Bank Disclosure Practices in Bangladesh: Exploring the Impact of Corporate Attributes

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ABSTRACT

Disclosure is necessary so that interested parties can make wise decisions. The study aims to establish the level of disclosure and whether different corporate attributes influence it. Each sample bank's disclosure score was calculated using the unweighted disclosure index. Throughout five years, spanning 2016 to 2020, the necessary data were collected from sample banks' annual reports, and several statistical tools were employed to illustrate the study's conclusions. The study's findings report that the average level of disclosure is satisfactory. The ANOVA test was used to establish whether there was a significant difference in the disclosure levels, and the results show a substantial difference in this case. Multiple regression analysis was performed to investigate the effect of various corporate attributes on disclosure levels. The study's consequences showed that although these variables had significant values higher than 0.05, ROE, EPS, CAR, and log number of employees had no significant influence on disclosure levels. However, at the 0.05 significance level, log total assets demonstrate 0.055 significant levels, indicating that LTA considerably influences disclosure levels.

Keywords: Corporate Attributes, Disclosure Index, Disclosure Levels, DSE, Conventional Private Commercial Banks

INTRODUCTION

Disclosure refers to the adequate disclosure of significant information for the benefit of various stakeholders. Relevant information must be adequately disclosed in a company's financial statements. Disclosure is providing information to the intended audience and those entitled to it so they can use it to make financial decisions. The financial reporting process concludes with financial disclosure. Financial statements are reports that describe and categorize financial occurrences (Maleque et al., 2010). One of the most effective channels for exchanging information between a commercial bank and outside parties is the publication of an annual report. To help financial market participants and other interested parties make prudent economic decisions, commercial banks should ensure that their annual reports contain accurate qualitative and quantitative information regarding their financial situation and performance (Hawashe, 2015). Disclosure is essential if management appropriately communicates the company's performance and worth to outside investors (Mullangi, 2017; Maddula et al., 2019; Maddula, 2018). Improved disclosure procedures aid in closing the knowledge gap that exists between a company and its stakeholders.

Full disclosure practices and transparency in financial reporting increase investor confidence. The business's success and sustainable performance largely depend on full disclosure and transparency, which also aid in maximizing shareholder wealth (Madhani, 2008). Disclosure is widely recognized for decision-making among relevant stakeholders. Financial disclosure refers to the effective dissemination of accounting information to interested users. Many interested users review financial accounts to evaluate the profitability and overall health of the company and make investment decisions. Although there are many ways to present financial information, annual reports are crucial. Financial disclosure demonstrates an organization's financial performance (Tewari, 2017). The financial sector, particularly Bangladeshi banking, is critical in maintaining healthy and sustainable economic development. The financial information in the company's financial statements at the end of each accounting period is crucial for different stakeholders to make decisions (Ahmed, 2022). The Bangladeshi banking sector is a middleman for customer deposits and asset investments and is energetic in long-term, sustainable economic growth. Disclosure is the act of disclosing information about a company that has a substantial impact on making a sound decision for

everyone involved (Ying et al., 2017; Mullangi et al., 2018). Disclosure is a crucial channel for sharing company information and properly disclosing information in annual reports prepared according to the rules imposed by the different regulatory authorities, which is critical for other users when making logical financial decisions (Mullangi et al., 2018). The Companies Act of 1994, the Banking Companies Act of 1991, the Income Tax Ordinance of 1984, the Securities and Exchange Ordinance of 1969, the Securities and Exchange Rules of 1987, IAS/IFRS, and the regulations of Bangladesh Bank regulate the banking industry in Bangladesh. In light of these circumstances, this study aims to investigate the disclosure level and how it relates to the corporate characteristics of the sample banks.

Research Objectives

The study's prime aim is to reveal the disclosure level and how it relates to the selected corporate attributes of the included sample banks. In light of this, the following particular objectives have been established:

- To ascertain whether the sample banks' levels of disclosure differ significantly from one another.
- To investigate if corporate attributes significantly affect the level of information sample banks reveal.

Literature Review

Naveenan et al. (2024) did research to look at how corporate attributes affect disclosure practices. An unweighted disclosure index has been used to determine the extent of disclosure. Even though there has been a variance in the level of information published in annual reports, the results demonstrate that a reasonable percentage of information was disclosed. The evidence also shows that corporate characteristics significantly impact disclosure practices, although there is no discernible variation in the DS. Rahman and Mahmud (2022) examined disclosure performance by IFRS 7. According to the report, the average percentage of standards met is 72.77. Based on each company's specific compliance status, the maximum compliance rate with a negative deviation from the average is 80 percent.

On the other hand, the reporting and disclosure processes are pretty good. Rahman and Uddin (2016) examined how much information is disclosed and what factors affect it. Throughout the study, the average disclosure was determined to be 75.76 percent, and this percentage continued to rise. There were significant variations in disclosure levels. Among the eight factors, three tremendous contributors to disclosure, including log total assets, ROE, and EPS, were identified. The remaining five variables were shown to have an insignificant impact on disclosure. Hossain (2008) looked into the extent of mandatory and voluntary disclosure and the connection between disclosure levels and company-specific characteristics. According to the report, the compulsory average disclosure is 88, while the average voluntary disclosure is 25. The results also demonstrate that age, business complexity, and asset-in-place are unimportant in explaining disclosure levels, size, profitability, board composition, and market discipline characteristics, which are significant. Das (2022) assessed the level of corporate disclosure and how it related to profitability characteristics. The study shows that while the remaining attributes, such as OP, PAT, ROE, and ROA, had an insignificant positive impact on the CDS, the various profitability attributes, such as PBT and EPS, significantly impacted the CDS.

Corporate Attributes and Hypothesis

To investigate how corporate attributes affect the level of disclosure, size, capital adequacy ratio, and profitability were considered exemplary indicators of corporate attributes.

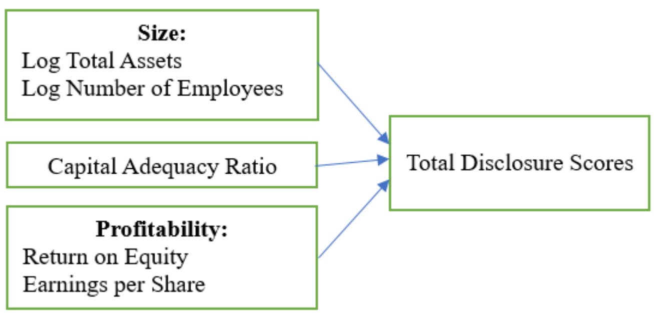
Size: The Company's size largely dictates the level of corporate disclosure (Owusu-Ansah, 1998, cited in Hasan and Hosain, 2015). The magnitude of a firm's operations is called its company size. In maximum disclosure studies, company size was critical in determining disclosure levels. Company size has been identified as a significant factor influencing disclosure levels in maximum disclosure studies. Larger organizations are likely to release more information than smaller ones. Bank size has been taken as a corporate attribute by examining various literature such as Hossain (2008), Rao and Desta (2016), Hasan and Hosain (2015), Rahman and Uddin (2016), Galani (2011), Hawashe (2015), Saha and Neogy (2022), Arif and Tuhin (2013), Barako (2007), Galani (2011), and Naveenan et al. (2024). Total assets and employee numbers together make up a bank's size.

Capital Adequacy Ratio: About its risk-weighted assets and current liabilities, a bank's capital is evaluated using the capital adequacy ratio. The capital adequacy ratio specifies rules for financial institutions by assessing a bank's ability to fulfill commitments and control credit and operational risks. A high CAR indicates that the bank is well capitalized to absorb losses. Rahman and Uddin (2016) stated that a bank's financial health can be inferred from its capital adequacy ratio. They also noted that banks with higher ratios reveal more financial information.

Profitability: Annual reports with more details and a more relaxed attitude when delivering good news. Lower profitability or a losing company, on the other hand, might release less information, trying to hide the reasons behind their lower profits or losses (Ahmed, 2009). Managers can use the company's profit level, intended to meet shareholder expectations, as evidence that they are acting or using its resources to increase the profit level (Hasan & Hosain, 2015). In general, successful businesses reveal more information than unsuccessful ones. Profitability has been regarded as a corporate attribute by an analysis of some literature, including Hossain (2008), Rao and Desta (2016), Galani (2011), Naveenan et al. (2024), Saha and Neogy (2022), Das (2022), Arif and Tuhin (2013), Barako (2007), and Hasan and Hosain (2015). This study's profitability indicators include ROE and EPS. Considering the previous discussion, the following hypothesis is investigated:

H_0: The different corporate attributes do not influence the level of disclosure provided by sample banks.

Conceptual Framework



Source: Author's Design

Research Methodology

Sample Selection

This study only looked at conventional private commercial banks with a Dhaka Stock Exchange listing. Forty-three PCBs operating in the Bangladeshi banking industry are under Bangladesh Bank's administration and supervision. There are two types of PCBs: thirty-three are conventional banks, and ten are Islami Shariah-based banks. Eastern Bank PLC, Dutch-Bangla Bank PLC, Dhaka Bank PLC, IFIC Bank PLC, and Southeast Bank PLC were the five banks sampled for the study using the judgmental sampling technique. The study period for the research was from 2016 to 2020. The necessary secondary data for this investigation were collected from the annual reports of the sample bank and other pertinent sources.

Construction Disclosure Index and Scoring Procedure

This study has created an unweighted disclosure index including both mandatory and voluntary items based on the disclosure requirements of IASs and IFRSs, the requirements of the Bangladesh Securities and Exchange Commission, the circulars of Bangladesh Bank, and other relevant disclosure requirements to determine the sample banks' level of disclosure. This study used an unweighted disclosure index to establish the disclosure level; if the sample banks reveal the information, a score of 1 is given; if not, a score of 0 is shown.

Regression Model

The following regression model was created for this study to determine whether the various corporate attributes have any significant effects on the extent of disclosure:

$$TDS = \alpha + \beta_1 ROE + \beta_2 EPS + \beta_3 CAR + \beta_4 LTA + \beta_5 LNE + \varepsilon$$

Here,

TDS = Total Disclosure Scores
ROE = Return on Equity
EPS = Earnings per Share
CAR = Capital Adequacy Ratio
LTA = Log Total Assets
LNE = Log Number of Employees
α = the constraint, and
ε = the error term

Results and Discussion

Table 1: Results of Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
ROE	2.30	19.70	11.1012	4.13531
EPS	0.35	21.00	4.3032	4.67451
TDS	70.27	79.46	74.7676	2.35984
CAR	10.84	17.20	13.5424	1.65426
LTA	12.19	13.07	12.6242	0.23816
LNE	7.37	9.21	7.9540	0.57504

The evidence supports each of the variables considered in the study. It is apparent that the average disclosure level is 74.7676 percent, and the SD value is 2.35984, which is satisfactory. Banks are more consistent in their disclosure, according to the highest mean score with the lowest SD. The two profitability variables are ROE and EPS. The consequences indicate that ROE has a mean value of 11.1012 with a 4.13531 SD value and a range of 2.30 to 19.70; once again, the mean and SD values of EPS are 4.3032 and 4.67451 within a range of 0.35 and 21.00. The two bank size variables are LTA and LNE. LTA found that the mean value is 12.6242, and the SD value is 0.23816 between 12.19 and 13.07. On the other hand, it is obtained that the values of mean and SD are 7.9540 and 0.57504 in LNE, and visible rage are 7.37 and 9.21, respectively. The evidence also provides that in terms of CAR, the mean value is 13.5424, the SD is 1.65426, and the visible rage is 10.84 and 17.20 in this issue.

Table 2: Results of the One-way ANOVA Technique

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	54.065	4	13.516	3.397	0.028
Within Groups	79.587	20	3.979		
Total	133.652	24			

This study has employed ANOVA to determine whether the sample banks' levels of disclosure differ significantly from one another. The outcomes show a lower significance level than 0.05, signifying a significant difference in this issue.

Table 3: Results of Multicollinearity

	Collinearity Statistics	
	Tolerance	VIF
ROE	0.316	3.167
EPS	0.227	4.414
CAR	0.530	1.888
LTA	0.631	1.584
LNE	0.306	3.271

According to this evidence, all variable tolerance levels are less than one, which rules out multicollinearity. This study's examination of the VIF values to test for multicollinearity demonstrates that all values are less than ten, indicating that multicollinearity is not a problem when using the data in a multiple regression model.

Table 4: Results of Coefficient Correlation

	LNE	CAR	LTA	ROE	EPS
LNE	1.000				
CAR	0.108	1.000			
LTA	-0.523	-0.274	1.000		
ROE	0.153	-0.513	0.104	1.000	
EPS	-0.689	-0.018	0.207	-0.577	1.000

Multicollinearity occurs when the correlation is more significant than 0.9 (Dormann et al., 2012; Yu et al., 2010, cited in Moulick et al., 2021). This study also considered the coefficient of correlation values to verify the multicollinearity issue. As evidenced by the lower than 0.9 values of all the independent variables, there appears to be no issue with multicollinearity between the various independent variables.

Table 5: Results of Multiple Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	7.494	23.181		0.323	0.750
ROE	-0.094	0.178	-0.165	-0.529	0.603
EPS	-0.237	0.185	-0.469	-1.276	0.217
CAR	0.161	0.343	0.113	0.470	0.643
LTA	4.454	2.181	0.450	2.043	0.055
LNE	1.373	1.298	0.335	1.058	0.303
a. Predictors: (Constant), LNE, CAR, LTA, ROE, EPS					
b. Dependent Variable: TDS					
Note: R = 0.647, R^2 = 0.419, F-value = 2.740, SL = 0.050					

The above evidence indicates that ROE, EPS, CAR, and LNE do not significantly affect disclosure levels because each variable has significant values higher than 0.05. Conversely, though, LTA shows 0.055 significant levels at the 0.05 significance level, indicating that LTA significantly affects the level of disclosure. The findings also revealed that the value of R, which is 0.647, indicates the degree of simple correlation. Once again, R^2 is 0.419, the F-value is 2.740, and SL is 0.050, indicating that all independent variables may account for 41.90 percent of the variance in the disclosure levels.

Table 6: Results of the Correlation Matrix

	ROE	EPS	TDS	CAR	LTA	LNE
ROE	1.000					
EPS	0.735**	1.000				
TDS	-0.241	-0.179	1.000			
CAR	0.653**	0.472*	-0.001	1.000		
LTA	0.115	0.245	0.520**	0.260	1.000	
LNE	0.426*	0.740**	0.185	0.292	0.521**	1.000
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Based on the previously provided data, a clear, positive correlation exists between LNE and ROE and CAR and EPS at the 5% significance level. At the 1% significance level, a positive correlation is also seen between EPS and ROE, CAR and ROE, LNE and EPS, LTA and TDS, and LNE and LTA.

Conclusion

This report provides an overview of the disclosure practices of sample PCBs in Bangladesh. The goal of the study is to determine the level of disclosure and whether various corporate attributes have an impact on it. The study's findings show that the average level of disclosure is satisfactory. The results of the ANOVA technique, which was used to assess if there was a significant difference in the disclosure levels, show a substantial difference in this particular issue. Multiple regression analysis was used to examine the impact of various corporate attributes on disclosure levels. The findings showed that while each factor has significant values greater than 0.05, the ROE, EPS, CAR, and log number of employees do not significantly affect disclosure levels. However, at the 0.05 significance level, LTA exhibits 0.055 significant levels, suggesting that log total assets significantly affect the disclosure levels.

Disclosure is essential for meeting the demands of interested users, ensuring transparency and adequacy, and gaining the trust of various stakeholders. Since the disclosure of information is essentially the basis for all decisions made by interested parties, the banking sector management in Bangladesh should take the appropriate action to ensure full compliance with the various legal frameworks governing disclosure practices prescribed by multiple regulatory bodies and to provide quality information in annual reports. Finally, the banking sector's management should also take the appropriate steps to ensure that information is disclosed adequately to all interested parties.

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