

“The impact of corporate governance on the disclosure level in the interim financial reporting: An empirical study of Vietnamese commercial banks”

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THE IMPACT OF CORPORATE GOVERNANCE ON THE DISCLOSURE LEVEL IN THE INTERIM FINANCIAL REPORTING: AN EMPIRICAL STUDY OF VIETNAMESE COMMERCIAL BANKS

Abstract

The disclosure level in the interim financial reporting is important to users when making business decisions. Useful information from interim financial reporting ensures timeliness and flexibility of business operations. Information disclosures that ensure completeness will enhance the quality of information for users. The paper aims to examine the factors of corporate governance that affect the disclosure level in interim financial reporting of Vietnamese commercial banks. To test the model, ordinary least squares (OLS) are used. For the data of this study, 286 samples of 30 commercial banks were studied and time series data were used for 10 years from 2010 to 2019. The results show that there are two factors that positively influence the disclosure level in interim financial reporting, such as the Board size and foreign Board members. Thus, the paper offers some policy recommendations for the Central bank of Vietnam and Boards of directors of commercial banks, as well as investors to improve disclosure in interim financial reporting.

Keywords

accounting regulation, agency theory, asymmetry information, board size, disclosure index, financial information

JEL Classification

G34, M41, O16

INTRODUCTION

The information in the financial reporting is really crucial to users when making business decisions. Timely and reliable interim financial reporting (IFR) allows the Board of directors (Board), Chief executive officer (CEO), investors, creditors and other users to better understand the financial position, financial performance and cash flows of enterprises (Schadewitz, 1995). The disclosure level in IFR will support users to know the situation of the business and make timely decisions. This is more meaningful for users because they receive information promptly, without having to wait for the release of the annual financial statements (Mathuva, 2012). Nowadays, besides annual reports, IFR is a useful tool to help users to timely make business decisions to ensure flexibility and efficiency of business activities.

In Vietnam, IFR is prepared and published in compliance with the Vietnamese Accounting Standard No. 27 (VAS 27), which presents IFR statements for organizations (Vietnamese Ministry of Finance, 2005). However, the reality of the disclosure level in IFR in Vietnam



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has not been properly cared. Currently, most enterprises on Vietnam's stock market have not realized the importance and benefits of the disclosure level in IFR (Nguyen & Duong, 2018; To, 2019). Increasing the usefulness of information in IFR of commercial banks in particular, and the information system on the Vietnamese securities market will contribute to attracting financial resources and expanding business cooperation. This issue is becoming more and more concerned when a number of regulations related to corporate governance issues in banks have been amended and supplemented by the Law on Vietnamese Credit Institutions (National assembly of Vietnam, 2017) and Enterprise Law (National assembly of Vietnam, 2020). According to some experts from Vietnamese commercial banks, factors of corporate governance will strongly affect the level of information disclosure in IFR. The purpose of this study is to identify factors that affect the level of information disclosure in IFR to have appropriate policy suggestions to contribute to improving information disclosure of Vietnamese commercial banks. This is essential for attracting financial resources from investors. It also supports the development trend to suit Vietnam's integration stage.

1. LITERATURE REVIEW

1.1. Related concepts

Corporate governance is the internal regulation of a unit that operates and controls activities within the company. This refers to the relationships between the Board, CEO and shareholders of the company and its stakeholders (Albawwat & Basah, 2015). According to Epstein and Widener (2010), the Board is a process of managing activities within the unit to provide information to the user, both inside and outside, to maximize shareholder value. Schadewitz (1995) suggests that the Board is a system through which the company is oriented and controlled. Responsibilities of the Board members to set strategic goal provide assurance of effective strategic management, supervise managers in business operations. The activities of the Board are subject to the provisions of the law. Hillman and Dalziel (2003) believed that Board was the management and supervision of Board's activities through providing financial resources to the Board to improve the economic efficiency of business activities.

Popa and Ion (2008) consider that the disclosure level is a way to make information transparent for businesses to ensure that information users can access information fairly and promptly. The information disclosure is additional information to satisfy the needs of users outside the business, such as financial analysts, consulting companies, and investors. The disclosure level is also required by the laws and regulations of a country. These statements must be presented in accordance with

the Business Law, the Securities Commission, the accounting authorities and the accounting standards (Vietnamese Ministry of Finance, 2005).

An interim report is the results of a financial report for a shorter period than the fiscal year. Interim reporting is generally required for publicly listed companies, and it typically involves the release of quarterly financial statements each year (IFRS Foundation, 2020). An interim financial report is defined as a financial report, which can be either a full financial report or a set of summary financial reports in an interim reporting period (Vietnamese Ministry of Finance, 2005).

1.2. Theoretical perspectives

The theoretical approach to stakeholders was first mentioned by Freeman (1984) in a presentation of business ethics. According to this theory, stakeholders are specifically defined as any affected group or individual that may be directly or indirectly related to the activities of the enterprise, such as shareholders, owners of the company, staff, suppliers, customers, governance agencies, communities, etc. These stakeholders are thought to play an important role in promoting the performance and competitiveness of businesses. Therefore, the management responsibility not only maximizes benefits for the shareholders of the business, but also protects the interests of other stakeholders. This theory is used to explain variables related to corporate governance affecting the disclosure level in IFR among stakeholder.

The theory of asymmetry information was first mentioned in Akerlof (1970). According to this

theory, asymmetry information occurs when one party has less information or has incorrect information compared to the other party. This causes the less informed party to make incorrect decisions. At the same time, the party with more information will also act to the detriment of the partner. At the enterprise, information imbalances occur in the relationships between managers and shareholders, as well as between the business and investors. This theory is also used to explain corporate governance variables in which there is the asymmetry among the parties that affects the disclosure level in IFR.

The agency theory was developed by Jensen and Meckling (1976). According to this theory, an agency relationship is expressed through a contract between the agent and the principals. The agents will perform some work on behalf of the principals as in the contract between the shareholder and the manager. Shareholders authorize managers to use their capital for business. Agency theory states that both parties (the principal and the authorized party) want to maximize their interests. Therefore, the conflict of interest always exists in this relationship. This theory is also used to explain variables of corporate governance in which the agency between the agent and the principals affects the disclosure level in IFR.

1.3. Interim financial reporting

International accounting standard No. 34 (IAS 34) states that IFR is a complete or condensed collection of financial statements for a period less than one fiscal year. IAS 34 is used in its annual financial reporting to publish IFR. This confirms compliance with international standards. IAS 34 specifies the minimum content of IFR. Minimum content is a set of condensed financial reports for the current and prior period. These are financial reports, balance sheets, income statements, cash flow statements, equity change statements and notes. IFR refers to the changes since the end of the previous year's reporting period. Similar accounting policies apply in IFR as in the most recent annual report. Measurements in both annual and interim financial reports often require additional estimation methods compared to the annual financial reports (IFRS Foundation, 2020).

Vietnamese accounting standard No. 27 (VAS 27) specifies the minimum content of IFR. The principles of recognition and measurement need to be applied fully in place when preparing and presenting IFR. Timely and reliable IFR allows investors, creditors and other users to better understand the ability to generate revenue, cash flow financial status and solvency of the business. Businesses need to present material information that has not been disclosed in any IFR. This information should be presented on an accrual basis from the beginning of the year to the reporting date. However, it is important for enterprises to present material events or transactions to understand the current IFR (Vietnamese Ministry of Finance, 2005).

1.4. Previous studies

The disclosure level in IFR received the attention of some researchers. However, most studies focus on the disclosure level in IFR of listed enterprises (Schadewitz, 1995; Schadewitz & Blevins, 1998; Ku & Chandler, 2005; Mangena & Pike, 2005; Mangena & Tauringana, 2007; Mathuva, 2012). Albawwat and Basah (2015) consider corporate governance factors affecting the disclosure level in IFR of listed enterprises. In addition, research on the disclosure level in financial reporting of commercial banks is limited. The paper used the content analysis approach to measure the actual level of risk disclosure. The results show that banks with a higher percentage of independent board membership, large board size, large audit committee size, duality, higher institutional ownership and banks audited by one of big four audit firms are more motivated to increase risk disclosure. The results also show that leverage, bad news, and bank social responsibility have a negative relationship with the level of risk disclosure. In Vietnam, a few studies have reviewed only the disclosure level in IFR but they focused on listed enterprises (Nguyen & Duong, 2018; To, 2019). There is no specific research on the disclosure level in IFR of Vietnamese commercial banks.

Based on the summary of previous studies, the article found that there are few studies related to the disclosure level in IFR, both domestically and internationally. Furthermore, the major studies listed enterprises, and currently there are no studies on the disclosure level in IFR of Vietnamese commer-

cial banks. Due to the important and meaningful nature of information for users, the study was conducted on the disclosure level in IFR of Vietnamese commercial banks. Moreover, this study focused on recognizing the variables of corporate governance. According to a survey of experts from commercial banks in Vietnam, it is these factors that have the greatest influence on the disclosure level in IFR of commercial banks in Vietnam.

2. METHODOLOGY

2.1. Research method

The paper used quantitative methods using data panel time series (data panel), and the ordinary least squares method (OLS) to test the regression model. The data in this study collected information about IFR in 30 commercial banks from the website of the Vietnamese State Securities Commission.

2.2. Research sample

There are currently 31 commercial banks in Vietnam, but one bank does not have enough financial reporting data for many years, so this bank is not included in the data sample. Therefore, data was collected from 30 Vietnamese commercial banks over the past 10 years from 2010 to 2019. The sample includes 286 samples of 30 Vietnamese commercial banks over the past 10 years. Data was collected in the second quarter of 2020.

2.3. Description of research variables

The dependent variable is measured as 19 items published in IFR according to VAS 27 (Appendix).

This is the information presented in the notes to the selected financial statements.

2.4. Research model

Based on a survey of experts from Vietnamese commercial banks, combined with some independent variables of previous studies, the paper proposes a model of corporate governance factors to the disclosure level in IFR. These are the variables selected in accordance with Vietnam's economic characteristics. Therefore, the research model is designed as follows:

$$DISCLOSURE = \beta_0 + \beta_1 \cdot BSIZE + \beta_2 \cdot INDEP + \beta_3 \cdot DUAL + \beta_4 \cdot FOREIGN + \beta_5 \cdot MEETING + \beta_6 \cdot WOMAN + \varepsilon \tag{1}$$

Dependent variable: The disclosure level in IFR of 30 Vietnamese commercial banks.

The study uses the disclosure level index recorded by the weightless measurement method due to the superiority of objectivity. If the information item is published, it will receive 1 data encryption, otherwise it will receive the value of 0. Thus, the disclosure level of banks will be calculated as follows:

$$I_{ij,t} = \frac{\sum_{i=1}^{n_j} d_{ij}}{n_j}, \tag{2}$$

where $I_{ij,t}$ – the disclosure level index of a bank, $0 \leq I_j \leq 1$; d_{ij} – 1 if information item i is published; 0 if the information item i is not published; n_j – number of information items on the notes if IFR that the bank may publish; t – figures for 2010–2019.

Table 1. Description of independent variables used in the regression model

Source: Synthesis of the study.

Variable name	Description	Measurement	Expected sign
BSIZE	Board size	Number of Board members	+
INDEP	Independent members of the Board	Number of independent members of the Board in the total number of Board members	+
DUAL	Board chairperson duality	Dummy variable, if there is concurrently between Board Chairman and CEO is 1 and the opposite is 0	–
FOREIGN	Foreign members of the Board	Number of foreign members in the total number of the Board	+
MEETING	Frequency of meetings	Number of Board meetings in a year	–
WOMAN	Female members of the Board	Number of female members of the Board in the total number of the Board	–

Table 2. Descriptive statistics

Source: Analytical data from EViews 10.

Variables	DISCLOSURE	DUAL	INDEP	BSIZE	MEETING	FOREIGN	WOMAN
Mean	0.8125	0.1867	0.0548	8.0800	48.1261	0.1069	0.0541
Maximum	0.9251	0.2216	0.2754	17.0000	183.0000	0.3000	0.1612
Minimum	0.6543	0.0612	0.0000	5.0000	8.0000	0.0000	0.0000
Std. dev.	0.0069	0.0114	0.0712	2.3474	1.4607	0.1192	0.0192
Observations	286	286	286	286	286	286	286

3. RESEARCH FINDINGS

3.1. Descriptive statistical analysis

According to the statistical results described in Table 2, the average level of the disclosure level in IFR is 0.8125, while the standard deviation is negligible. This shows that the disclosure level in IFR is quite high, and commercial banks in Vietnam strictly follow regulations on the information disclosure in IFR. In general, descriptive statistical results of the independent variables ensure the provisions of the Law on Credit institutions (National assembly of Vietnam, 2017) and the Enterprise Law (National Assembly of Vietnam, 2020). The

Board size is relative to the average of 8 members. The average of the Board chairperson duality is 18.67%. The independent members of the Board are 5.48%. Foreign members of the Board have the rate of 10.69%. The percentage of Female members in the Board is 5.41%. The average number of Board meetings is 48. The independent variables have negligible standard deviations.

3.2. Testing the correlation coefficient matrix

Table 3 shows that the variables have a certain correlation. The correlation coefficients of the variables are at a relative level.

Table 3. Correlations

Source: Analytical data from Eviews 10.

Variables	DISCLOSURE	DUAL	INDEP	BSIZE	MEETING	FOREIGN	WOMAN
DISCLOSURE	1.0000	–	–	–	–	–	–
DUAL	–0.2128	1.0000	–	–	–	–	–
INDEP	0.2667	0.2223	1.0000	–	–	–	–
BSIZE	0.3278	0.2126	0.3043	1.0000	–	–	–
MEETING	–0.3091	0.4319	0.1359	0.4083	1.0000	–	–
FOREIGN	0.1738	0.4350	0.2006	0.2739	0.5326	1.0000	–
WOMAN	–0.1471	0.2107	0.5361	0.1482	0.7120	0.6147	1.0000

Table 4. Coefficients

Source: Analytical data from EViews 10.

Variable	Coefficient	Std. error	t-statistic	Prob.
C	19.80384	5.903023	3.354864	0.0010
DUAL	–0.147704	0.510620	–0.289264	0.7728
BSIZE	0.375969	0.092967	4.044104	0.0001
INDEP	0.527293	0.351045	1.502065	0.1354
FOREIGN	1.214996	0.781186	4.115530	0.0001
MEETING	–2.750915	1.891387	–1.454443	0.1481
WOMAN	–0.267187	0.612734	–0.501281	0.4102
R-squared	0.652503	Mean dependent var		3.405789
Adjusted R-squared	0.624804	S.D. dependent var		3.406911
S.E. of regression	2.086844	Akaike info criterion		4.385801
Sum squared resid	600.9784	Schwarz criterion		4.626652
Log likelihood	–316.9351	Hannan-Quinn criter.		4.483651
F-statistic	23.55688	Durbin-Watson stat		1.492829
Prob. (F-statistic)	0.000000		–	

3.3. Regression results

Based on the test results above, the study performed regression for the disclosure level model based on independent variables (Table 4).

From Table 4, the Adjusted R-squared is 0.6248, which means that the independent variable explains 62.48% of the variation of the dependent variable. The significance level of the Prob is 00000 (less than 5%). Durbin-Watson's result of 1.4928 is appropriate. The result has two variables that affect the same direction to the disclosure level in IFR, including *BFSIZE* and *FOREIGN*. Regression model is presented as follows:

$$DISCLOSURE = 0.3759BFSIZE + 2.2149FOREIGN. \quad (3)$$

4. DISCUSSION AND POLICY RECOMMENDATIONS

4.1. Discussion

This research result is also consistent with the opinion of experts from commercial banks in Vietnam. These factors positively affect the disclosure level in IFR of Vietnamese commercial banks. This explains that when the size of the Board is high, it will gather a large number of members to comment. Therefore, the level of information will be enhanced and ensured more complete. This will overcome the centralization by a small number of members of the Board. In addition, Vietnam is integrating the economy into the region and the world, which attracts foreign investors. The recently signed Vietnam-EU Free Trade Agreement (EVFTA) and approved by the National Assembly of Vietnam has allowed EU credit institutions to increase their foreign holdings to 49% in Vietnamese commercial banks (Vietnam Chamber of Commerce and Industry, 2020). Foreign members of the Board are often interested in structuring on the Board of Vietnamese commercial banks. Foreign members of the Board of directors of

ten have extensive experience in corporate governance. Moreover, foreign Board members are more likely to comply with the regulations. This is consistent with research results that foreign Board members have a positive impact on the disclosure level in IFR of Vietnamese commercial banks.

4.2. Policy recommendations

The Central bank of Vietnam should strengthen the regular inspection of the disclosure level in IFR of Vietnamese commercial banks to improve the quality of information. In addition, the Central bank of Vietnam also needs to have strict sanctions and penalties for cases where Vietnamese commercial banks publish inadequate information. This guarantees the user's rights to information. In addition, the Central bank of Vietnam should pay more attention to corporate governance regulations for Vietnamese commercial banks. Accordingly, the Law on Credit institutions (National assembly of Vietnam, 2017) should be more flexible in the number of Board members and expand the number of foreign members participating in the Board.

Vietnamese commercial banks' boards need to improve the sense of responsibility of information providers. IFR information should ensure completeness and transparency. This is a long-term benefit of Vietnamese commercial banks because investors will have confidence in Vietnamese commercial banks to provide sufficient information. The Board of Vietnamese commercial banks should strictly comply with the disclosure level regulations in IFR. This helps strengthen investors' confidence. It is a good opportunity to attract investment.

Investors should also pay attention to Vietnamese commercial banks that have a large board size and the high percentage of foreign members participating in the Board. These are indications that Vietnamese commercial banks are providing an adequate level of disclosure in IFR. This helps investors to have more complete information when making decisions.

CONCLUSION

The level of disclosure in IFR helps information users make timely business decisions. It is useful for managers as well as investors to flexibly adjust and change financial plans and strategies on time. Based on the consideration of corporate governance factors, the paper studied 286 samples of 30 Vietnamese commercial banks over a 10-year period from 2010 to 2019. The results show that there are two variables that positively affect the disclosure level in IFR, namely Board size (BSIZE) and foreign Board members (FOREIGN). Based on these results, to improve the disclosure level in IFR of Vietnamese commercial banks, the Central bank of Vietnam should regularly check the level of disclosure in IFRs of Vietnamese commercial banks. In addition, the Central bank should have a heavy penalty for cases where commercial banks disclose incomplete information. The Central bank should consider amending and supplementing regulations on corporate governance for Vietnamese commercial banks. The Board of Vietnamese commercial banks should be responsible for the full and appropriate disclosure level in IFR. The Board of directors must fully comply with the provisions of the disclosure level in IFR. Investors should also consider BSIZE and FOREIGN of Vietnam's commercial banks to gain useful information when making business decisions.

AUTHOR CONTRIBUTIONS

Conceptualization: Dang Anh Tuan.

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Investigation: Le Xuan Thuy.

Methodology: Dang Anh Tuan.

Project administration: Tran Quoc Thinh.

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APPENDIX

Table A1. List of information disclosed in IFR according to VAS 27

Source: Vietnamese Ministry of Finance (2005).

No.	List of items
1	Form of capital ownership
2	Business area
3	Business lines
4	Characteristics of the business operations of the enterprise in the accounting period affect the financial statements
5	Annual accounting period (beginning and ending dates)
6	Currency unit used in accounting
7	Accounting regime applied
8	Statement of compliance with accounting standards and regulations
9	Applicable accounting policies
10	Explain the seasonality or cyclicity of business activities in the interim period
11	The nature and value of items affecting assets, liabilities, equity loss, net income, or cash flows are considered to be abnormal factors due to their nature, size or impact on their action
12	Movements in accumulated equity as of the date of IFR, and corresponding notes are comparable in the same accounting period in the most recent fiscal year
13	The nature and value of changes in accounting estimates that have been reported in previous IFR of the current year or changes in accounting estimates have been reported in previous years, if changes are made. This change has materially affected the current interim period
14	Issue, repurchase and return of debt and equity securities
15	Dividends paid (total or per share) of ordinary shares and other stocks
16	Revenue and departmental results by business sector or geographic area, based on the division of the division report
17	Material events arising after the balance sheet date have not been reflected in IFR
18	Impact of changes on the operating structure of an enterprise in the interim period (consolidation, acquisition or liquidation of subsidiaries, long-term investments, restructuring and ceasing operations)
19	Changes in contingent (contingent) liabilities or accidental assets since the end of the most recent accounting period