Corporate voluntary disclosure practices of banks in Bangladesh

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Abstract

This study aims to explore the corporate voluntary disclosure practices of the listed banks in an emerging economy namely Bangladesh. Results show that the extent of voluntary disclosure significantly improves from 2005 to 2008. However, the level of disclosure items related to corporate governance and risk management are lower than other disclosure categories. Overall findings of this study contribute in the accounting and economic literature by adding an empirical results of voluntary disclosure of a highly regulated industry from an emerging economy. Nevertheless, the results have the limitation to generalize for other industries as well as for banks from countries.

1. Introduction

As shareholders, mainly minority shareholders in emerging economies, stay away from corporate management, managers have excess to higher information compare to shareholders which, in turn, leads information asymmetry problem. Managers can exploit the interest of shareholders because of the information asymmetry between shareholders and managers. Corporate Voluntary Disclosure (CVD) refers to the disclosing information beyond the mandatory content in the financial statements (Kumar et al., 2008) which can minimizes information asymmetry problems by making more private information as public (Evan & Sridhar, 1996). The banking industry which is one of the major industries in Bangladesh plays very critical role both in money market and capital

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market. Though this is a highly regulated industry, minority shareholders and other stakeholders are always suffers from acute information asymmetry problem due to the weak institutional environment of Bangladesh.

Therefore, this study attempts to investigate the extent of CVD practices of listed banks in Bangladesh over a period. More specifically, the study sheds lights on the changes CVD practices from 2005 to 2008, and converging trend of the banks in CVD practices. There are three important reasons of this study to select these two points of time i.e., year 2005 and 2008: first, some important stock market reforms has been initiated in Bangladesh during this period e.g., Bangladesh Securities and Exchange Commission (BSEC) promulgated code of corporate governance in 2006 which possibly affect the disclosure practices of listed companies. Second, it is difficult to trace the significant changes of disclosure practices comparing immediate two years as companies require longer time span to change its policy regarding important issue like disclosure. Thirdly, consistent with prior studies (e.g., Wojcik, 2006; Mamun & Badir, 2014), this research considers the three years period gap to conduct convergence analysis.

The remaining part of the paper is organized as: section 2 comprises literature review, section 3 describe the methodology of the study, section 4 focuses on findings and discussion, and finally section 5 concludes the study with highlighting its limitations and scope of the further study.

2. Literature review

A good number of research studies have been conducted on CVD in both developed and emerging economies. For example, Kahl & Belkaoui (1981), Adams & Hossain (1998), Cooke (1989), Bujaki & McConomy (2002), Babío Arcay, & Muiño Vázquez (2005), Brockman et al. (2008), are some important studies from develop economies and Hossain et al. (1994), Chau & Gray (2002), Laventis & Weetman (2004) Barako et al. (2006), Hossain & Reza (2007), Hossain & Hammami (2009), Jiang et al. (2011), Samaha & Dahawy (2011) are from emerging economies.

Typically, most of these studies focus on determinants of CVD. For example, Arcay and Vazquez (2005) observed the positive association of firm size and board independence with extent of voluntary disclosure in the context of Spain where investor protection is very low. In addition, these studies mostly considered non-financial firms except Hossain & Reza (2007) with the excuse that financial firms are highly regulated. However, financial institutions like banks play the major role by supplying fund to corporates in the emerging economy where the capital market is yet to develop and banks supplies the most of the part of the capital. For example, Banks in Bangladesh supplies 75% of the total fund in 2008 which is 52.8% of GDP as well (ADB, 2008). Thus, banking sector is one of most important industries in Bangladesh like any other emerging economy. In their study on 38 listed banks of India, Hossain & Reza (2007) found that banks disclose considerable amount of voluntary information, and firm size positively affect voluntary disclosure. However, none of the studies expected to explore changes of CVD of firms over the period. Therefore, this current study intends to fill up the gap of existing literature with the investigation of extent of CVD and their changes over a period of time for the listed banks in an emerging economy namely Bangladesh characterized with weak investor protection mechanisms.

3. Methodology

3.1 Sample selection

Out of 30 banks listed in the Dhaka Stock Exchange (DSE), the primer stock market in Bangladesh, this study has considered only 24 banks as sample companies due to lack of annual reports availability. A bank is included in the sample list of the study based on the following criteria:
   a) Listed in DSE and are not de-listed during the study period.
   b) Annual reports for year 2005 and 2008 are available and readable.

3.2 Items and index of corporate voluntary disclosure

The study uses a disclosure checklist comprising 65 items to analyse disclosure practices of sample companies. The checklist based on prior studies by Hossain & Reaz (2007), Meek et al. (1995), Haniffa & Cooke (2002) and

adjusted for Basel committee recommendation on Bank Transparency (1998). Selected 65 items are categorized into nine different groups of information as General corporate Information Disclosure (GCID), Corporate strategy Disclosure (CSD), Corporate Governance Disclosure (CGD), Financial Performance Disclosure (FPD), Risk Management Disclosure (RMD), Accounting Policy Disclosure (APD), Non-Financial Statistics Disclosure (NFSD), Corporate Social Responsibility Disclosure (CSRD), and other items, and could be expected to be disclosed in the annual reports of banks in Bangladesh. The study constructed a Corporate Voluntary Disclosure Index (CVDI) for each sample bank to measure the extent of voluntary disclosure. A dichotomous approach was used to conduct the survey where each company was awarded a score of '1' if the company appears to have disclosed the concerned reporting variable and '0' otherwise. The score of each company was totalled find the net score of the company. An unweighted CVDI is then computed by using the following formula:

$$CVDI = \frac{\text{Total Score of Individual bank}}{\text{Maximum Possible Score Obtainable}} \times 100$$

3.3 Data analysis technique

The study uses univariate analysis to measure central tendency and dispersion (mean, median and standard deviation) of CVDI. Like Wojcik (2006), Beta convergence and sigma convergence analysis are conducted to understand the changing dynamic of CVD over the period i.e. whether banks are converging in terms of disclosure practices or not. As same set of sample are used in both the time period, i.e., two set of samples are dependent, the Wilcoxon test is performed to identify whether the changes of CVDI from period to period is significant.

4. Findings and discussion

4.1 Descriptive statistics

Table 1presents the descriptive statistics of CVDI score of overall disclosure items (CVD) and its nine sub-categories for the year 2005 and year 2008. The CVD score in 2005 indicates banks in Bangladesh, on averages, discloses 69% of 65voluntary disclosure items, and this extent of disclosure increases to 76% in 2008. The result suggests the improving trend of overall voluntary disclosure by listed Bangladeshi banks from time to time. Mean scores of the CVDI for all subcategories demonstrates that banking companies are disclosing 100% general corporate information items in their annual reports in 2005 and 2008, while they are only disclosing 52% of CGD items in 2005 and 56% in 2008 which is least disclosure score among all sub categories as well. Findings about changes of mean score show that extent of voluntary disclosure increases not only in terms of overall score but also in terms of each category of disclosure. However, highest level of improvement can be observed for APD by 21% and lowest for CGD by 4% which suggests the uneven improvement of CVD in terms of different categories of disclosure.

Table1. Descriptive statistics of the extent of CVD

ICGM	2005					2008					Changes of Mean
	Mean	Median	Min	Max	SD	Mean	Median	Min	Max	SD	
CVD											0.07
GCID	1.00	1.00	1.00	1.00	0.00	1.00	1.00	1.00	1.00	0.00	0.00
CSD	0.75	1.00	0.00	1.00	0.30	0.94	1.00	0.50	1.00	0.17	0.19
CGD	0.52	0.45	0.27	0.91	0.18	0.56	0.56	0.27	0.91	0.15	0.04
FPD	0.66	0.67	0.50	1.00	0.13	0.73	0.75	0.42	1.00	0.19	0.07
RMD	0.61	0.58	0.33	0.92	0.15	0.69	0.67	0.33	1.00	0.17	0.08
APD	0.73	0.50	0.00	1.00	0.33	0.94	1.00	0.50	1.00	0.17	0.21
NFSD	0.59	0.63	0.25	0.88	0.21	0.73	0.88	0.25	0.88	0.20	0.14
CSRD	0.98	1.00	0.50	1.00	0.10	0.99	1.00	0.25	1.00	0.05	0.01
Others	0.82	0.88	0.63	0.88	0.08	0.83	0.88	0.63	0.88	0.07	0.01

Further analysis in table 2 comprises each category of CVD by percentage of companies, and the ranking of the categories. Results show the changes of rank score of each disclosure category in 2005 and 2008 which suggests that banks are changing their priority over the period to disclose information voluntarily. One of the important insights of the ranking results is that CGD is in the least preferred disclosure item to banks in both of the time periods even though more percentage of companies disclosing corporate governance items.

Table2. Percentage of Companies disclosed items

	2005		2008	
	% of Co.	Rank	% of Co.	Rank
GCID	1.00	1	1.00	1
CSD	0.75	4	0.94	3
CGD	0.51	9	0.55	8
FPD	0.65	6	0.71	5
RMD	0.61	8	0.68	7
APD	0.73	5	0.94	3
NFSD	0.56	7	0.69	6
CSRD	0.98	2	0.97	2
Others	0.76	3	0.77	4

4.2 Convergence analysis

Table 3 presents the sigma convergence and beta convergence scores of CVD and all sub-categories of disclosures. Sigma convergence is measured by calculating absolute and relative changes of standard deviation from 2005 to 2008. Results of sigma convergence show the negative changes of absolute and relative standard deviations of overall and all sub-categories CVDI except FPD and RMD over the period which indicates the sing of convergence in voluntary disclosure practices of Bangladeshi Banks. In addition, findings of beta convergence measured by Spearman's rank correlation between CVDI of 2005 and absolute changes of the index from 2005 to 2008 exhibits negative and significant correlations for all disclosure items. Like prior one, these results also suggest the converging tendency of banks to disclosure voluntary items in their annual reports during the period. In brief, the voluntary disclosure practices of Bangladeshi banks are improving with the converging tendency which indicates the presence of competition among these companies to disclose more information for their stakeholders.

Table 3. Beta and Sigma Convergence Analysis

Disclosure Items	Sigma Convergence						Beta convergence	
	i	ii	iii	iv	Change in SD		Correlation Coefficient	Sig.
	SD_2005	% of Mean	SD_2008	% of Mean	Absolute (iii-i)	Relative (iv-ii)		
CVD	0.10	14.49	0.08	10.53	-0.02	-3.97	-0.70	0.00
GCID	0.00	0.00	0.00	0.00	0.00	0.00	n/a	n/a
CSD	0.30	40.00	0.17	18.09	-0.13	-21.91	-0.95	0.00
CGD	0.18	34.62	0.15	26.79	-0.03	-7.83	-0.76	0.00
FPD	0.13	19.70	0.19	26.03	0.06	6.33	-0.59	0.00
RMD	0.15	24.59	0.17	24.64	0.02	0.05	-0.63	0.00
APD	0.33	45.21	0.17	18.09	-0.16	-27.12	-0.95	0.00
NFSD	0.21	35.59	0.20	27.40	-0.01	-8.20	-0.68	0.00
CSRD	0.10	10.20	0.05	5.05	-0.05	-5.15	-0.72	0.00
Others	0.08	9.76	0.07	8.43	-0.01	-1.32	0.27	0.21

4.3 Wilcoxon test analysis

Table 4 shows the results of Wilcoxon signed-rank test for the trend of CVD and its all sub-categories for the year 2005 and 2008. As results presented in the table, the increase in the extent of CVD is statistically significant at the level of .05. This result indicates that Bangladeshi banks are disclosing more voluntary disclosure items in 2008 compare to 2005. This finding is consistent with the findings of the descriptive statistics which indicates the improving tendency of level of CVD over the period. However, results of sub-categories of CVD shows that improvement of the level of NFSD is highly significant (sig. <.01) and improvement of CSD and APD are moderately significant (sig. <.05). While the increasing trend of other disclosure categories are insignificant. In

sum, results indicate that Bangladeshi bank improving its voluntary disclosure practices from 2005 to 2008 with the uneven improvement of different categories of disclosure.

Table 4. Wilcoxon signed-rank Test

Disclosure Items	Mean		Wilcoxon Test
	2005	2008	
CVD	0.69	0.76	0.01
GCID	1.00	1.00	1.00
CSD	0.75	0.94	0.01
CGD	0.52	0.56	0.57
FPD	0.66	0.73	0.13
RMD	0.61	0.69	0.08
APD	0.73	0.94	0.03
NFSD	0.59	0.14	0.00
CSRD	0.98	0.99	0.66
Others	0.82	0.83	0.63

5. Conclusion

This study has explored the extent of CVD of the listed banks in an emerging economy namely Bangladesh and the changes of their disclosure practices from 2005 and 2008. The findings show that overall level of CVD increases from 69% in 2005 to 76% in 2008 and the improvement of disclosure practices is statistically significant (p<.05) as well. Results of beta and sigma convergence analysis demonstrate the converging trend of the Bangladeshi banks in CVD practices. However, the results indicate that these banks have huge room to improve its disclosure level. In addition, two very important sub-categories of CVD i.e. CGD and RMD have comparatively lower disclosure score in both years which suggests the lack of proper prioritization of the banks to disclosure information. This research has valuable managerial and theoretical implications. Results of this study help regulators, policy makers, and managers to understand the disclosure pattern of banks in Bangladesh and to set appropriate disclosure policy and regulations for them so than the banks can minimize the information asymmetry problem. However, the caveat these results are to generalize the disclosure practices of all listed companies in Bangladesh as the study exclusively focuses on listed banks. Therefore, the current study can be extended to explore the CVD practices of companies in other industries, and to focus on banks of other emerging economies with similar institutional settings.

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