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Voluntary disclosure practices- A comparative study of top public and private sector banks in India

Dr. B. Shailaja
shailaja.bangari@yahoo.com
Osmania University College for Women, Hyderabad, Telangana

ABSTRACT

A voluntary disclosure practice plays a major role with respect to stakeholders. It creates a high quality of financial and non financial information which is useful for the stakeholders to make the decisions. The voluntary disclosure practices provide the information to the stakeholders to make the investment decisions. Therefore, it is necessary for every bank to make timely and full disclosures in the annual reports of the banks. This paper is an attempt to examine the voluntary disclosure practices prevailing in the commercial banks in India. In addition to this, a comparative analysis of voluntary disclosure practices of public sector banks and private sector banks in India for the period 2018-2021.

Keywords: *Disclosures, Banks, Stakeholders*

1. INTRODUCTION

The present scenario of business is moving from national to international level which requires more transparency in disclosure of business operational activities to the stakeholders. The disclosures are the only source of communication of financial or non financial information to the stakeholders, which consists of mandatory, voluntary disclosures to the users of corporate report. Mandatory disclosures consists of information that is required to be disclosed according to the securities law, accounting principles, and regulatory agencies' regulations (Tian &Chen, 2009).whereas, voluntary disclosures information refers to additional information delivered by firms along with the mandatory information with a view to reduce the information asymmetry between insiders and outsiders (Hasan & Hosain,2015). Banks are the most important pillar of the national financial system, as it facilitates savings, advancing loans and simultaneously pooling surplus. When the bank efficiently mobilizes and allocates funds it results in decrease in cost of capital, increase in capital formation. It is observed that bank providing the regular financial reporting and other public disclosures. Therefore, an adequate public disclosure facilitates a more efficient allocation of capital between banks and it helps the market to assess and compare the risk and return of the banks.

2. LITERATURE REVIEW

Rouf, A. Md., Hasan, S. Md., & Ahmed, A.A.A,(2014) in their research paper entitled "Financial Reporting Practices in the Textile Manufacturing Sectors of Bangladesh" studied the factors that influence companies to disclose voluntary information in their annual reports of Textile Manufacturing Companies in Bangladesh. The study used ordinary least square (OLS) regression model to examine the relationship between depend variable and independent variables. An index of 68 voluntary items was constructed for the study. The results of the study reveal a positive association between board size and voluntary disclosure and also total assets with voluntary disclosure. It also indicates the extent of voluntary disclosure is negatively related to the ownership structure.

Hawashe (2016) in his paper entitled "Voluntary Information Disclosure in the Annual Reports of Libyan's Commercial Banks: A Longitudinal Analysis Approach" measures the level of voluntary information disclosure in annual reports of listed and unlisted Libyan's commercial banks. It uses longitudinal analysis approach to examine any significant improvement in the levels of voluntary disclosure in the annual reports. A voluntary disclosure index of 63 items was constructed. The results reveal that level of background information is the highest level of voluntary disclosures over the periods and the level of corporate social information is the lowest level of voluntary disclosure in the annual reports.

Hasan. M.T,(2014) in his paper entitled "Does Size Affect the Non-Mandatory Disclosure level in the Annual Reports of Listed Banks in Bangladesh" analyzed the impact of firm size on the level of nondisclosure mandatory disclosure in the annual reports of listed banks in Bangladesh. The is based on the annual reports of 15 banking companies listed on the Dhaka Stock Exchange and Chittagong Stock Exchange. A disclosure checklist with 58 items was constructed. The study use Ordinary Least Square (OLS) regression model to assess the effect of size on the voluntary disclosure level. The findings of the study indicate that size of a firm is a significant factor in explaining the level of non- mandatory disclosure.

3. RESEARCH OBJECTIVES

The objectives of the study are:
1. To examine the voluntary disclosure practices of selected commercial banks in India.
2. To study the comparative analysis of voluntary disclosure practices of select public and private sector banks in India.

4. HYPOTHESIS

The research hypothesis is:
Ho: There is no significant difference in the voluntary disclosure practices of public and private sector banks in India.
H1: There is significant difference in the voluntary disclosure practices of public and private sector banks in India.

5. RESEARCH METHODOLOGY

Sample selection: The totals of 6 top commercial banks from India were selected of which, the top three public sector and top three private sector banks are selected.

Table 1: List of the banks

S no.	Public Sector Banks	Private Sector Banks
1.	State Bank of India	HDFC Bank
2.	Punjab National Bank	ICICI Bank
3.	Bank of Baroda	Axis Bank

Period of the Study: The time frame of the study is for three years period from 2018-19 to 2020-21.

Data Collection: The present study is based on secondary data. Annual reports of the selected banks were collected/downloaded from the official websites of the selected banks for the research analysis.

Analysis of Data: Content Analysis has been used for the purpose of voluntary disclosure practices of top commercial banks in India. For this purpose, the voluntary disclosure index has been prepared and analyzed.

Construction of Voluntary Disclosure Index: The first step for construction of voluntary disclosure index is the selection of information items disclosed voluntarily by selected banks in their websites or annual reports. In addition to, a Basel III norm is a comprehensive set of reform measures to strengthen the regulation, supervision and risk management. Basel III, Pillar 3 has been considered for voluntary disclosures for the analysis. A set of 10 items of variables were selected for the analysis. Thus, total number of voluntary disclosure items is 154 for the period of the study.

Table 2: Voluntary Disclosure Variables Index (Post-BASEL III)

S no.	Voluntary Disclosure Variables	No. of Items	Percentage
1	General Information about Bank	6	3.9
2	Employees related information	3	1.95
3	Key non financial statistics	8	5.19
4	General Risk Management	5	3.25
5	Corporate social disclosures	11	7.14
6	Disclosure regarding committee	10	6.49
7	Financial performance information	9	5.84
8	Corporate Governance Information	5	3.25
9	Basel III, Pillar 3 Disclosures	92	59.74
10	Miscellaneous	5	3.25
	Total	**154**	**100**

Scoring the Voluntary Disclosure Index: The un-weighted disclosure index has been used for the present study to measure the extent of voluntary disclosed information. The un-weighted method uses a dichotomous procedure to score each bank by awarding '1' if an item is disclosed in the annual reports and '0' is awarded if an item is not disclosed in the annual report. This approach has been adopted in several previous empirical disclosure studies. This approach is based on the assumption that each information item in the disclosure index is considered equally important to all the corporate annual report users. After scoring, total voluntary disclosure index score (TVDIS) of each bank for the selected period of the study is calculated. It is the ratio between Total Disclosure Score obtained to Maximum disclosed Score. The fraction is then multiply by 100 to convert into percentage.

TVDIS = Total Disclosure Score Obtained/Maximum Obtainable Score.

6. RESULTS AND INTERPRETATION

The top 6 selected commercial banks for the present study are 3 public sector and 3 private sector banks. To examine the voluntary disclosure practices of selected top 6 public and private sector banks during the period of the study. Along with the TVDIS and Mean disclosure score is shown. The rank has been also assigned accordingly.

The following table shows the Post- Basel III Voluntary Disclosure Score for the period of the study along with TVDIS percentage and ranking of the public and private sector banks under the study.

Table 3: TVDIS of Selected Public and Private Sector Banks (Post-BASEL III)

S no.	List of Banks	Voluntary Items [154]				
		2018-19	2019-20	2020-21	Pooled VDIS%	Rank
1	State Bank of India	146 (94.81)	148 (96.10)	150 (97.40)	96.10	1
2	Punjab National Bank	139 (90.26)	142 (92.21)	146 (94.81)	92.42	2
3	Bank of Baroda	135 (87.66)	138 (89.62)	141 (91.56)	89.61	3
4	HDFC Bank	128 (83.12)	135 (87.66)	140 (90.91)	87.23	4
5	ICICI Bank	128 (83.12)	135 (87.66)	138 (89.61)	86.80	5
6	Axis Bank	126 (81.82)	132 (85.71)	135 (87.66)	85.06	6

The above table depicts that TVDIS percentage of public sector banks are higher than private sector banks during the study period. The state bank of India leads in all other banks and ranked at 1 as it disclosed maximum voluntary disclosures during the period with a 96.10%, followed by Punjab National bank is the second lead with a rank of 2along with 92.42%. Thirdly, it's Bank of Baroda with a percentage of 89.61. The state bank of India leads with all other banks irrespective of public or private sector banks. All the public sector banks leads in voluntary disclosures compared to other private sector banks which are selected for the study. Similarly, in case of private sector banks under the study HDFC leads with a percentage of 87.23, followed by ICICI bank with a percentage of 86.80. in the present study the Axis bank is last the rank when compared to all other banks for the present study with a percentage of 85.06.

Thus, it may be suggested that private sector bank should pay more attention in voluntary disclosure of information to show more transparency in banking activities.

7. CONCLUSION

The present study has empirically examined the extent of voluntary disclosure practices of the select public and private sector banks in India. Public sector banks disclose more information than private sector banks. And the public sector banks are more transparent in disclosing the voluntary information when compared to private sector banks. The State bank of India has the highest disclosure score during the study period. Whereas, Axis bank has least score in the private sector banks when compared to other private sector banks for the study. HDFC bank is more transparent in disclosing the information than other private banks in the study. However, there is an improvement in voluntary disclosure practices during the study period. From the above analysis, it is concluded that some voluntary disclosure practices information such as financial performance items, corporate governance report items and Basel III Pillar 3 disclosed by public sector banks compared to private sector banks in the present study. Further, the private sector banks should concentrate more in disclosing the information in detail and become more transparent in banking activities.

8. REFERENCES

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