Strong Financial Performance, Voluntary Disclosure of Relevant Data and Banks in Pakistan

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Abstract

The purpose of the study was to look at the relationship between voluntary disclosure and the financial performance of Pakistani listed deposit banks. 22 banks made up the study's sample, which used an ex-facto research design. The population of the study was all of Pakistan's listed DMBs. It made use of secondary information from the audited annual reports of the DMBs. In order to analyse the data, the study utilised a number of statistical tests, such as a panel OLS regression, a correlation matrix, and other descriptive statistics. It should be determined that Pakistani deposit money institutions' financial performance and freely given information are favourably significant. This research gives DMBs advice on how to provide financial information in public reports in the correct ways and on how to properly weigh the influence of financial performance on voluntary disclosure. Finally, this study suggested future research in this field because the findings from the present literature varied

Keywords: *Financial performance, banking system, voluntarily disclosed accounts information, OLS method, Pakistan*

1. Introduction

Finance theory argues that managers in organizations have the potential to improve the firms' value by reducing investors' ambiguity about the performance of the firms in the upcoming future. However, this uncertainty is inherent in business and can never be reduced. The corporate managers can eliminate discrepancies in the information among market participants (Botosan, 2000). Financial transparency and voluntary disclosure are gaining hold in Pakistan, although slowly, due to the country's devolving economy. This information included in the optional disclosure is deemed critical to stakeholders when making certain decisions, but is not required; accordingly, management may present such information at their discretion. Several studies have revealed that more information in financial statements enhances the liquidity of the stock, which ultimately brings high demand for the firm's stock and reduces transaction costs (Diamond & Verrecchia, 1991). Other propose that greater information disclosure reduces the estimation of risks which may arise from the investors' estimations of payoff distributions (Clarkson, Guedes & Thompson, 1996). Statistics on financial performance, as well as Voluntary disclosure is critical for financial institution stakeholders. Nonetheless, it has been observed that a sizable number of banks do not participate in voluntary data disclosure; most organisations comply with mandatory disclosure requirements without adequately disclosing certain aspects that are not mandated but may be material to bank customers. Voluntary disclosure is an issue that has lately received considerable attention in the accounting profession. The information disclosure in financial statements and cost of financing of the firm is becoming a more crucial point for management and investors. The literature on disclosure policies affecting the equity financing of the firms is one of the thought-provoking questions in the field of finance and accounts (Beyer et al.,2010). Due to the unusual nature of voluntary disclosure, an empirical issue may be identified, as relatively few studies have been conducted on the subject and those that have are plagued by out-of-date data. The research would fill an empirical void by examining the relationship between financial performance and voluntary disclosure and also by utilising the most recent data available. This study will examine the relationship between financial performance and financial reporting, as well as the major impediments to effective voluntary disclosure practises in Pakistan businesses. Local research has focused on the implications

of corporate governance for financial success and less on the influence of financial performance on businesses' willingness to disclose information through financial reporting.

2. Literature Review

Due to the fact that poor growth prospects detract from a firm's value, an effective performance metric measures the magnitude of growth (Saha, & Kabra, 2020). Historically, shareholder value was quantified using return on equity (ROE), return on investment (ROI), and net income. Following that, the introduction of Economic Value Added (EVA) compares a business's revenue to its cost of capital, providing a more accurate measure of both year-over-year growth and capital replacement adequacy, according to its proponents. As a result, whereas conventional measures are motivated by accounting returns, EVA is motivated by economic returns due to the fact that it involves discounting the replacement cost of capital to determine the returns. However, obtaining the data required to compute the measure is difficult, made even more difficult when considering the privacy of such data as interest on loans (Islam, 2020). Thus, this research determined a company's financial success using ROI due to its simplicity, comparability, and importance as a fundamental tool for determining both profitability and performance. Moreover, Garay et al. (2013) reported that internet-based corporate disclosure is positively related to company value for the seven largest Latin American stock markets. Using a large sample across 47 developed and emerging countries, Yu et al. (2018) examined the impact of environmental, social and governance disclosure on firm value. They found that the extent of environmental, social and governance disclosure is positively associated with firm valuations as measured by Tobin's Q. Similarly, Li et al. (2018) investigated the effect of environmental, social and corporate governance disclosure on firm value in the UK. This study also confirmed that the level of environmental, social and corporate governance disclosure has a significantly positive effect on firm value. In addition, the authors found that higher CEO power increases the effect of environmental, social and corporate governance disclosure on firm value. Besides, Salvi et al. (2020) investigated the effect of the quality of intellectual capital disclosure on firm value by using a sample of 110 international companies. They found that the quality of intellectual capital disclosure has a significantly positive impact on firm value. In a recent study, Gonzalez et al. (2021) determined the effects of information disclosure on firm value in the six largest Latin America countries for the period 2010–2015. This study confirmed that firms with greater disclosure practices are associated with greater market valuations as measured by Tobin's Q. In addition, Kalantonis et al. (2022) examined the effect of the reported corporate governance information on value relevance. The authors documented that the independence of the board of directors, CEO duality and the participation of women on the board of directors are determinants of the market value of firms. The greater extent of disclosure may do well in escalating the investors' confidence and also enhancing the efficiency of capital markets (Caruana, 2003). Now awareness to disclose relevant information about company operations is rapidly increasing in Pakistan because disclosure has proven that it improves the image of the firm and also results in the long-term success of firm. To fulfill the market information needs i-e to know about the corporate private activities and to enhance transparency, now more people are interested in the expansion of traditional financial reporting requirements (Lev & Zarowin, 1999). Healy and Palepu (2001) describe that entrepreneurs typically have enhanced information than investors about the value of business and investment opportunities. Therefore, investors bear information asymmetry problem when they want to take an investment decision. On the other hand, if the investor took the decision of investment in business ventures, management have an incentive to confiscate their savings which resulting in agency problem. Voluntary disclosure can be used to reduce the problem of information asymmetry for investors (Grossman, 1981). Researchers claimed that disclosure of relevant information about firm helps to decrease the level of information asymmetry which gives them signal of increased quality of its operations as compared to rivals (Jensen & Meckling, 1976). Providing voluntary disclosure also helps to reduce agency problem and makes the economy more efficient. Disclosure means to disclose important information of firm operations by annual reports, news releases, and conference calls with auditors to the general public to raise firm capital. Disclosure increase access of information to gain the investors savings and make the effective capital markets operations which result in greater involvement of borrowers and investors (F. D. Choi, 1973). Lang and Lundholm (1993) argued that there are various ways by

which improved disclosure brings benefit for the firm. These benefits are mainly; minimize agency cost, compensation and debt agreements between firm owners and management. These agreements mostly require management to disclose private information regarding the firm ongoing strategic, financial and non-financial operations. As well as for future forecast which make investors to keep a careful check that contractual terms are fulfilled both by owner and management.

3. Research Methods

The study looked at how Pakistan's publicly traded deposit money institutions' financial performance and voluntary disclosure correlated. The study uses an ex post facto methodology, which compares pre-existing data on a dependent variable. The study's primary focus is on quantitative factors, and its secondary means span a ten-year period (2012 – 2021). The mix of time series and cross-sectional data led to the selection of the panel ordinary least square regression. The data was subjected to a correlation matrix, panel OLS regression, Hausman test, and numerous descriptive analysis.

3.1 Model Stipulations

The following studies served as inspiration for the econometric model used to assess the impact of financial performance on deposit money banks' voluntary disclosure in Pakistan:

$VD = a + \beta_1(PEF) + \mu$

where;

Pef = Performance

VD = voluntary disclosure

$VDI_{it} = \beta_0 + \beta_1 (ROA)_{it} + \beta_2 (ROE)_{it} + \beta_3 (CR)_{it} + \beta_4 (FZ)_{it} + \mu$

Where:

VDI = Voluntary disclosure index

ROA- Return on asset

ROE- Return on equity

CR- Current ratio

FZ- Firm Size

μ = error term

I = cross-section

t = time series

3.2 Data Collection and Analysis Process

The study employed panel data, hence the panel ordinary least squares regression was used. Cross-sectional and time series data are combined in panel data. A correlation matrix, panel OLS regression, Hausman test, and numerous descriptive analyses were performed on the data; the findings of these analyses were presented in chapter 4, where they were analysed and from which chapter 5's conclusion and suggestions were taken.

4. Results and Discussions

4.1 Descriptive Statistics

Table.2. Descriptive statistics results

	FZ	ROE	ROA	VDI	CR
Mean	18.08094	0.854011	0.767798	0.908333	1.551073
Median	19.80989	0.869680	0.760164	0.833333	1.247310
Maximum	22.10401	1.015481	0.874606	1.000000	11.09633

Minimum	13.22583	0.609205	0.528861	0.833333	0.072012
Std. Dev.	3.218855	0.075569	0.065598	0.083333	1.525858
Skewness	-0.340350	-1.056661	-0.931668	0.201008	4.729395
Kurtosis	1.315389	4.925727	5.350912	1.040404	28.05933
Jarque-Bera	13.75528	34.06065	37.49502	16.67347	2989.328
Probability	0.001031	0.000000	0.000000	0.000240	0.000000
Sum	1808.094	85.40107	76.77983	90.83333	155.1073
Sum Sq. Dev.	1025.742	0.565354	0.426004	0.687500	230.4961
Observations	100	100	100	100	100

Note: Author Calculations

The mean measures the distribution's average score and represents the distribution's average value. The values may be found in the aforementioned table at the appropriate cells. The median represents the least value of the distribution. This amount acts as the distribution's midpoint. The maximum values of the distribution are shown in the max column. In the different distributions, this value is the highest. The FZ, ROE, and ROA values are negative, whereas the VDI and CR values are positive, according to skewness. This shows that while the VDI and CR values are above average, the FZ, ROE, and ROA values are below average in the firm's distribution. The distribution fits nicely, as seen by the positive kurtosis.

Table.3. Correlation results of all the variables

	FZ	**ROE**	**ROA**	**VDI**	**CR**
FZ	1	0.36	0.67	-0.15	-0.01
ROE	0.36	1	0.73	0.04	-0.32
ROA	0.67	0.73	1	-0.07	-0.09
VDI	-0.15	0.04	-0.07	1	0.11
CR	-0.01	-0.32	-0.09	0.11	1

Author Calculation

When the correlation coefficient between the regressors is more than 0.8, multicollinearity becomes an issue and shows how closely the variables are connected. The results show that the distribution has no multicollinearity at all.

4.2 Hausman Tests

These tests were run on the different models to determine which effect matched the model the best; the decision rule indicates that if the prob value is greater than 5%, reject the null hypothesis; as a result, a random effect should be employed; if it is less than 5%, use a fixed effect.

Table.4. Results of Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.149521	4	0.0018

Author calculations

From the established decision rule, the regression would adopt a fixed effect.

4.3 Panel Regression

The research hypothesis would be tested using the regression analysis, which would test for both the correlation and causation of the variables under study.

Table.5. Results of Panel Regression of VDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FZ	-0.001490	0.004157	-0.358491	0.7209
ROA	-0.573516	0.357826	-1.602779	0.1127
ROE	0.615412	0.261299	2.355202	0.0208
CR	0.015391	0.006486	2.373072	0.0199
C	0.826183	0.111733	7.394265	0.0000
	Effects Specification			
The period fixed (dummy variables)				
Root MSE	0.077620	R-squared		0.633655
Mean dependent var	0.908333	Adjusted R-squared		0.608815
S.D. dependent var	0.083333	S.E. of regression		0.083700
Akaike info criterion	-1.993982	Sum squared resid		0.602487
Schwarz criterion	-1.629258	Log likelihood		113.6991
Hannan-Quinn criter.	-1.846372	F-statistic		7.933454
Durbin-Watson stat	1.865777	Prob(F-statistic)		0.000000

Note: Author's Calculation

The Prob value for FZ and ROE is less than 5%, making them statistically unimportant in explaining variance in the dependent variable; also, a negative correlation exists between FZ and ROE and VDI. In keeping with the findings of Sanni, O., the results show that the CR and ROA are positively statistically significant in explaining the variance of VDI in the distribution (as evidenced by a Prob value below 5% and a T-statistics above 2). (2018). The R-squared value dropped from 63 percent to 60 percent. It's clear that the independent factors are responsible for 60% of the variation in the dependent variable (ROA, ROE, CR, FZ). With an F-statistic of 7.933454, there is a 0.000000 chance that the variables aren't well fitted. With a Durbin-Watson statistic of 1.8, autocorrelation is not present.

5. Conclusion and Future Suggestions

The research finds that voluntary disclosure of deposit money banks in Pakistan is significantly correlated with financial success. This means that listed DMBs in Pakistan are far more likely to disclose material information about their financial situation when such information is in the public interest. Since the current ratio (CR) has been shown to affect companies' willingness to disclose information voluntarily, the study suggests that financial institutions implement a strict liquidity policy and keep a close eye on their working capital. Additionally, banks should ensure that their asset bases are well-maintained since this factor is critically important to the voluntary disclosure of information by companies. Given the discrepancy in the findings of the current literature, this study concludes by calling for more investigation into the topic.

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