

## **DETERMINANTS OF VOLUNTARY DISCLOSURES IN ANNUAL REPORTS: EVIDENCE FROM BANKING AND FINANCE COMPANIES IN SRI LANKA**

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### **INTRODUCTION**

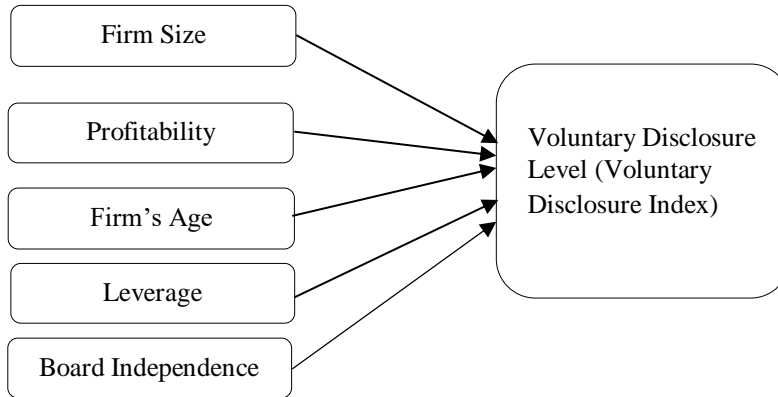
A rising number of businesses were disclosing information voluntarily in addition to the legally necessary disclosures, perhaps to help the stock market discover the hidden components of corporate value more quickly (Schuster & O'Connell, 2006). There are two types of information that annual reports provide to its stakeholders: mandatory and voluntary information, with mandatory disclosure being of more excellent value (Binh, 2012). Corporate voluntary disclosures were one component of corporate disclosures, along with mandated disclosures. The disclosures businesses must make to comply with statutory regulations are known as "mandatory disclosures," while voluntary disclosures are not required (Cooke, 1992). Moreover, management can increase trust in reporting by voluntarily disclosing information, attracting stakeholders' attention. The study similarly revealed that firm size, profitability, firm age, leverage, and board independence are factors that influence the level of voluntary disclosure; among these, firm size, profitability, and firm age have positive relationships, while leverage and board independence have a negative relationship (Abeywardana & Panditharathna, 2016). The study mainly focused on the voluntary disclosure level in Bank, Finance, and Insurance sector companies in Sri Lanka and the factors that affect the level of voluntary disclosures. To examine the level of voluntary disclosure in banking and finance companies in Sri Lanka and the relationship between determinants of voluntary disclosures and the voluntary disclosure level of banking and finance companies in Sri Lanka are the main objectives of this study. This study examines voluntary disclosure levels in Sri Lankan corporate annual reports, focusing on the variables influencing voluntary disclosures, filling a gap in empirical research, and contributing to the literature on voluntary disclosures in Sri Lanka. This study helped to comprehend voluntary disclosure methods and motivations in annual reports of banking and financial companies. There are few studies on voluntary disclosure in Sri Lankan banking and finance sector companies' annual reports (Abeywardana & Panditharathna, 2016; Jeewantha et al., 2015). Previous studies' empirical evidence is mixed findings from the determinants of voluntary disclosure. Thus, the study aimed to examine the determinants of voluntary disclosures in annual reports: evidence from banking and finance companies in Sri Lanka.

### **METHODOLOGY**

This study used the quantitative approach; the dependent variable is the voluntary disclosure level, and the voluntary disclosure index measures it. Five independent variables were firm size, profitability, firm age, leverage, and board independence. Studies conducted by (Huafang & Jianguo, 2007; Abdullah, 2008; Charumathi & Ramesh, 2015; Jeewantha et al., 2015; Abeywardana & Panditharathna, 2016) on voluntary disclosure level and its determinants provide the leading foundation for deriving the conceptual framework of the study. Thus, the

study's conceptual framework is developed as follows: Figure 1 Conceptualization of this study

**Figure 1**  
*Conceptual Framework*



This study population was banking and finance companies in Sri Lanka, focusing on 70 listed on the Colombo Stock Exchange as the population, which only took bank, finance, and insurance sector companies of the study because some items of the voluntary disclosure index cannot be used for non-financial companies. Then, 50 were selected for the sample of this study.

Accordingly, this study's hypotheses were developed by the researcher.

*H<sub>1</sub>*: There is a significant relationship between firm size and voluntary disclosure level of banking and finance companies in Sri Lanka.

*H<sub>2</sub>*: There is a significant relationship between profitability and voluntary disclosure level of banking and finance companies in Sri Lanka.

*H<sub>3</sub>*: There is a significant relationship between firm age and voluntary disclosure level of banking and finance companies in Sri Lanka.

*H<sub>4</sub>*: There is a significant relationship between leverage and voluntary disclosure level of banking and finance companies in Sri Lanka.

*H<sub>5</sub>*: There is a significant relationship between board independence and the voluntary disclosure level of banking and finance companies in Sri Lanka.

The study applies a quantitative method for data collection. Here, the study obtains the annual reports published by the companies in the sample, which will be downloaded from cse.lk. The study is conducted based on two main objectives: to examine the extent of the voluntary disclosure level in the listed companies of Sri Lanka and to examine determinants that affect the voluntary disclosure level. The population of this study is 70 listed banking and finance companies in Sri Lanka from 2017 to 2020; out of 70 companies, 50 companies were selected as the sample for this study. Hence, the data collected through published annual reports was analyzed, aiding STATA and SPSS through statistical techniques. The descriptive statistical analysis will be conducted to help the practical realization of the first objective. The regression

and correlation analyses will be conducted to help the practical realization of the second objective.

## RESULTS AND DISCUSSION

**Table 1**

*Descriptive Statistics*

	N	Min	Max	Mean	Std. D	Skewness	Kurtosis
VDL	200	0.66	0.89	0.79	0.03	-0.38	1.95
Firm Size	200	8.67	14.39	12.28	1.00	-0.21	0.34
Profit.	200	-0.38	0.21	0.02	0.06	-0.67	9.04
Firm Age	200	5.00	110.00	31.16	21.85	1.52	2.75
Leverage	200	0.00	21.10	5.23	4.13	0.53	-0.28
Board - I	200	0.09	0.83	0.51	0.19	-0.54	-0.63

Table 1 shows descriptive statistics for several variables in a study. The dependent variable, voluntary disclosure level, has values ranging from 0.66 to 0.89 with a mean of 0.79 and slight negative skewness, indicating it is relatively normally distributed. Firm size ranges from 8.67 to 14.39, with a mean of 12.28. Profitability ranges from -0.38 to 0.21 with a mean of 0.02 and negative skewness, and firm age ranges from 5.00 to 110.00 with a mean of 31.16 and positive skewness. Leverage ranges from 0.00 to 21.05 with a mean of 5.22 and positive skewness. Board independence ranges from 0.09 to 0.83, with a mean of 0.51 and negative skewness. The data being relatively normal, correlation and fixed effect regression analyses were conducted using the sample.

**Table 2**

*Correlation Analysis*

	VDL	Firm Size	Prof.	Firm Age	Leverage	Board - I
VDL	1					
Firm Size	0.123 0.082	1				
Prof.	-0.085 0.231	0.059 0.408	1			
Firm Age	0.178* 0.012	0.266** 0.000	-0.026 0.714	1		
Leverage	0.224** 0.001	0.585** 0.000	-0.154* 0.030	0.121 0.088	1	
Board -I	-0.161* 0.022	-0.185** 0.009	0.098 0.166	-0.153* 0.031	-0.080 0.260	1

\*  $P < 0.05$ , \*\*  $P < 0.01$

According to the correlation analysis Table 2, there was a positive significant correlation between voluntary disclosure level and firm age ( $r = 0.178$ ,  $p < 0.05$ ) and voluntary disclosure level and leverage ( $r = 0.224$ ,  $p < 0.01$ ). Board independence correlates negatively and significantly with voluntary disclosure level ( $r = -0.161$ ,  $p < 0.05$ ). In addition, there is no significant correlation between voluntary disclosure level and firm size further profitability.

**Table 3**  
*Regression Analysis*

	Coef.	Std. Err	T	P>(t)
Cons.	0.622	0.051	2.190	0.000
Firm Size	0.006	0.003	1.730	0.086*
Profitability	-0.163	0.020	0.830	0.407
Firm Age	0.003	0.010	3.180	0.002***
Leverage	0.003	0.001	0.410	0.683
Board- I	0.007	0.010	0.750	0.455
R sq = 0.0355				
P>F = 0.0032				
N= 200, *P< 0.10, **P< 0.05, *** P< 0.01				

Under the fixed effect regression Table 3, a significant positive relationship exists between voluntary disclosure level and firm size. Moreover, a significant positive relationship exists between voluntary disclosure level and firm age. There is no significant relationship between voluntary disclosure level and profitability, leverage, and board independence. In both correlation analysis and fixed effect regression model analysis, firm age results were the same. The result of firm age as a determinant is consistent with (Abeywardana & Panditharathna, 2016; Habbash et al., 2016). The positive relationship between age and voluntary disclosure level suggested that older firms have more resources than small firms required to disclose voluntary information. Similarly, they may believe disclosing more information does not affect their competitive advantage.

The findings indicated that firm size and age had a significant positive relationship with voluntary disclosure, supporting H<sub>1</sub> and H<sub>3</sub>, respectively. On the other hand, the analysis shows no significant relationship between profitability, leverage, and board independence with voluntary disclosure.

## CONCLUSIONS AND IMPLICATIONS

The problem of the study was “What are the determinants of voluntary disclosures in annual reports: evidence from banking and finance companies in Sri Lanka?”.

The study's objectives were to examine the level of voluntary disclosure in banking and finance companies in Sri Lanka and the relationship between voluntary disclosure level and firm size, profitability, firm age, leverage, and board independence.

This research explores the relationship between voluntary disclosure and firm size, profitability, age, leverage, and board independence, enabling future institutions to adopt voluntary disclosures in annual reports. The study found that company age and firm size affect disclosure, with older companies providing more information. However, no significant relationship was found between voluntary disclosure and profitability, leverage, or board independence. The study focused on one pathway of bank disclosure, which may not provide unbiased information or protect stakeholders' interests, which is the limitation of this study.

A study on other sectors like agriculture, manufacturing, telecommunication, tourism, transport, and construction is needed for future directions to ensure sufficient comparison.

**Keywords:** Firm age, firm size, leverage profitability, voluntary disclosure

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