



Impact of Financial Statement Comparability on Bank Risk-Taking with Moderating Role of Efficient Capital Allocation

Madiha Kiran*, Summaya Chughtai

International Islamic University, Islamabad

ABSTRACT

Purpose: The main objective of the current study is to look at the connection between financial statement comparability and bank risk with the moderating role of effective capital. It is a significant relationship with comparability and risks of the financial institution's overtime period of 2010 to 2019.

Research design and Methodology: As researcher has taken 41 banks as sample which are publically and privately listed from State Bank of Pakistan. The basic purpose of this study is to allocate capital in those projects which are comparable and solved all corporate issues which are associated with decision making. STATA software is used for analysis.

Findings: There is a significant relationship between FS statements and bank risk because of the small size of the sample and time duration but capital allocation may strengthen the relationship between financial statements and bank risk.

Practical implications: The banking sector plays a crucial role in the stability and economic progress of any country. Excessive risk-taking by banks may lead to financial distress and macroeconomic instability of banks as well as the economy.

Limitations and Future directions: current study should be generalized upon the other sectors of the economy so that the results should be clearer about the relationship between the financial statement comparability and the risk taking of banking sectors. The time period of the study is less so in future the researchers should collect more data.

Keywords: Financial statement comparability, bank risk-taking, efficient capital Allocation.

Article info.

Received: February 18, 2021

Accepted: July 14, 2021

Funding Source: Nil

Conflict of Interest: Nil

*Address of Correspondence:

Madihakiran95007@gmail.com

Cite this article: Kiran M, Chughtai S. (2021). Impact of Financial Statement Comparability on Bank Risk-Taking with Moderating Role of Efficient Capital Allocation. *RADS Journal of Business Management*, 3(1): 23-35.

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1. INTRODUCTION

Comparability of announcing is basic on the off chance that we are to accomplish the objective of viable correspondence. From an administrative point of view, an absence of such similarity blocks the appropriate translation of prudential measures and the advancement of sufficient strategy reactions.

Bank risk-taking is a significant component for amplifying investor riches and expanding the advantages that collect to bank the board. Financial institutions get significant advantages from risk-taking that may incorporate decreased costs, expanded piece of the overall industry and income, adaptability in financing courses of action, and advantages got from advancement, for example, expanded deceivability. Nonetheless, it includes generous incorporates more noteworthy indebtedness risk, organization, reputational costs, lawful expenses, and also reduced probability for financial endurance (Sun and Liu, 2014).

Undoubtedly, unreasonable risks are usually referred to as a fundamental driver for ongoing money related crisis. Bank risk-taking has consequently gotten extensive consideration from administrative bodies, capital providers, and the scholarly network. In any case, bank the board may execute different systems, making of a murky data climate, to refute the expected negative results of danger taking while at the same time gaining by the advantages got from these exercises. In this paper, researcher relates fiscal summary similarity; an alluring trait of budgetary revealing that also appeared organizational explicit data with the directing function of productive capital allocation (Peterson *et al.*, 2015).

FS statement signifies subjective trademark that empowers clients to distinguish and comprehend similitude in, and contrasts among, things. According to De Franco *et al.* (2011) characterize & establish likeness for the enrichment of these relations bookkeeping frameworks arrangement as monetary occasions, those organizations have same bookkeeping frameworks if they produce comparative fiscal reports". Equivalent money related data improves the data environment, which prompts more noteworthy capital allotment proficiency. Ongoing experimental investigations from mechanical firms likewise offer help for these cases, as they show that equivalence lessens data lopsidedness, peculiar return unpredictability, money possessions, and administrative motivating forces to store terrible news (De Franco *et al.*, 2011).

Notwithstanding developing advantages of likeness as the business part, no proof FS statement benefits the financial division. Researcher endeavors to make up for this shortcoming writing by exploring the connection between FS statement & risk with directing part of effective capital allocation (Habib *et al.*, 2017).

Researcher contends that the financial banking division gives a rich setting where to look at the connection for various reasons. To begin with, the financial part assumes a significant function in keeping up monetary steadiness and development. Moreover, the special bookkeeping norms and complex nature of budgetary bookkeeping in the financial business may make it hard to comprehend the fundamental monetary qualities of banks and to benchmark the exhibition of the financial segment comparative with different segments.

The arrangement of practically identical financial summaries is probably going to encourage the capacity of partners (speculators, investors, and controllers) to assess risk-taking in banks' working, financing, and contributing exercises. Second, incentives and opportunities for risk-taking are moderately higher in the financial division than in different businesses (Kanagaretnam *et al.*, 2014).

Exorbitant risk-taking by banks can prompt monetary trouble and macroeconomic precariousness. It is subsequently essential to inspect whether arrangements of financial comparable statements check banks' risk-taking. Manages an account with more practically identical financial summaries are identified with less risk-taking because budget report likeness improves the amount and nature of the data accessible to outside gatherings, diminishes data securing and preparing costs, and decreases the expenses related to observing financial exercises (De Franco *et al.*, 2011).

Improved enlightening straightforwardness related to practically identical budget summaries is probably going to minimize moral risk issues and reduce the avenues and motivators for the executives to seek after more risky exercises. Likewise, fiscal report similarity may prompt successful consistency and administration works on, permitting tough oversight and more important assessment by sheets on administrative venture choices (Chen *et al.*, 2018).

Moreover, expanded information comparability permits the inspectors and outer controllers to screen banking exercises all the more widely, restricting firm administration's capacity to take part in riskier exercises. Moreover, financial comparability likeness may prompt viable consistency and administration works on, permitting tough oversight and more important assessment by sheets on administrative venture choices (Chen *et al.*, 2018). Moreover, expanded data likeness permits the evaluators and outside controllers to screen banking exercises all the more broadly, restricting firm administration's capacity to participate in hazardous exercises. From one viewpoint, larger banks are probably going to be dependent upon more elevated levels of observing by financial specialists, controllers, and investigators, & financial institutions having assets, permitting more data as for contrast with their colleagues. Accordingly, the arrangement of practically identical data for bigger than probably going converts into essentially reduces levels of danger.

Notwithstanding, it is likewise conceivable arrangement data for huge financial institutions is only one of the various systems intended to decrease banks' danger taking, and elective observing components may stifle the function of budget report similarity in diminishing bank hazard taking of huge banks. Furthermore, given that little banks are dependent upon less investigation by controllers, investigators, and speculators, the arrangement of tantamount data by small banks is probably going to have a more articulated impact on hazard taking of small banks.

At long last, researcher evaluates whether the effective capital directs the connection between FS statement & riskier institutions. Studies show that banks were for the most part subject to extraordinary administrative oversight and observation by financial specialists, examiners, and different partners during the emergency (Bhagat *et al.*, 2015).

Besides, generally more data about firms opened up during the crisis time frame. The arrangement of comparable financial summaries during the crisis time frame is one of the various components intended to decrease banks' risk-taking. The accessibility of elective instruments is accordingly liable to stifle the function of financial summary in decreasing bank risk-taking in that period. As needs are, we anticipate the connection between budget report comparability and banks' risk-taking to be more articulated (Amiram *et al.*, 2018).

The findings from this investigation add to the writing in the accompanying significant manners. To start with, researcher contributes to the literature on monetary outcomes of financial reporting particularly the impact of bookkeeping data on the proficient distribution of capital (Francis and Martin 2010).

Earlier writing here commonly inspects the impact of firm explicit bookkeeping credits accumulation quality rather than our investigation that analyzes an over firm bookkeeping property. While these firm-explicit ascribes are identified with the likeness, the last catch a significant and moderately remarkable measurement that is generally neglected while evaluating the choice handiness of bookkeeping data similitude's of bookkeeping frameworks across firms; De Franco *et al.* 2011). Researcher expands this literature by finding that the impact of financial statement comparability likeness is steady to another firm explicit profit ascribes; proposing equivalence catches a remarkable quality of bookkeeping data that assists acquirers with settling on better procurement choices and, henceforth, encourages more efficient capital allocation.

To start with, while a significant collection of writing explores the risk-taking conduct of monetary firms (Akins *et al.*, 2016) supposedly, a specialist is first to inspect the connection between money-related revealing equivalence and banks' risk-taking. Our investigation gives proof that banks' more practically identical budget summaries are identified with essentially less danger taking. This discovery supplements Houston *et al.* (2010), who show that more prominent data sharing among leasers diminishes bank hazard taking and the probability of money-related emergencies. Second, researcher adds to the writing that investigates the advantages of tantamount budget summaries. Utilizing tests from mechanical firms, the writing shows that financial summary

likeness diminishes data risk, quirky return unpredictability, examiner figure scattering, and stock value crash risk and it improves the proficiency of securing choices and the instruction of stock costs (Choi *et al.*, 2019).

Researcher expands this writing by demonstrating that financial report similarity is likewise relevant for money related firms since it is contrarily connected with banks' risk-taking. At long last, given that banks' exorbitant risk-taking prompts monetary crisis (Brown *et al.*, 2015; Sun and Liu, 2014), which can unfavorably influence money related development and steadiness (Bhagat *et al.*, 2015), budget report likeness is contrarily connected with banks' risk-taking is probably going to bear some significance with controllers, standard-setting bodies, and the market as a rule. Subsequently, our discoveries apply to the advancement of a banking administrative system concerning the arrangement of data, especially considering the continuous financial scandals identified with liquidity risk, capital proportions, and transparency issues.

Current study analyses the relationship between the FS statements on bank risk with the moderating role of efficient capital allocation of banks. According to the past literature, it is sufficient for organizational decision making and resolve problems of internal audits. Hassan *et. al.*, (2020) suggest that to analyze the banking scandals to concern the liquidity; profitability, capital ratio, and transparency should be analyzed. The researcher examines the impact of financial statement comparability on bank risk-taking, the impact of financial statement comparability on bank risk with moderating role of efficient capital allocation.

Past literature shows the relationship between FS comp & bank risk. Bank risk although not so good for some banks but it increases the profit margin of investors and the profitability of investors increases because it the common belief of investors that when there is a high risk the return should be higher. These statements reduce the information asymmetry between the manager and shareholder because it created agency conflicts between the agent and manager. The banking sector plays a crucial role in the stability and economic progress of any country. Excessive risk-taking by banks may lead to financial distress and macroeconomic instability of banks as well as the economy. So to analyses the risk of the banking sector and the effect on financial statement comparability with the moderating role of efficient capital allocation this study will be conducted.

2. LITERATURE REVIEW

Despite the numerous advantages of planning exchanges inside a company's limits, organizations likewise make the opportunities for advantages to wander between proprietors, administrators, and those dealing with a company's exercise specialists (Dalton, 2007). Agency theory sets that the interests of proprietors and administrative specialists regularly separate and that chiefs can utilize the characteristic data unevenness that emerges from their situating inside a firm to seek after close to home instead of benefit expanding objectives that line up with proprietors' inclinations (Jensen and Meckling, 1976).

It is exacerbated in traded on an open market firm as investors have less lawful rights comparative with proprietors because those rights reside rather with a company's governing body. These irreconcilable situations and firms' activities to relieve them give the premise to a long queue of theoretical and empirical on head specialist connections (Eisenhardt, 1989).

While earlier studies distinguish a few strategies that organizations can use to alleviate shareholder, a board of directors clashes (Conlon and Parks, 1990) every one of these strategies bring about agency cost to a firm. Accordingly, agency costs incorporate the two misfortunes from self-serving specialist conduct and the costs caused by the firm is attempting to forestall such conduct (Jensen and Meckling, 1976).

The earlier examination has hence centered on alleviating agency costs emerging from specialist observing, self-serving specialist practices, and whenever the situation allows, better adjusting the interests of chiefs to proprietors (Carpenter and Sanders, 2002).

Initial, one agency cost is the observing of agent inspirations to detect and prevent self-serving conduct. The subsequent expense as cost emerges from checking an association's activities to decrease the informational advantage that specialist directors have over proprietors and investors. Proprietors can monitor firm tasks by recruiting auditors to check the veracity of administrative cases. The third type of agency cost is unreasonable costs, administrative advantages (Daily and Dalton, 1995).

Fourth, significant assets are spent on the "interest arrangement" of the specialist chief to reduce if not wipe out, the disparity from proprietors' inclinations. At last undiscovered benefits from "problematic", the board (any non-benefit expanding choices or practices completed by specialist chiefs) are likewise a sort of agency cost. In blend, these five costs speak to the worth that proprietors forego from contracting with supervisors to run the organization for their benefit.

It is a significant problem for financial business considered as a banking sector. Even though banks work inside an all-around characterized as guidelines & examined to guarantee their consistency with these necessities (Jin *et al.*, 2013), bank executives are significant prudence concerning the degree of exercise. Managerial & administrative discretion regarding financial risk is amplified within the sight of good risk & information symmetry elements influence the sort and scope of ventures picked embraced for institutions (Chen *et al.*, 2006).

A researcher recommended is beneficial for urge investors, chiefs to face the high challenge to augment the estimation of value and the remuneration of administrators (Sun and Liu, 2014). The financial banking records a few significant discoveries identified with the components of these financial institutions.

Chen *et al.* (2006) located that both investment opportunity-based executive compensation and investment opportunity-based riches increment risk-taking in the financial business. Pathan (2009) shows that small and less prohibitive bank boards are bound to take on risk, while boards with an amazing CEO face less challenge. Moreover, review advisory group viability is found to compel bank hazard taking while CEO severance pay is found to build bank risk-taking (Brown *et al.*, 2015).

Studies additionally give proof that enormous banks and keeps money with lower subsidizing liquidity risk are bound to face more challenges. At last, Houston *et al.* (2010) located that more grounded loan boss rights urge banks to take on more risk, while data sharing among leasers prompts lower bank risk. Researcher adds to this group of writing by indicating how financial statement comparability in the banking segment is identified with bank risk-taking (Habib *et al.*, 2018).

Comparability demonstrates the degree of similarity in bookkeeping decisions among at least two firms. Financial statements become more comparable when firms working in comparable enterprises measure and report data incomparable habits. FS comp has been recognized as a key system that decreases data obtaining and handling costs and that improves the amount and nature of data accessible to outside gatherings about the firm (De Franco *et al.*, 2011). Studies show that practically identical financial reports diminish firm-explicit return instability and improve the instruction of stock costs and procurement capital productivity (Chen *et al.*, 2018).

Informational transparency originating from equivalent financial reports additionally improves debt market members' evaluations of firms' credit risks which has positive recommendations for the expense of debt and the debt development structure (Fang *et al.*, 2016). Kim *et al.* (2016) show that financial report comparability diminishes directors' motivating forces and capacity to shroud terrible news. At last, Chauhan and Kumar (2019) show that foreign speculators like to put resources into firms indicating additionally bookkeeping similarity.

Furthermore, regardless of episodic proof that similarity decreases information asymmetry among inner and outer stakeholders & partners and causes outside gatherings to more readily comprehend and assess the

element's presentation & firm performance, there is a shortage of proof about the advantages of financial summary likeness in the financial banking business. Researchers contend that due to the financial business' special bookkeeping guidelines and complex financial budgetary reporting, comparability in the financial banking sector is highly desirable and it can be identified with banks' risk-taking (Choi *et al.*, 2019).

Given that financial summary diminishes information procurement and handling costs, encourages observing of banking exercises, and brings down organization costs, researchers expect to keep money with more equivalent financial reports to be related with less risk-taking. Researcher offers three possible defenses for this hypothesis. To begin with, the ethical peril contention of bank risk-taking recommends that bank investors have incentives to encourage the executives to participate in more risk-taking exercises because risk-taking expands the estimation of store protection with no additional expense to investors (Merton, 1977).

Moral peril issues are highlighted within the sight of data deviation, as such circumstances give bank supervisors, managers, catalyst to participate in unsafe endeavors, for example, forceful loaning rehearses, interests in innovation that might be inadequately tried, or other domain building exercises (Saunders and Song, 2018). While investors and insurance, reserves are likewise vulnerable to this riches move impact, they can't limit bank investors and administrators from undertaking more risk due to high data deviation (Pathan, 2009).

Researcher contended that practically identical financial report data is probably going to fill in as a disciplinary gadget to check unreasonable risk-taking related to the ethical risk issue because comparable data information permits outsiders including investors to more readily comprehend the hidden financial-economic occasions of the bank and to all the more likely assess and benchmark the risk presentation and banking exercises of the manage an account with peer saves money with fewer modifications and less critical estimations (Chen *et al.*, 2018).

Fundamentally, the arrangement of comparable information minimizes the ethical risk issue and reduces avenues and motivations to seek after riskier financial exercises (Pathan, 2009). Second, administrative discretion and entrepreneurial conduct in the financial division urge directors to take on more risk since the board's exhibition is evaluated situated to some extent on the profit that they can make comparative with their fellows (Sun and Liu, 2014).

In any case, rather than that of investors, bank stakeholder's riches are generally attached to the banks that they oversee. Given that the arrangement of comparable financial summaries improves instructive informational transparency and makes the observing of administrative exercises simpler and less expensive, directors are relied upon to ensure their firm-explicit human capital by choosing excessively safe undertakings instead of riskier ventures. Consequently, researcher contends that financial report likeness is related to less administrative circumspection and deft conduct and accordingly with less risk-taking. Third, more comparable financial reports may prompt more viable consistency and administration practices around inward controls, which will minimize risk-taking (Akhigbe and Martin, 2008).

This is commenced on the perception that comparability decreases information asymmetry between the board and the executives, permitting improved oversight and a more significant assessment by the board on administrative venture choices (Chen *et al.*, 2018). Information asymmetry coming from practically identical financial reports may likewise animate administration to act all the more conservatively to moderate lawful obligation or reputational misfortunes because of more risk-taking. Furthermore, comparability budget reports likewise permit more noteworthy observing of bank exercises by auditors and outside controllers, restricting bank executives' capacity to take part in riskier exercises. Consequently, because of the above conversation, researchers speculate the accompanying:

H1: There is a significant relationship between financial statement comparability and bank risk-taking.

Earlier studies propose that bookkeeping data is basic for capital markets sectors to work effectively (Lambert *et al.* 2007). Proficient capital necessitates that capital is invested in value-creating ventures & pulled back from value-destroying ventures. Money related issues encourage productive capital allocation by decreasing grindings from information asymmetry and organization issues. Bookkeeping data gives firm-explicit data to speculators, controllers, and different partners in the economy.

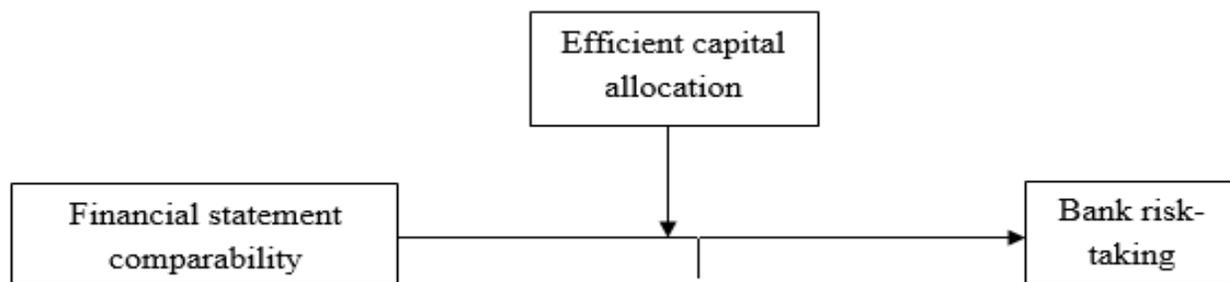
Bookkeeping data likewise gives a rich arrangement of factors, profit, incomes, and asset report balance sheet that permit capital suppliers to assess elective speculation investment opportunities & screen utilization & value-added (Armstrong *et al.* 2010). Accordingly, bookkeeping data influences capital allocation since it empowers financial specialists to distinguish value-creating opportunities and controls supervisor's managers on venture selection and execution. Extant observational investigations (Kravet *et al.*, 2014) give proof that credits of bookkeeping data influence the productive distribution of capital. This line of exploration has taken two structures. "Speculation productivity" research comprehensively inspects the connection between the nature of bookkeeping data and corporate venture choices utilizing models of over-and under-speculation. The general end of this line of examination is that better monetary detailing by firms improves their speculation proficiency by decreasing the data deviation among supervisors and investors (Biddle *et al.* 2009).

Another part of exploration utilizes the securing speculation choice setting to analyze the impact of banking sector bookkeeping data credits on the gainfulness and productivity of obtaining choices. Kravet (2014) inspects a firm's restrictive bookkeeping traditionalism & locate that conservative detailing furnishes directors of getting firms with impetuses to stay away from risky ventures because financial & economic losses are recorded in an all the more ideal way. Different examinations inspect whether targets' firm-explicit bookkeeping quality is identified with securing productivity, takeover charges, a technique for installment, and the probability of arrangement end (Skaife and Wangerin 2013).

Researcher expands these examinations by inspecting an over firm characteristic of targets' bookkeeping data and test whether the impact of budget report likeness is steady to other firm-explicit bookkeeping data ascribes. By and large, the above investigations recommend that subjective attributes of bookkeeping data influence capital allocation through their valuation and administration jobs.

H2: Efficient capital allocation moderates the relationship between financial statements comparability and bank risk-taking.

In the current study financial statement comparability was taken as an independent variable, bank risk-taking as a dependent variable, and efficient capital allocation taken as moderator.



3. METHODOLOGY

A convenient sampling method is used and the nature of data is secondary. Data has been collected from different websites (secondary source) only. In this study the banking sector is selected for population and as a sample 41 banks have been taken for data collection. Researcher has taken the maximum number of banks

according to their availability of data. Data has been collected for 10 years from 2010-2019. Variables include the profitability of the banks, firm size of the banks, and sales growth of the banks, and DPR are used and data is collected from annual reports of these banks.

Variables Definition

➤ **Bank Risk-Taking by** (Bhagat *et al.*, 2015)

Risk is the chance you'll lose cash if a venture you make gives a baffling return. All ventures convey a specific degree of risk since speculation return isn't guaranteed. According to present-day speculation theory; the more noteworthy the risk you take in making speculation, the more prominent your return can be if the venture succeeds.

I. The standard deviation of return on assets

After the calculation of ROA, we have been taken the standard deviation of return on assets of banks for a specified time of the study.

I. Inverse Z-Score

Z-score is measured through the following formula and after that, we have been taken inverse of it.

$$Z - Score_{i,t} = \frac{(ROA+CAR)}{\sigma (ROA)}$$

$$Inverse Z - Score_{i,t} = \frac{1}{Z-Score}$$

2. Efficient Capital Allocation by (Hubert *et al.*,1998)

Capital allocation is about where and how an enterprise's (CEO) chooses to go through the cash that the organization has procured. It implies circulating and putting an organization's monetary assets in manners that will expand its effectiveness, and augment its profits. An association's administration tries to allot its capital in manners that will produce however much abundance as could reasonably be expected for its investors.

$$\frac{I}{I_{ict} - 1} = \alpha + \ln \frac{V}{V_{ict} - 1} + \epsilon ICT$$

I is gross fixed capital formation, V is value-added

2. Financial Statement Comparability by (De Franco *et al.*, 2011)

$$\underline{Earnings} = \alpha + \beta_1 returns_{it} + \epsilon_{it}$$

$$E(EARNINGS)_{it} = \hat{\alpha}_i + \hat{\beta}_i RETURN_{it}$$

$$E(EARNINGS)_{ijt} = \hat{\alpha}_i + \hat{\beta}_i RETURN_{ijt}$$

$$COMACCT_{ijt} = -\frac{1}{16} \times \sum_{t=15}^t |E(EARNINGS)_{it} - E(EARNINGS)_{ijt}|$$

$$BRT_{it} = \beta_0 + \beta_1 FSC_{it} + \epsilon_{it} \quad (1)$$

BR = Bank risk

FSC = Financial statement comparability

$$BRT_{it} = \beta_0 + \beta_1 FSC_{it} + \beta_2 ECA_{it} + \beta_3 FSC_{it} * ECA_{it} + \beta_4 ROE_{it+i} + \beta_5 FS_{it} + \beta_6 Age_{it} + \epsilon_{it} \quad (2)$$

Where BRT_t reflects the bank risk taking; B_0 is intercept; FS_t reflects the FS comp at time t ; ECA_t reflects efficient capital allocation; $FSC * ECA_t$ is an association in IV and Mod, ϵ error term; ROE stands for Return on equity; FS stands for firm size and Age stands for the age of the bank.

4. RESULT AND DISCUSSION

In this study, researcher investigates the role of FS comp on bank risk with the moderating role of efficient capital allocation. For data analysis, STATA software has been used. Due to the cross-sectional data SEM model is tested. Descriptive and correlation tests have been taken. Descriptive statistics shows small, maximum and standard deviation. Correlation test shows the relationship between variables. These results have been investigated. It is robust and the purpose of this model is to check whether it can be effective and suitable for these variables and by z-value and P-value may show results, the value does not increase by 0.05%. Data has been taken from 41 public banks of Pakistan.

Table 1. Descriptive Statistics

Variables	Mean	Standard deviation	Maximum	Minimum
BR	.157176	.1250739	.6666667	0
FSC	7.818396	1.398257	14	6
ECA	.1201257	.1536879	.625	0
Comp-cap	.0297332	.0950671	1.161607	0
SIZE	.370283	.4834509	1	0
ROE	.2527817	.4731879	2.084885	.0011365
AGE	.0381783	.08844889	.8712049	0

NOTES: FSCOMP stands for financial statement comparability and CA stands for capital allocation others are controls variables.

In this table, the minimum value of BR is 0 and maximum value is 0.6666667, with mean value of 0.157176 which means that on an average because larger banks have face less risk effects other than small banks. FSC is independent variable and its minimum value is 6 and max is 14 but mean value is 7.818 that banks make such financial statements that are consolidated and face true facts of performance of that bank. ECA is a moderator in this study which shows banks invested in those projects that are highly ranked and ultimately with the help of financial statements banks face low risk. Comp-Cap is interaction term which shows min, max and average value. Bank size, profitability and bank age that are control variables in this study.

Correlation analysis

It is a technique to evaluate the strength of a relationship between the two variables which are numerically measurable. This analysis works for two important objectives. First is to find out whether there is bivariate relationship between each couple of the dependent and independent variables. The second is to certify that the associations among the explanatory variables are not so high to the magnitude of having multi-collinearity problems.

Table 2. Correlation Matrix

Variables	FSC	Co-cap	ECA	Size	ROE	Age
FSC	1.					
Comp-Cap	0.1057	1				
ECA	0.1079	0.0134	1			
Size	-0.0260	0.0665	-0.0085	1		
ROE	0.2646	0.0335	-0.0620	0.7890	1	
Age	-0.0293	0.2036	0.0135	0.9625	0.7362	1

NOTES: FSCOMP stands for financial statement comparability and CA stands for capital allocation others are controls variables.

This table presents the results of correlation analysis. Correlation coefficients show mixed results of analysis. Results revealed that FSC is positively correlated with comp-capital but ECA is positively correlated with FSC and Comp-cap. Size is positive with comp-capital and negative with ECA and FSC, ROE is negative with ECA and positive with others. BS is negatively correlated with GD and FRQ and Age is negative with FSC and positive with other variables.

Table 3. SEM Model

Variables	Coefficients	P-Value
FSCOMP	1.68	0.000
Capital allocation	-0.256	0.004
Comp_capital	3.65	0.009
Size	2.24	0.023
ROE	-1.234	0.012
Age	0.254	0.046
No. of observations	41	41

NOTES: BR stands for Bank risk-taking, FSCOMP stands for financial statement comparability and CA stands for capital allocation.

This table shows the results of the structural equation model (SEM) test. In this Table, 2 columns are required that 1 Column represents all related variables, 2nd column represents coefficients and column 3 represents P-value that explains whether the relationship of variables are significant or not. The p-value should not increase 0.05% if a value is greater than 0.05 that means a relationship of variables are insignificant and here according to prior studies (Flammer and Luo, 2014; Lin and Pursiainen, 2018; Pathan, 2009), this study results indicates financial statement comparability as significant relation with bank risk-taking with a positive sign of coefficient which explains negative or positive relation with studying mechanisms. As capital allocation it is significant relation with bank risk taking having value of 0.004 and by using control variables results are significant with positive coefficients as literature explained that by using financial statements banks have to face low risk if they have a larger bank size and age and ultimately its profitability will be increased. Financial statements show true and right pictures of operating firms if there is any issue in operating business then firm growth ultimately getting down so, audit quality might be increased by following rules of calculations.

As agency theory suggests that agent and manager conflicts arise due to managerial and personal priorities so decisions of businesses are affected so results shows that if efficient capital allocation is considered and managers understand whether projects are profitable or not and then invested in it so banks face low risk. Hypothesis 1 and hypothesis 2 are accepted and also approved by the study of (Flammer and Luo, 2014; Lin and Pursiainen, 2018) that financial statement has significant relation with bank risk if bank size is increased with the help of projected capital.

6. DISCUSSION

In this study researcher want to explain relationship between FS comparability on bank risk taking with moderating role of capital allocation. The main reasons for the relation between direct relationships are due to agency problems of internal controls, audits, and board of directors and their opportunistic behaviors and interaction term as FS comparability and capital allocation is significant with 0.009 with positive coefficient because capital efficiency may strong relation with comparable statements on bank risk. If banks use comparable statements with capital invested projects then they face less risk. In this study 41 banks are used for 10 years this study is only conducted in Pakistan if the sample size is increased with other developed countries and industrial sectors then results will be more generalized because the relationship of financial statement comparability and bank risk-taking will be negative or positive if results will be negative due to agency problems in an organization. The relationship between financial statement comparability and bank risk-taking will be stronger after controlling corporate governance for smaller banks than for larger banks.

7. CONCLUSION

The findings from this examination add to the financial literature and the literature on administration and corporate disclosure. Supposedly, researcher's own is the principal study to associate FS comparability to bank risk-taking. Researcher findings are likewise applicable to controllers and investors since they show that the provision of comparable data is especially significant for improving transparency and relieving banks' risk-taking activities. This is particularly significant considering the continuous financial banking issues concerning liquidity hazard, capital proportions, and transparency issues.

Besides, findings uphold the idea that FS comparability enhances the helpfulness of firms' accounting data, prompting better organizational decisions. Researcher examination adds to the earlier studies looks at the advantages of FS comp. Researcher gives proof that recommends FS comparability assists firms with recognizing and all the more decisively esteem potential. Researcher evidence also suggests comparable accounting information fosters efficient capital allocation in the context of bank risk-taking.

6. THEORETICAL AND PRACTICAL IMPLICATIONS

Besides the theoretical contributions, the present study has some managerial implications as well. First, the results of the study indicated that there is a significant relation between FS statements and bank risk because the banking sector of Pakistan should increase statements and also compared with each other were managers, shareholders conflict may resolve that also influence on organizational decisions and increase audit quality. Secondly, according to this study, capital allocation enhances comparable information for smaller banks other than larger banks because management should know capital where the money is invested in the project. Financial statements are prepared according to set standards and statements are showing true and fair view. As well as investors, policy makers are concerned, they have to set standards for check and balance system so

agency problems might be resolved. Due to optimistic behavior these problems are raised so it must be controlled by management and system.

8. LIMITATIONS AND FUTURE DIRECTIONS

Therefore, the study provides theoretical and practical implications but it is not free from limitations. There are some certain limitations as well. The first limitation of this study is too generalizable as the present study used only one sector was the banking sector of Pakistan. Another limitation is was a time constraint, due to which data was collected for 10 years. And next limitation is that capital allocation may strengthen the relationship of FS statements with financial risks if, determinants and mechanisms of corporate governance like board independence, managers directors behavior, and styles when will be used as a main variable result will be different and more generalizable. To address these limitations, future researchers should consider more sectors like manufacturing and other developed countries banks as the sample size for the study. The same study can be conducted with some more periods and next is to study other variables, audit quality; corporate governance mechanisms will be studies that show significant impact on FS statements with risks.

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