small sample size that might breach external validity. Nevertheless, the time limitation was addressed by the use of purposeful sampling that chose the financial institutions subjectively, but still maintained the objective of the study. Also, downloading the annual financial reports from the firms' and PRA's website eased the accessibility to the data and information pool that in turn reduced time consumption.

- The small sample size of the banks and building societies could have lowered the extent of external validity of the findings. Consequently, the research findings could not be accurately interpolated and extrapolated within and outside the target population. In addition, the use of non-random sampling had inevitable biasness as equal opportunities were not assigned to all the list of financial institutions in the sample frame. However, the negative influence of the purposeful sampling was minimized by giving equal chances to the dominant banks and building societies that were recruited in the study.

- Further, the content analysis of the annual reports was inevitably subjective; however, the research resorted integrating both the primary and secondary data to improve the reliability of the results.

- The use of sequential explorative design of mixed research methodology proved complicated and resource-demanding. Notably, the need to carry out both qualitative and quantitative data collection and subsequent analysis demanded a lot of skills, perspectives, and material resources if not to mention time requisition.

3.12. Ethical Considerations

Normally, ethical guiding principles have to be considered when conducting research. Therefore, the research should be designed in a way that the participants of the study do not get embarrassed, harmed, or gagged amongst other material or psychological disadvantages. The research adequately complied with both the professional and research ethics so as to appropriately streamline the aspects of conducts and relations with the respondents. According to the recommendations or the research ethics, the researcher of this study created a good relationship with the respondents by being open, honest, and assuring them of the confidentiality of the interactions. Likewise, the researcher observed professional ethics of collaboration with other researchers and mentoring professional relationships and intellectual property. In addition, acknowledged or rather accredited the previous works so as to avoid the academic offence, plagiarism.

Evidently, the study ensured concurrence with research ethics by guaranteeing that participant's responses and information were not disclosed to other respondents; hence safeguarding the essence of privacy. Additionally, the respondents were not coerced into giving information against their will. That is, the research maintained the ethics of willingness to participation. The researcher also enhanced openness and honesty by avoiding concealing of some information and asking of leading questions. Again, plagiarism was avoided by relevantly crediting the authors of the phrases, statements, views, opinions, and ideologies borrowed in this research.

3.13. Summary of the chapter

The above chapter provided the technique through which the study was conducted. Explicitly, both qualitative and quantitative research methods were used in a sequential explorative design as a way of ensuring validity and reliability of the findings. Purposeful sampling was employed to select ten dominant banks and building societies from the PRA database. The

annual reports downloaded from the respective firms' websites served as important data sources coupled with other primary sourcing. In-depth qualitative interview and quantitative survey of the financial institutions further provided more data and information for the analysis. Despite the noted assumptions and limitations, the researcher put in some remedial measures to enhance validity and reliability of the results. In sum, methodology allowed qualification and quantification of the risk appetites so as to analyse the variables of management disclosure of the financial institutions (Santhosh & Paul 2007, 51).

4.0. CHAPTER FOUR: ANALYSIS AND RESULTS

4.1. Data Analysis and Interpretation

As hinted, the data and information collected were analysed through content analysis of the variables. First, it was important to show the demographic data of the participants, their perception on risk disclosure, and the degree of compliance with the PRA minimum disclosure requirements. Other variables of analysis entailed the frequency of supervision and examination of the financial firms. Both qualitative and quantitative analytical techniques were necessary for interpretation and analysis of the collected data. Through the use of verbal description, tables, figures, and direct quotes, the meaningful analysis was derived to visually and precisely present the results (Atkins, Gill, & McConnell 2014, p. 146). Notable, data analysis demonstrated the emerging patterns and highlighted the similarities, variations, and cause-effect relationships between the IV and DV.

In figure below, it is apparent that the analysis of the variables majored on one independent variable, risk disclosure, which is affected by a number of other dependents variables. As such, the paper gives the rationale of the relationship by conducting the regression analysis of the variables to make a clear distinction between causation and correlation of the risk factors

(Atkins, Gill, & McConnell 2014, p. 104).

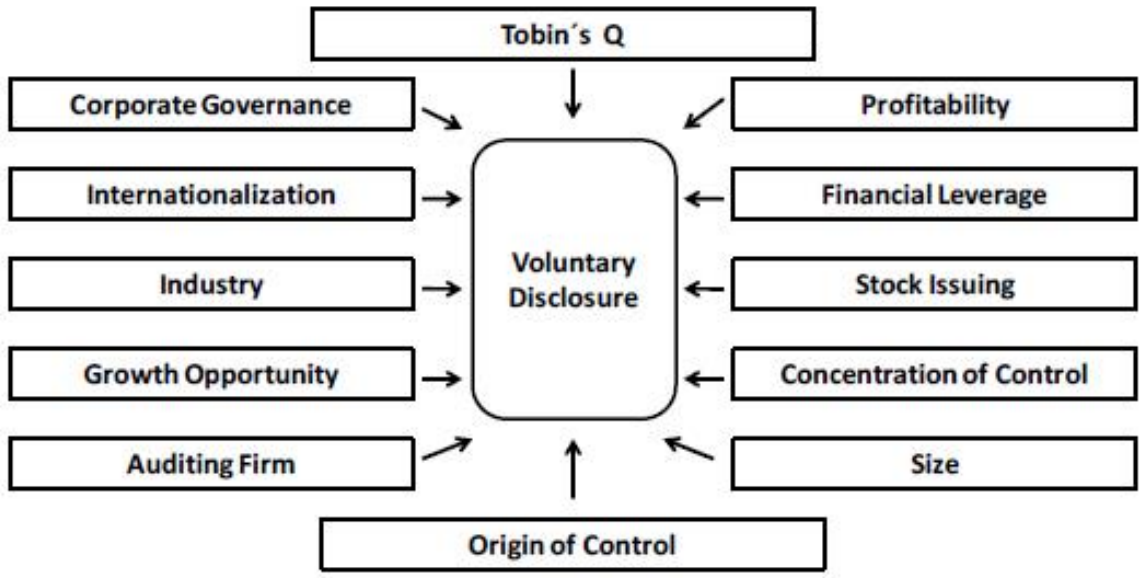

Figure 1. Research Design - Determinants of Voluntary Disclosure.

4.2. Results

4.2.1. Cumulative indicator that the financial institutions are facing risks

Since the 1990s, there has been unprecedented diminishing of the UK banks and financial institutions. Up to 2012, the UK communities had lost beyond 40% of the banks and building societies; however, the rate of reduction became less intense since 2000 (Al-Thani & Merna 2013, p. 17). The main cause of the decline was because current and potential customers were diverting to simple and more efficient online and phone banking. British Bankers Association (BBA) entrenched that many banks and building societies had lost their branches with an estimated 7.4% decline over six years between 2006 and 2012 (AL-Thani & Merna 2013, p. 134). Within the years, Santander had closed up to 16 branches and Royal Bank of Scotland closed 82 branches coupled with 22 others at the Ulster Bank (AL-Thani & Merna 2013, p.

74). Also, in October 2012, HSBC announced that it shall shut 20 of its branches. Overall, 800 closures were realized over the six years, and the trend of closing is still evident in the UK; however, it is now enhanced by the concepts of demutualization and consolidations of the financial institutions.

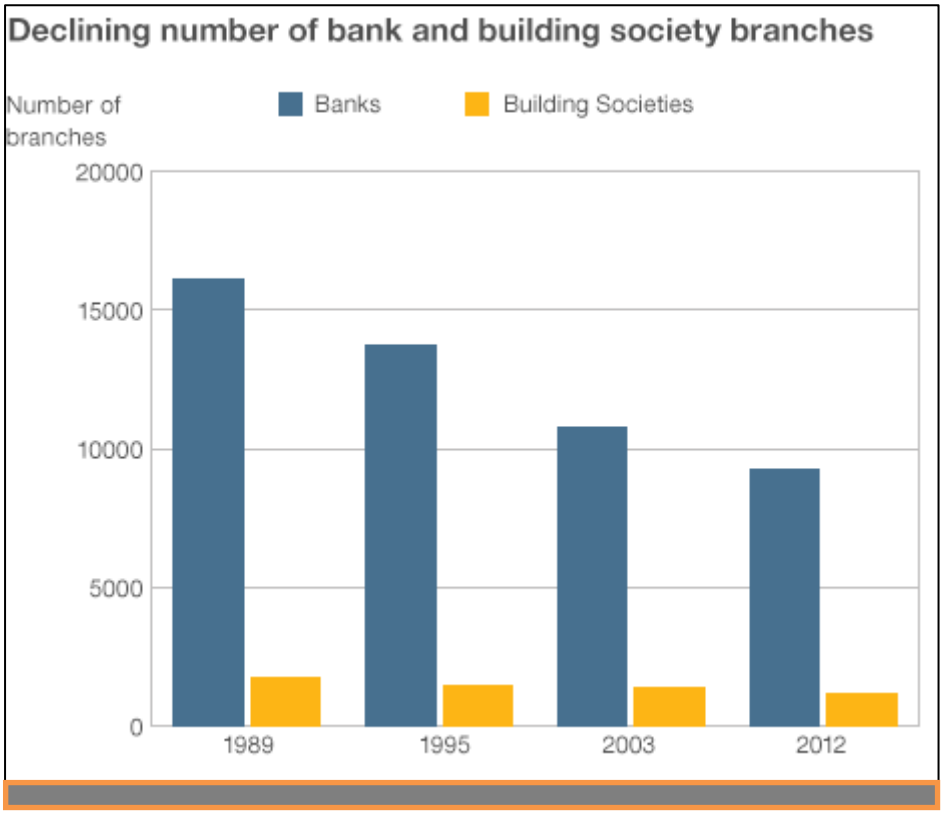

Fig 2: Declining numbers of the UK Banks and Building Societies

4.2.2. Dominant financial institutions in the UK

4.2.2.1. Banks

Table 3: Total and Annual Returns of the Main UK Banks

Bank	Total Return	Total Annual Return since 1/1/2000
Standard Chartered	+174%	+9%
HSBC	+19%	+1.4%
Barclays	-24%	-2%
Lloyds Banking Group	-85%	-15%
Royal Bank of Scotland	-91%	-16%

From the annual financial reports of the past 14 years since the start of 2000, it was evident that only two banks have realized positive returns. Therefore, according to the recommendations of the PRA, only the two banks need to consider payment of bonuses so as to incentivise the senior managers and staff. However, most of the managers admitted that the return on investment has proved sensitive to disclosure sufficiently to the senior managers and investors since it determines the subsequent actions that they potentially take. The dominant banks were purposefully selected since they are inevitably obliged to submit the financial reports of operations and their risk appetite are somewhat explicit.

4.2.2.2. Building Societies

Nationwide Building Society is the world's largest building society. It comprises of more than 100 mergers and fall in top three of the societies that provide mortgages and household savings. In 2013, the society had a remarkable amount of assets that worth about 193.4 billion euros in comparison with the overall 325 billion worth sector of building society (AL-Thani & Merna 2013, p. 231). Since then Nationwide has been the largest even more than combining all the remaining 44 building societies. Just like other building societies, Nationwide was struck by the financial crisis and the pay practices were being scrutinized.

The members and customers of the organization had a lot of complaints concerning the financial reports on remuneration and risk management strategies. For example, the remuneration of the CEO hiked up by 45% that led to a lot of controversies and opposition from the senior managers, investors, and the regulatory bodies. The issues of hullabaloos are also replicated in the other mentioned building societies. Similarly, Cumberland Building Society which the twentieth largest society and the first to introduce mobile payment has also been linked to a lot of criticism concerning their disclosure systems.

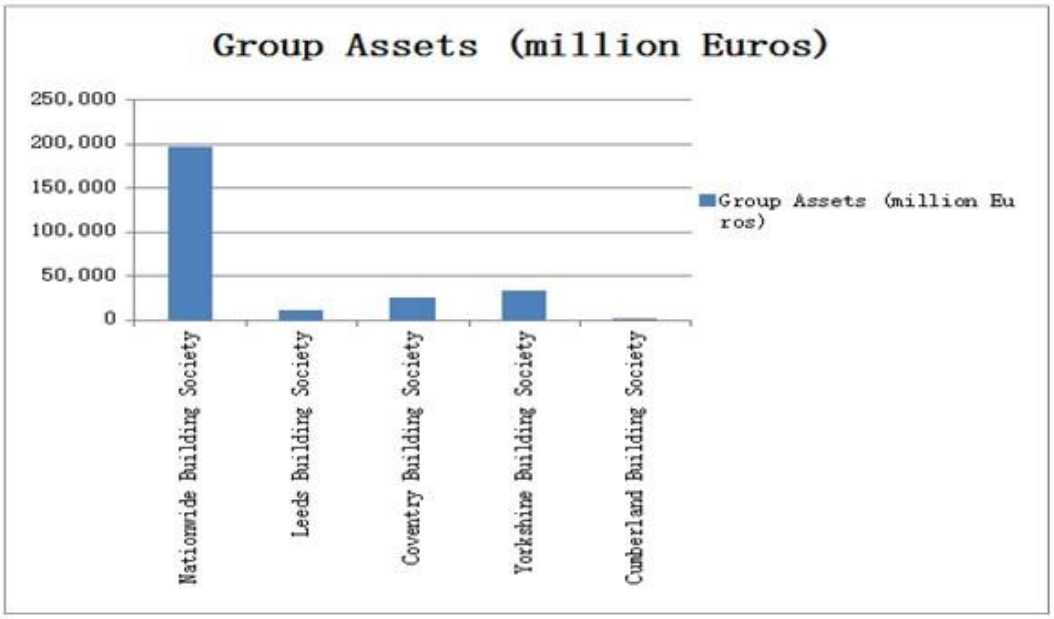

Figure 3: Asset values of the Dominant Building Societies in UK

Figure 3: Asset values of the Dominant Building Societies in UK

4.2.3. Comparing the Banks and Building Societies

Building societies have always shown a lower but stable degree of profitability in relation to the banking counterparts. Notably, the societies have shown more focus on offering their customers or members better interest rates than the banks. Since the customers themselves own the societies, they seem to make better decisions on mutual benefits and favours to the

saver or depositors. Additionally, the risk profile of the building societies seemed to be lesser, and the disclosure patterns are not stringent as compared to that of the banks. The risk appetite of the building societies seemed to be lower compared to the banks; for instance, that was reflected by the lower extent of arrears in mortgage even with the mid financial crisis.

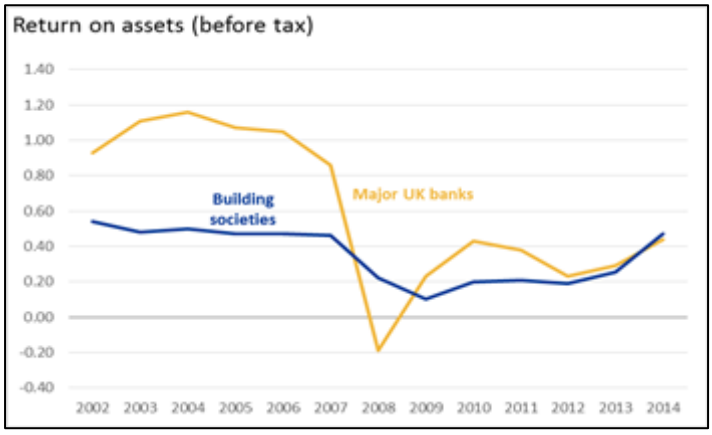

Fig 4: **Comparing the Annual Returns of UK Banks and Building Societies**

4.2.4. Qualification and quantification of risk appetite

Qualitatively, it was evident that the UK banks and building societies encounter multiple risks as they chase their goals or objectives. From the interview with the CEOs and other institution officials, it was revealed that complete oversight and management systems are imperative so as to institute internal controls to the risks. The managers opined on the need for better description and understanding of the risks before developing the risk appetite framework. Similarly, risk appetite could be quantified since it reveals the amount of risk that an organization is willing to accept as a way of pursuing more value. As a result, values can be attached to the risks taken by the financial institutions against the values gained or lost in the process. In sum, the interviewed official made the revelation that the risk appetite of their respective firms could be qualified when developing and communicating to the other stakeholders. Also, the communication, monitoring and updating of the risk appetite call for quantification so as to assign values to the risk factors.

Out of all the revealed risks, underwriting the risk took more than 50% of the responses. Other risks that showed prominence were the market risk, strategic risks, credit risk, operational risk, and liquidity risk. Cumulative, 70% of the firm agreed that most of the risk were overlapping which made it difficult to understand the definite risk appetite. However, they have devised a feasible plan of targeting just close to 100% performance or a little beyond 100% when they take the risk. In essence, the risk appetite of a company may determine whether the enterprise will surpass the optimal performance level or lead to normal performance that is just below 100% results.'

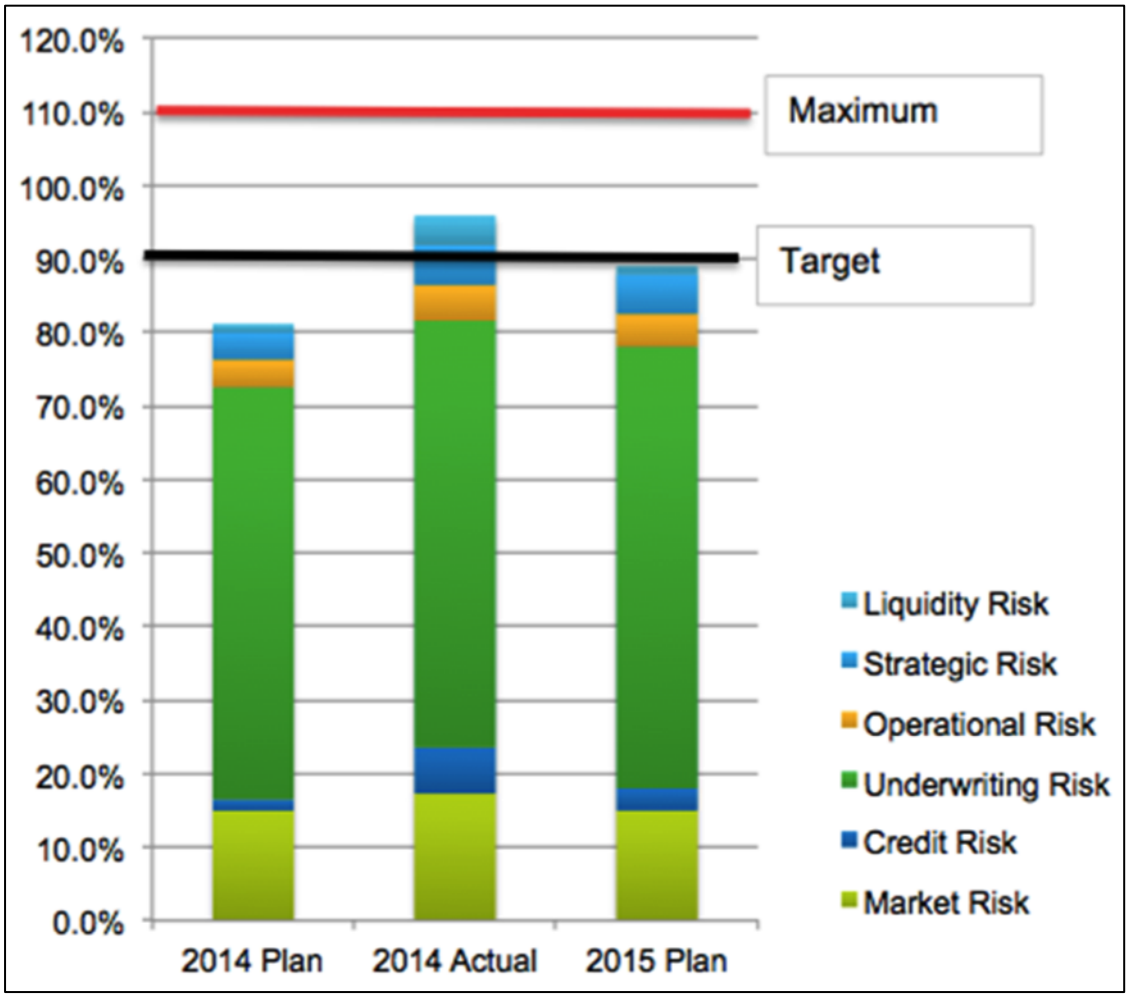

Fig 5: Shows the Main Risks of the UK Banks and Building Societies

4.2.5. Pillar III Risk Disclosure

4.2.5.1. Responses

When the varied stakeholders were interviewed on whether they understand the concept of Pillar III principles of risk disclosure, more than 80% admitted to being aware. However, the framework on how the principles work proved to be confusing to the participants. The graph below illustrates the percentages of the *yes* responses that agreed to the knowledge of disclosure principles. Since the banks and building societies have integrated structures and operational units, the disclosure system must also be integrated and structured in correspondence to the business divisions. Therefore, the disclosure procedure is illustrated in the subsequent diagram.

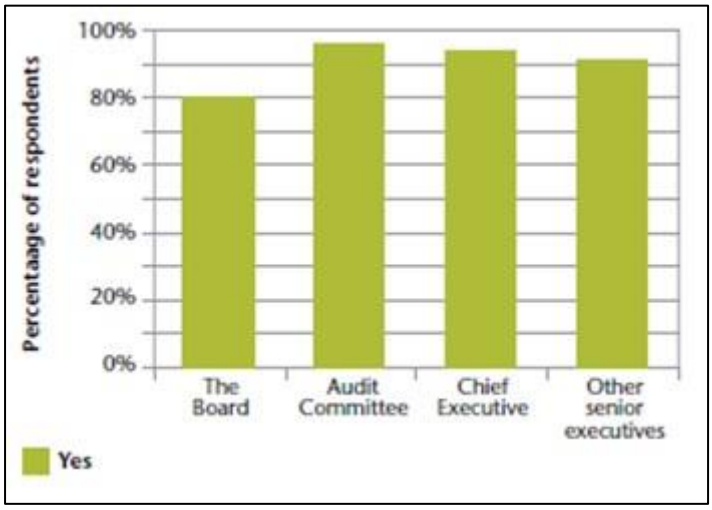

Fig 6: The "YES" Response rate on Knowledge of Risk Management and Disclosure

4.2.5.2. Risk Disclosure Framework

The figure below is a representation of how risk management and disclosure were operated in most of the selected banks and building society. The layout was developed after critical analysis of the organizational structuring and departmentalization of the financial institutions. Notably, risk management is first centred on the organization with the responsibility of the

internal auditor, risk manager, and other compliance officers. The aforementioned officers are then answerable to the executive directors and CEOs who in turn report to the BoDs. From the BoD, the chain of command goes to the investors and other external regulatory entities.

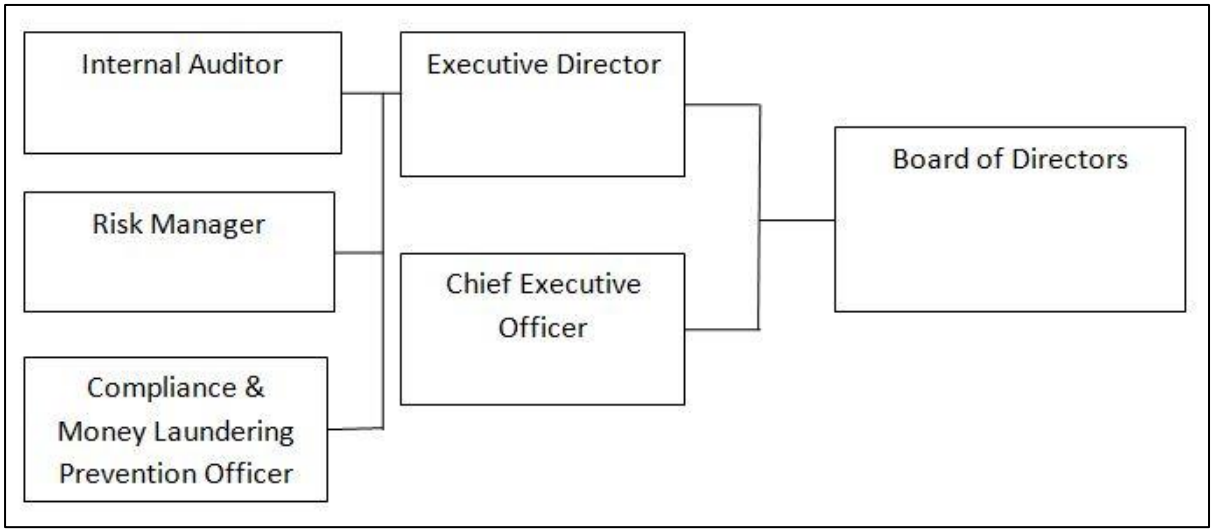

Fig 7: The Framework of Risk Disclosure

5.0. CHAPTER FIVE DISCUSSION

5.1. Introduction

Overall, as it was elucidated in the study, reporting the performance of corporate bodies should not be mere compliance but a mode of communication. The principle –based disclosure system as entrenched in PRA and Pillar III guideline is the antidote to uninformative and boilerplate disclosures (Abraham & Shrives 2014, p. 52). The survey of the UK financial institutions revealed that the disclosure patterns are boilerplate and uninformative due to vague and broad definitions of the principles. Notably, the UK reporting systems have been substituted to mean mere tick-box compliance instead of adhering to the disclosure requirements. As a result, the findings recommend the managers and other concerned parties in risk management to embrace meaningful communication mindset so as to convey the risk management policy and exposures effectively. The paradigm shift to

communicating rather than just complying is a prerequisite for sustainable and comprehensive disclosure mechanisms.

As noted, UK has been experiencing a decline in the number of banks and building societies not only because of demutualization and consolidation. Consumer and shareholders' diminishing trust and surges of complaints also contribute immensely to the downfall of the financial institutions. For instance, the customers of many building societies realized that the managers conceal some critical information from them and shifts the operations of the firms at their disadvantage. Consequently, many of the societies have dissolved, converted to banks, or absorbed by the other larger institutions. Equally, some banks have resorted to submitting voluminous reports but with little quality on the risk management as a strategy of discouraging auditing. Conversely, the disclosures should be understandable, precise, and inclusive of the desired attributes so as to avoid burdensomeness, but foster easier valuation and analysis.

5.2. Reasons for the Diminishing of the Financial Institutions

Preliminarily, the continued diminishing of the UK financial institutions is attributed to the multiple risks that they are subjected to. The event is exacerbated by their poor identification of risk appetite and uninformative disclosure trends that have modified the internal controls of the firms to worse situations. Previously, the decline was thought to be entirely due to demutualization and consolidations, but it is now apparent that demutualization and consolidations are also caused by poor risk management and disclosure mechanism. According to Andersen, Garvey, and Roggi (2014, p. 27), 40% of the financial institutions in the UK do collapse because of the internal and external risks that are related to the housing and property market. Therefore, the main British banks, building societies and asset manager are continuously worried about the consequences of the housing market. Evidently, the

housing and mortgage market have a profound impact on the financial system of Britain. The study is consistent with Miihkinen (2012, p. 78) who pointed out that the inefficient risk management system is the key to the reason for the failing business enterprises.

5.3. Comparing the banks and Building Societies

Practically, banks are commercial in nature having the main objective of making profits. As a financial institution, they securely hold the money saved by their customers. Banks pay interest to the depositor and also claim the interest from the borrowers. In order to make a profit, the banks offer lower interest for the depositors and charge high rates to the borrowers. In a nutshell, banks are out to make money when they provide the savings accounts, chequing accounts, and other investment accounts. Additionally, the UK banks give grant on personal loans and mortgage. Most importantly, banks are funded and owned by shareholders and taxpayers; therefore they are subjected to more pressure concerning accountability and transparency (Starita & Malafronte, 2014, 32). As a result, they are obliged to disclosure their annual financial reports of performance to be scrutinized by the shareholders and taxpayers. Since they are companies, banks are listed in the stock market hence subjected to stringent reporting requirements.

On the other hand, building societies are not companies, but organizations formed on mutual basis. The societies are owned by the members and customers who have the responsibility of making decisions concerning the operations. In essence, they operate like banks but concentrate their financial operations on offering mortgages. Mortgages and housing markets are the main targets for the building societies. Currently, there are about 45 building societies located in various places of UK. Similar to the banks, the building societies also provide chequing and savings accounts but not in a commercial context. The societies are owned and controlled by the members who are responsible for all decisions made in the organization.

The profits from the operations are always put back to the business. Most critically, due to the idea of mutualism, members seem to trust their leaders and subject them to little pressure on reporting. However, in the recent context, there has been continued rise in demutualization as the societies shift to commercializing their operations and focusing on profit making. The orientation towards profit making in most of the UK banks has exacerbated conflicts within the organizations as the managers focus more on making more money at the expense of the members' interest. Consequently, members have embraced the need for operational disclosures of their financial reports so as to tame unscrupulous conducts of managers. Failure of such initiatives is what has triggered many of the demutualization processes.

5.4. Risk appetite and Disclosure

Risk appetite shows the amount of risk that organizations are willing to tolerate or accept as they operate towards achieving their set goals. As firms pursue their objectives, they aim at adding a value against the backdrop of the risk taken. Ideally, all business entities should exhibit proper development and communication of the risk appetite. According to Baker, Singleton, and Veit (2010, p. 75), most of the financial institutions of UK do no completely define and understand their risk appetite. Consequently, such enterprises cannot determine the best objectives to pursue and experience many intricacies in managing their objectives to suit the risk appetite. As noted, 70% of the UK financial institution admitted that they view risk appetite more often as a theoretical concept that is very difficult to integrate into their strategic planning and decision making. Hence, the communication or disclosure of the risk appetites has unavoidably been boilerplating or not fully informing.

Bohn (2012 p. 115) revealed that the risk appetites of enterprises can be considered qualitatively as high, medium, or low. He added that organizations that have set aggressive objectives or goals had a correspondingly high or aggressive risk appetite. Conversely, firms

that are risk-aversive exhibit a low risk appetite; thus, they set conservative goals. In that context, when the board of managers plans a particular strategy, they should ensure that it aligns with the risk appetite of the organization. Evidently, when the risk appetite is appropriately communicated, it offers a guiding principle for the managers to set goals and make informed decisions. As a result, the organization becomes likely to achieve and sustain its operational goals.

5.5. Enterprise Risk Management (ERM) of UK Financial Institutions

Conceptually, ERM should be integrated with the planning and strategic processes of the firms. It should be an integral part of the culture of organizations and not considered as a mere compliance obligation (Cowan 2005, p. 62). In order to embed ERM in the firm, the policy or decision makers of the organization must understand the amount of risk acceptable before setting the objectives. For example, when the CEOs expect profits of their organization to stagnate or fall the risk appetite need to be changed and communicated to all departments and divisions. In sum, all organization must understand and consider their risk appetite in concurrence to their objectives. Cumulatively, ERM entails developing, communicating, monitoring, and updating the risk appetite. Unfortunately, the majority of the UK financial institutions are still stagnated at the first step of developing their risk appetite that affects the subsequent stages.

All the corporate entities in the UK are required to establish a risk appetite approved by their respective risk appetite. For the organizations to document their risk appetite, it is imperative for the senior managers to understand the risk exposures. Effective conceptualization of the risk appetite requires a proper risk management framework for capturing risk-related ventures of the organization (Collier & Agyei-Ampomah, 2009, 87). However, the framework involves a lot of aspects such as oversight, internal controls, assessments, and risk

quantification (Segal 2011, p. 48). In addition, risk reporting should be done as the culture of the business to all the levels or divisions of financial companies. The research pointed out that UK banks and building societies have not until now developed the recommended risk management framework as some steps are not addressed or discriminated.

5.6. Aggregation and Categorisation of Risk

Before banks or building societies set their risk appetite, it is imperative to categorize the main risks into particular classes. The classification requires the concepts of qualification and quantification of the risks to comprehend whether they are low, medium or high risks; qualifications. Quantification of the risks requires assigning of economic value to the potential gains or losses when the risk is accepted (Collier & Agyei-Ampomah, 2009, 101). Notably, the British banks and building societies listed a number of risks that affect their organization. Explicitly, the financial institution gave several examples of risks they face including market risk, liquidity risk, operational risk, insurance risk, and underwriting risk amongst others (Philip & Philip L 2005, 65). The risk appetite of a firm is; however, not that broad since it can be developed within each individual risk. For instance, there are several risks of market risk such as currency risk, equity risk, property risk, and interest rate risk. Therefore, for UK financial institutions to revolutionize their risk management and disclosure system, a much deeper understanding must be intuited in their operations (Morton 2005, p.44).

5.7. Pillar 3 Risk Disclosure

Pillar 3 risk disclosure principle was formulated by the Capital Requirement Directive (CRD) that provided the appropriate framework for disclosures (Ryan 2013, 14). Pillar 3 which way the key objective of Basel Committee on Banking Supervision (BCBS) provides the risk metrics for market participants as an important banking tenet (Youngberg 2011, 91). The Basel framework promotes discipline for the market by obeying the regulatory disclosure

requirements. The requisition allows the financial institutions and other market stakeholders to assess information concerning risk exposure and regulatory capital. By considering the recommendation of pillar 3, supplementary information is availed that further disclose the underlying risk that might create obscurity during decision-making (Collier & Agyei-Ampomah, 2009, 97). In sum, according to European Banking Authority (EBA), the Pillar 3 framework herald transparency, integrity, orderly functioning, and efficiency of the financial institutions and their markets.

5.8. Proving of the hypothesis

The ANOVA analysis (appendix) showed that F (0.9943) <Fcrit (2.5784); thus the null hypothesis not rejected. Again the p-value of the study was 0.42049, which is greater than the alpha (α) (0.05); thus the hull hypothesis is not rejected. If the null hypothesis is not rejected, then it means the findings approved the Null Hypothesis (H_0). Therefore, the financial reports from the UK banks and building societies are always boiler-plating and inconclusive as some risk parameters are intentionally omitted.

5.9. Recommendations

- From the research, it is explicit to conclude that despite the stride made by the UK financial institutions in risk management, many other measures need to be adopted;
- First, the UK companies should develop proper risk appetite at the initial stage of planning and strategizing their operation. Most importantly, the thought on the risk appetite should begin when the organizations are reviewing their objectives, value drives, mission, and vision.

- Second, the development of the risk appetite should engage all the stakeholders early enough. The stakeholders include the unit leaders, managers, senior managers, planners, BOD, and investors along the command chain.
- Third, the firms should establish a BoD-approved statement of risk appetite. The risk appetite needs to be approved by the BoD before being communicated to the lower divisions of the financial institutions like the legal and business entities, through specific limits.
- Fourth, the risk appetite and subsequent disclosure patterns should be formalized, documented, and approved by the oversight bodies, BoDs, and investors so as to enhance accountability and transparency.
- Last, the UK institutions should rank the risks through using proper methodologies of quantification and qualifications as a mechanism of measuring their potentiality.

5.10. Conclusion

The research was based on the UK banks and building societies so as to explore how they undertake risk management. Notably, risk management requires understanding of the risk factors, risk appetite, and risk disclosure systems. As mentioned, the financial institutions are subjected to a variety of risks such as market risk, liquidity risk, operational risk, insurance risk, underwriting risks amongst a network of many other challenges. However, different schools of thought view risk as threats, opportunities, or mere challenges. Therefore, the prosperity of enterprises may call for assumption or acceptance of some of the risks that the organizations are subjected to. Thus, risk appetite is the amount of risk that the banks and financial institutional are willing to accept as they strive to accomplish their objectives. Methodologically, the research used a mixed research technique that integrated both qualitative and quantitative studies in a sequential exploratory design. Ten dominant banks

and building societies were selected to answer the research questions and objectives and test the hypothesis.

According to the null hypothesis of the study, the risk disclosure system is boileplated and uninformative, which the study has adequately approved. Despite the annual reporting mechanisms of the bank and building societies, it was evident that the risk management and disclosure were not fully addressed. The downloaded reports reveal that the UK financial firms report on the basis of mere compliance rather than communicating all their issues to the concerned parties. In sum, the British banks and building societies are currents focussed on making the profit and revolutionizing their internal controls against a backdrop of breached, inefficient and boilaplated risk management and disclosure systems. All told, the research did not disapprove the null hypothesis since the p-value was greater than the singnifical level (p=0.05) and the calculated F was less than the critical F (Appendix 3 and 4)

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APPENDICES

Appendix 1: The Risk Management Framework

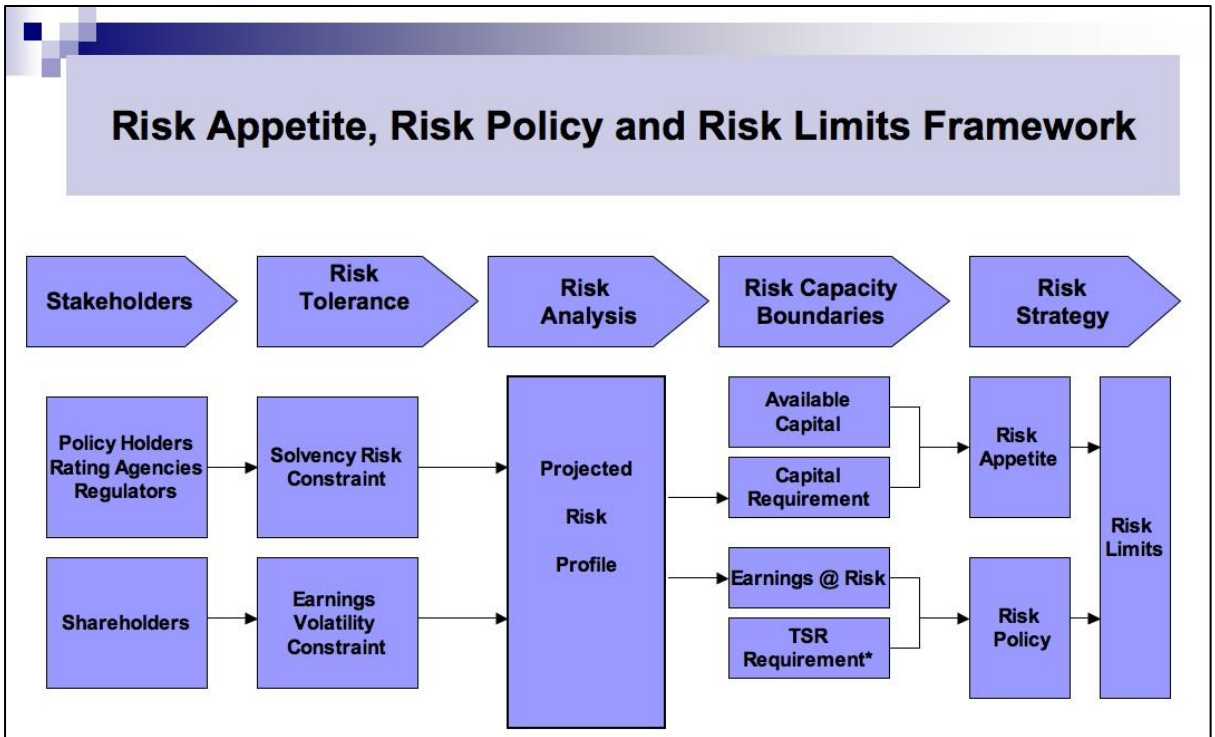

Figure 1

Appendix 2: Main Risks of UK Financial Institutions

CATEGORIES OF RISK	RISK CATEGORY DEFINED
AVAILABILITY RISK	Uncertainty regarding accessibility of the resources or activities that deliver products and services (note - this is the traditional focus area for business continuity)
CONTRACTUAL RISK	Uncertainty regarding compliance with customer and supplier business agreements
CREDIT RISK	Uncertainty regarding access to capital to improve or perform organizational activities
FINANCIAL RISK	Uncertainty regarding the ability to meet monetary targets or remain a going concern
HEALTH/SAFETY RISK	Uncertainty regarding the protection offered to those under the care of the organization (employees, contractors, visitors, customers, etc.)
MARKETING RISK	Uncertainty regarding the ability to identify or reach possible markets or customers in an effective manner
OPERATIONAL RISK	Uncertainty regarding performance or an ability to leverage resources to deliver products and services based on commitments
QUALITY RISK	Uncertainty regarding the delivery of a product or service that meets specifications or customer expectations
REGULATORY RISK	Uncertainty regarding compliance with governmental obligations
REPUTATIONAL RISK	Uncertainty regarding the ability to maintain positive stakeholder perception or a positive standing in the market or environment
SECURITY RISK	Uncertainty regarding the organization's ability to protect personnel, property and resources from man-made events that may intentionally cause harm or damage

Appendix 3 Data Analysis the Five Sampled Groups

	Group 1	x-mean	$(x\text{-mean})^2$	Group 2	x-mean	$(x\text{-mean})^2$	Group 3	x-mean	$(x\text{-mean})^2$	Group 4	x-mean	$(x\text{-mean})^2$	Group 5	x-mean	$(x\text{-mean})^2$
	4	0.5	0.25	2	-1.3	1.69	5	1.6	2.56	4	0.1	0.01	5	1	1
	3	-0.5	0.25	4	0.7	0.49	5	1.6	2.56	3	-0.9	0.81	5	1	1
	3	-0.5	0.25	3	-0.3	0.09	4	0.6	0.36	3	-0.9	0.81	4	0	0
	4	0.5	0.25	3	-0.3	0.09	3	-0.4	0.16	4	0.1	0.01	4	0	0
	5	1.5	2.25	4	0.7	0.49	2	-1.4	1.96	4	0.1	0.01	3	-1	1
	2	-1.5	2.25	4	0.7	0.49	5	1.6	2.56	4	0.1	0.01	4	0	0
	2	-1.5	2.25	4	0.7	0.49	3	-0.4	0.16	5	1.1	1.21	5	1	1
	5	1.5	2.25	3	-0.3	0.09	3	-0.4	0.16	5	1.1	1.21	2	-2	4
	4	0.5	0.25	3	-0.3	0.09	2	-1.4	1.96	4	0.1	0.01	3	-1	1
	3	-0.5	0.25	3	-0.3	0.09	2	-1.4	1.96	3	-0.9	0.81	5	1	1
SUM	35	0	10.5	33	0	4.1	34	0	14.4	39	0	4.9	40	0	10
MEAN	3.5			3.3			3.4			3.9			4		
SSW	43.9														
	observati	x-mean	$(x\text{-mean})^2$		TOTAL SUM OF SQUARES				47.78						
	4	0.38	0.1444		TOTAL SUM OF SQUARES WITHIN GROUPS				43.9						
	3	-0.62	0.3844		TOTAL SUM OF SQUARES BETWEEN GROUI				3.88						
	3	-0.62	0.3844												
	4	0.38	0.1444		DEGREES OF FREEDOM										
	5	1.38	1.9044		NUMERATOR				4						
	2	-1.62	2.6244		DENOMINATOR				45						
	2	-1.62	2.6244												
	5	1.38	1.9044						0.97						
	4	0.38	0.1444						0.975556						
	3	-0.62	0.3844												
	2	-1.62	2.6244												
	4	0.38	0.1444		**F**				**0.994305**						
	3	-0.62	0.3844												
	3	-0.62	0.3844												
	4	0.38	0.1444												
	4	0.38	0.1444												
	4	0.38	0.1444												
	3	-0.62	0.3844												
	3	-0.62	0.3844												
	3	-0.62	0.3844												
	5	1.38	1.9044												
	5	1.38	1.9044												
	4	0.38	0.1444												
	3	-0.62	0.3844												
	2	-1.62	2.6244												
	5	1.38	1.9044												
	3	-0.62	0.3844												
	3	-0.62	0.3844												
	2	-1.62	2.6244												
	2	-1.62	2.6244												
	4	0.38	0.1444												
	3	-0.62	0.3844												
	3	-0.62	0.3844												
	4	0.38	0.1444												
	4	0.38	0.1444												
	4	0.38	0.1444												
	5	1.38	1.9044												
	5	1.38	1.9044												
	4	0.38	0.1444												
	3	-0.62	0.3844												
	5	1.38	1.9044												
	5	1.38	1.9044												
	4	0.38	0.1444												
	4	0.38	0.1444												
	3	-0.62	0.3844												
	4	0.38	0.1444												
	5	1.38	1.9044												
	2	-1.62	2.6244												
	3	-0.62	0.3844												
	5	1.38	1.9044												
MEAN	3.62														
		SUM	47.78												

Appendix 4 Output of Data Analysis using ANOVA

Risk Appetite	Risk Disclosure	Reporting	Compliance	Communication		
4	2	5	4	5		
3	4	5	3	5		
3	3	4	3	4		
4	3	3	4	4		
5	4	2	4	3		
2	4	5	4	4		
2	4	3	5	5		
5	3	3	5	2		
4	3	2	4	3		
3	3	2	3	5		
Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
Risk Appetite	10	35	3.5	1.166666667		
Risk Disclosure	10	33	3.3	0.455555556		
Reporting	10	34	3.4	1.6		
Compliance	10	39	3.9	0.544444444		
Communication	10	40	4	1.111111111		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	3.88	4	0.97	0.994305239	0.420493	2.578739
Within Groups	43.9	45	0.975555556			
Total	47.78	49				