

CORPORATE FINANCIAL VOLUNTARY REPORTING PRACTICES IN INDIAN BANKING COMPANIES

DR. NIDHI SHARMA*; MR. MANOJ KUMAR**

*Associate Professor, Department of Accountancy & Law,
Faculty of Commerce, Dayal Bagh Educational Institute, Agra.

**Research Scholar, Department of Accountancy & Law,
Faculty of Commerce, Dayalbagh Educational Institute, Agra.

ABSTRACT

Accounting is a process to identify measurer and communicate economic information to permit informed judgments and decisions by the user of the information. Its function is to provide quantitative information, primarily financial in name, about economic entities, that is intended to be useful in making economic decisions and related choice among alternative course of action. Financial disclosure may be defined as communication of published financial statement and related information from a business enterprise to all users. It is the reporting of accounting information of an entity to a user or group of users. The changes are driven by the additional disclosure requirements prescribed through amendments to the Companies Act, 1956; by considerably amending disclosure requirements under SEBI regulations; disclosures required under the reserve bank of India; and by additional disclosure requirements stipulated in revised and new accounting standards. For the purpose of study we have taken the Indian banks, In India the total number of banks are 49 in which 27 (19 Nationalized, 6 SBI group, 1 Others) are in public sector and 23 (15 Old, 8 New) are in private sector. In their effectiveness in terms of substance & quality reported in annual reports researchers have selected total 10 Indian banks out of 50 banks. 5 from public sector and 5 from private sector. These banks are selected on the basis of judgment sampling approach. These banks are having the highest market share and the good international rating given by the rating authorities (CARE, ICRA), and these Banks are listed in Bombay Stock Exchange and National Stock Exchange. The data was collected from the secondary source that is annual report of the Indian banks. In this study we selected the total 12 voluntary items which are generally included in voluntary reporting. In this study we find out the voluntary disclosure practices are adopted in both the public and private sector banks. This study provides a comparative study of public and private sector banks in India. This study will be helpful to the stakeholder and provide help to interested users and analyzers.

KEYWORDS: *voluntary disclosure, private sector banks, public sector banks, SEBI, RBI, India.*

INTRODUCTION

Accounting is a process to identify measurer and communicate economic information to permit informed judgments and decisions by the user of the information. Its function is to provide quantitative information, primarily financial in name, about economic entities, that is intended to be useful in making economic decisions and related choice among alternative course of action. Financial disclosure may be defined as communication of published financial statement and related information from a business enterprise to all users. It is the reporting of accounting information of an entity to a user or group of users. It contains both qualitative and quantitative information. Accounting is an information system and its ultimate goal is to aid the group interested in corporate affair in their decision- making by providing relevant information. This purpose is achieved through disclosure or reporting of information mainly through published annual reports

In a voluntary reporting system, an organisation, without any legal or administrative requirement to do so, submits a voluntary incident report. To promote the process of voluntary reporting, regulatory agencies should offer incentives to report. A number of States claim they have included this incentive among the principles of their voluntary reporting systems these are depends on Trust, Non-punitive, Inclusive Reporting Base, Confidentiality, Independence, Ease of reporting, Promotion, Acknowledgment; however opinions on its successful implementation diverge considerably. The general rule in voluntary reporting systems is that the reported information should not be used against the reporting person or organisation.

The internal reporting is a part of management information system and the management makes every effort to make use of such information. However, the external reporting seems to be more crucial as the management is the supplier of information to various user groups outside the management and a gap is always found. Between the need and supply, Professionals within an organization perform accounting function. But the ultimate responsibility for the generation of accounting information rest with the management.

In India, the last decade has experienced profound change in corporate financial reporting practices. The changes have occurred not only in the information content of annual reports, but also in presentation. These changes are driven by the additional disclosure requirements prescribed through amendments to the Companies Act, 1956; by considerably amending disclosure requirements under SEBI regulations; and by additional disclosure requirements stipulated in revised and new accounting standards. As a result of these changes, companies listed on stock exchange have been forced to disclose the minimum information in their annual reports as set out by the statutory requirements. However, particularly large and publicly traded leading companies have gone beyond those minimum requirements. Reporting information voluntarily has become a norm for large companies. Companies compete with an extensive amount of business information voluntarily to establish competitive advantage in the capital market. The study is an attempt to assess empirically the extent of voluntary information reporting practices in the annual reports.

REVIEW OF LITERATURE

Since the 1960s, there has been an increase in interest in accounting disclosure studies. A number of studies have been conducted the world over to see the impact of company specific attributes on the extent of disclosure practices of the companies. Some of the related literature of reviews are as follows:

Mohammed Hossain, Helmi Hammami (2009) "Voluntary disclosure in the annual reports of an emerging country: The case of Qatar"

This study sets out to examine empirically the determinants of voluntary disclosure in the annual reports of 25 listed firms of Doha Securities Market (DSM) in Qatar forming approximately 86% of the total firms incorporated in DSM. It also reports the results of the association between company-specific characteristics and voluntary disclosures of the sample companies. A disclosure checklist consisting of 44 voluntary items of information is developed and statistical analysis is performed using multiple regression analysis. The findings indicate that age, size, complexity, and assets-in-place are significant and other variable profitability is insignificant in explaining the level of voluntary disclosure..

Wang et al. (2008) "Determinants and consequences of voluntary disclosure in an emerging market: Evidence from China."

The study examined empirically the determinants of voluntary disclosure in the annual reports of Chinese listed firms that issue both domestic and foreign shares. The results indicated that the level of voluntary disclosure is positively related to the proportion of state ownership, foreign ownership, firm performance measured by return on equity, and reputation of the engaged auditor. However, there is no evidence, however, that companies benefit from extensive voluntary disclosure by having a lower cost of debt capital.

Dulacha G Barako (2007) "Determinants of voluntary disclosures in Kenyan Companies annual reports".

The study investigates the extent to which corporate governance attributes, ownership structure and company characteristics influence voluntary disclosure of various types of information. Due to the panel nature of our data, to estimate the determinants of voluntary disclosure of various types of information, we use pooled Ordinary Least Square (OLS) with Panel-Corrected Standard Errors (PCSEs). Our results indicate that, disclosures of all types of information are influenced by corporate governance attributes, ownership structure and corporate characteristics. In particular, the results also suggest that size and companies in the agricultural sector are significantly associated with the voluntary disclosure of all four types of information disclosures.

Helen H Kang, Sidney J Gray*(2006) "Reporting Intangible Assets: Voluntary Disclosure Practices of Top Emerging Market Companies".

This study examines factors associated with the voluntary disclosure practices of the top 200 emerging market companies in respect of information about Intangible Assets (IA). Using a disclosure index based on the Value Chain Scoreboard™ (Lev, 2001), narrative sections of annual reports are analysed. The findings support the applicability of Lev's framework. Further, the extent of IA disclosure is associated with leverage, adoption of IFRS/US GAAP,

industry type, and price-to-book ratio. Contrary to prior research, firm size and ownership concentration are not found to be significant. Country-specific factors such as economic policy and legal system are also found to be significantly associated with IA voluntary disclosure levels.

Rogier Deumes(2004) “Voluntary Reporting on Internal Control by Listed Dutch Companies”.

This study investigates whether voluntary reporting on internal control by company management can be viewed as a monitoring mechanism that reduces conflicts of interest between management, shareholders and debt holders. An agency framework is used to analyze management’s incentives for voluntary reporting on internal control. Empirical variables are chosen to proxy for external and internal agency costs. In addition, the effects of other monitoring mechanisms are tested. Multivariate tests are conducted on a sample of 149 listed Dutch companies for the year 1997. Reporting on internal control is voluntary in the Netherlands. The results indicate that voluntary reporting on internal control is significantly correlated with variables that proxy for the agency costs of equity (i.e. management ownership and the percentage of shares held by large investors), but is not correlated with variables that proxy for agency costs of debt (i.e. leverage and the proportion of assets in place). In addition, voluntary reporting on internal control is significantly correlated with company size.

OBJECTIVES OF THE STUDY

- To examine the voluntary disclosure practices in banking sector in India
- To make a comparative analysis of the voluntary disclosure practices in the public sector and private sector banks in India.

RESEARCH METHODOLOGY

In India the total number of banks are 49 in which 27 (19 Nationalized, 6 SBI group, 1 Others) are in public sector and 23 (15 Old, 8 New) are in private sector. In order to assess the structure and process for voluntary disclosure practices followed by Indian banks. In their effectiveness in terms of substance & quality reported in annual reports researcher had selected total 10 Indian banks out of 50 banks.5 banks taken from public sector and 5 banks taken from private sector. These banks are selected on the basis of judgment sampling approach. The banks are selected by the criteria there is the top most banks which are having the highest market share and the good international rating given by the rating authorities (CARE, ICRA), and these banks are listed in Bombay Stock Exchange and National Stock Exchange. The survey of annual reports covers banks, which published their annual reports during the period ended between June 30, 2010 and December 31 2010. In the study a disclosure index comprising of 12 voluntary reporting items was constructed by reviewing of relevant literature.

The list of the banks is given below:

S.NO.	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
1.	State Bank of India	HDFC Bank Ltd
2.	Bank of India	ICICI Bank Ltd
3.	Bank of Baroda	Axis Bank Ltd
4.	Allahabad bank	Kotak Mahindra Bank Ltd
5.	Union Bank of India	Karnataka Bank Ltd

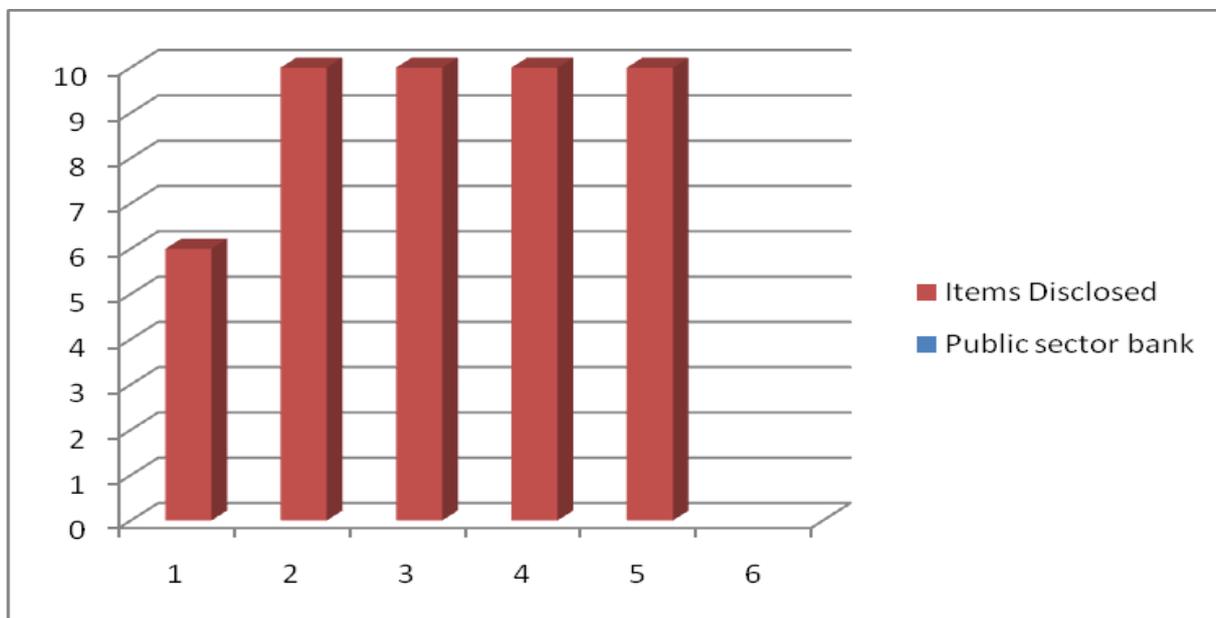
DATA COLLECTION AND INTERPRETATION

Voluntary Disclosure Items (12)	Public Sector Banks				
	S.B.I	B.O.I	B.O.B	A.B	U.B.I
Chairman's Report	0	1	1	1	0
Maps, Charts, Pictures, Reproduction etc.	0	1	1	1	1
Five / Ten year data	1	1	0	0	1
Financial ratios	1	1	1	1	1
Overview of financial results	0	1	1	1	1
Human resource Accounting	1	1	1	1	1
Current Cost Statement	1	1	1	1	1
Value Added / Economic Value Added	0	0	0	0	0
Financial relationship with Government	0	1	1	1	1
Employment Report	1	1	1	1	1
Export Import details	1	0	1	0	1
Future Projection	0	1	1	1	1
Total disclosing items	6	10	10	10	10
% of items disclosed	50%	83%	83%	83%	83%

Rank of the item disclosed	2	1	1	1	1
Mean of the public sector	9.20				

NOTE: "1" awarded for item disclosed

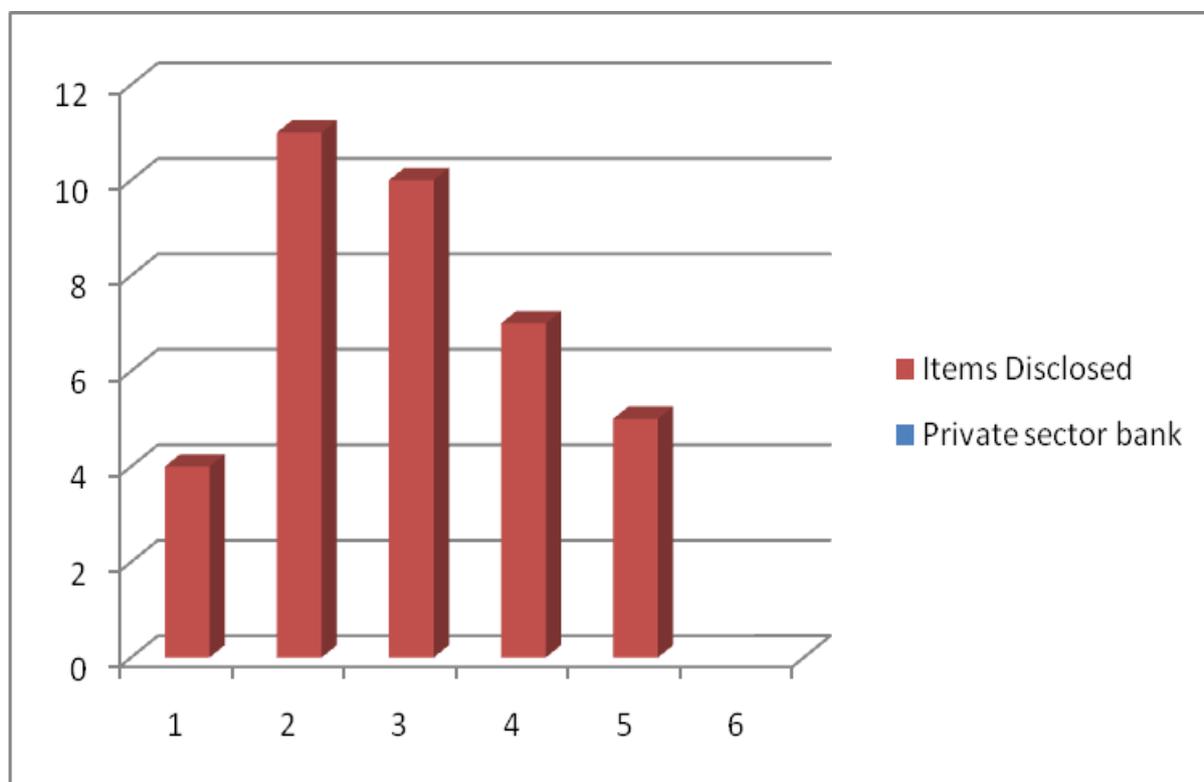
"0" awarded for items not disclosed



In this table and chart we see that, In the public sector banks are most of the items are disclosed by the public sector banks only state bank of India has been not disclosed the voluntary items properly. SBI is disclosed only 6 items out of 12 items. Bank of Baroda, Bank of India, Allahabad bank and union bank of India mostly disclosed the voluntary items it has been disclosed the 10 items out of 12 items. In all of these banks value added/ economic value added are not be disclosed. The mean of the public sector banks are 9.20.

Voluntary Disclosure Items (12)	Private Sector Banks				
	HDFC	ICICI	A.B	K.M	K.B
Chairman's Report	0	1	1	0	0
Maps, Charts, Pictures, Reproduction etc.	1	1	1	0	0
Five / Ten year data	0	1	1	1	0
Financial ratios	0	1	1	1	0
Overview of financial results	1	1	1	1	1
Human resource Accounting	1	1	1	1	1

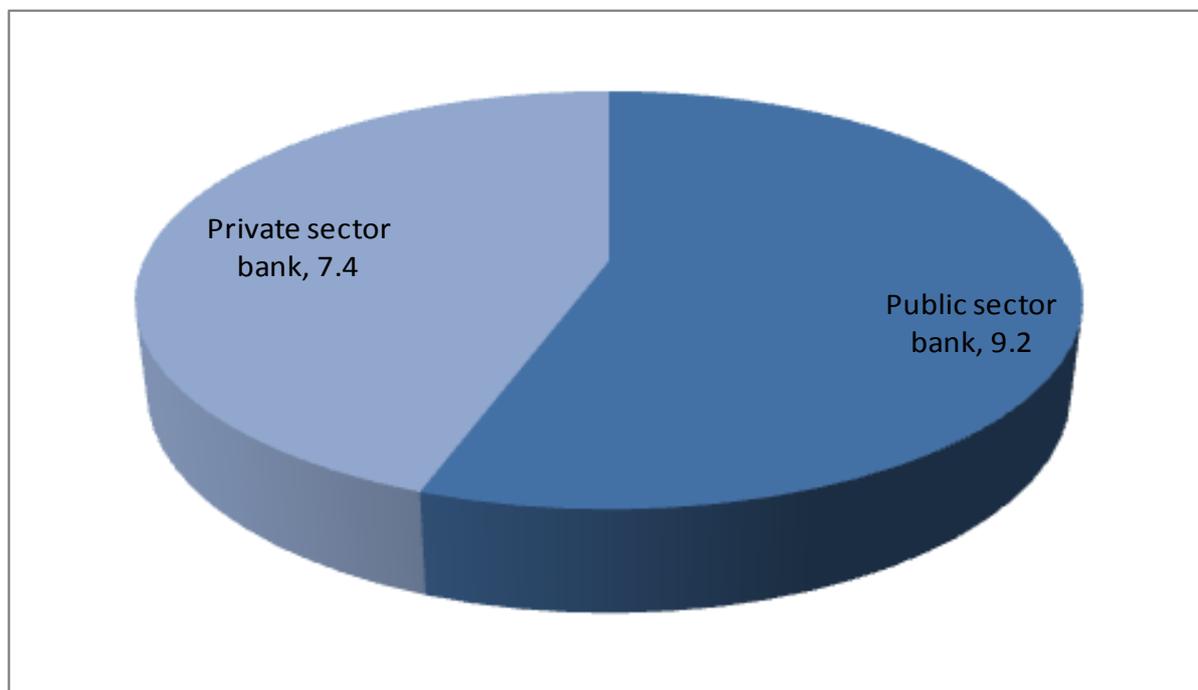
Current Cost Statement	0	1	1	1	0
Value Added / Economic Value Added	0	1	0	0	0
Financial relationship with Government	1	1	1	1	1
Employment Report	0	1	1	1	1
Export Import details	0	0	1	0	0
Future Projection	0	1	0	0	1
Total disclosing items	4	11	10	7	5
% of items disclosed	33%	92%	83%	58%	42%
Mean of the private sector	7.40				



In this table and chart we seen that the private sector banks have not been disclosed the voluntary items consistently by HDFC bank disclosed the only 4 items out of 12 items. Axis bank has been disclosed much batter disclosed that be 10 items are disclosed. Kotak Mahindra and Karnataka bank has been not disclosed the voluntary items vary significantly they have disclosed the 7 and 5 items. Only ICICI bank has been batter disclosed the in all of these banks. That is only bank that is disclosed the value added/economic vale added. This bank is disclosed the 11 items out of 12 voluntary items. And overall mean of the private sector bank is 7.40.

COMPARISON BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANKS

SECTOR	Mean
Public Sector Banks	9.20
Private Sector Banks	7.40

**CONCLUSION**

The management of a bank may be motivated to disclose information voluntarily for a variety of considerations in addition to mandatory disclosures. Keeping in mind this view, a comparative study was made to examine the level of voluntary disclosure practices covering banks from public and private sectors. The findings show that the level of disclosure voluntary information is low in private sector and public sector may much disclosed the voluntary items consistently. The variability in the level of reporting among the banks is wide. However, the sectors show a great deal of similarity in respect of disclosure voluntary information among them. The study has unveiled the quantitative aspect of disclosure voluntary information items without looking into the quality of information. It is expected that someone would come forward to conduct comparative study in the public and private sector in India would also consider the qualitative aspect of voluntary reporting practices

REFERENCES

- ❖ Mohammed Hossain , Helmi Hammami (2009) “Voluntary disclosure in the annual reports of an emerging country: The case of Qatar” *Advances in Accounting, incorporating Advances in International Accounting* 25 (2009) 255–265.

- ❖ Wang, K., Sewon, C., & Claibone, M. C. (2008). Determinants and consequences of voluntary disclosure in an emerging market: Evidence from China. *International Journal of accounting, auditing and Taxation*, 17(1), 14–30.
- ❖ Dulacha G Barako(2007) “Determinants of voluntary disclosures in Kenyan companies annual reports”. *African Journal of Business Management* Vol. 1(5) pp. 113-128, August 2007, ISSN 1993-8233 © 2007 Academic Journals
- ❖ Helen H Kang, Sidney J Gray (2006) “Reporting Intangible Assets: Voluntary Disclosure Practices of Top Emerging Market Companies”. helen.kang@unsw.edu.au, S.Gray@econ.usyd.edu.au
- ❖ Rogier Deumes(2004) “Voluntary Reporting on Internal Control by Listed Dutch Companies”. MARC Working Paper MARC-WP/3/2000-04 E-mail: r.deumes@berfin.unimaas.nl

BIBLIOGRAPHY

BOOKS

- ❖ Shankar Jaganathan-Corporate disclosure: The origin of financial and business reporting, Routledge-Taylor and Francis group, London New York New Delhi.
- ❖ Prakash Pandey, R.Balkrishnan- corporate governance with check list, specimens-Taxman allied services (p) ltd.
- ❖ Prof. Jawahar Lal -Accounting Theory, Himalaya publishing house
- ❖ Prof. Jawahar Lal -Corporate annual report theory and practice, Himalaya publishing house
- ❖ P.Mohna Rao- Accounting Theory and Standards, Deep and Deep publication Pvt. Ltd.
- ❖ Prof. Paul Garner -Accounting Theory and New Advances, Deep and Deep Publications F-159, Rajouri Garden, New Delhi-110027
- ❖ Porwal L.S –Accounting Theory: An Introduction, Tata Mc Graw Hill Publishing company limited new Delhi

MAGAZINE AND JOURNAL

- ❖ *Journal of accounting and finance* vol.24.no.1, october2009-march 2010
- ❖ *The chartered accountant*, vol.49, no.2, Aug.2000
- ❖ *The chartered accountant*, vol.50, no.4, Aug.2001

WEBSITES

- ❖ www.iasb.org.in
- ❖ www.academicjournals.org/ajbm
- ❖ www.elsevier.com/locate/adiac
- ❖ www.google.co.in