The impact of transparency of financial information on the Value relevance of earnings in determining the company's market value (in accepted companies in Tehran Stock Exchange)

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ABSTRACT

This study examines the impact of transparency of financial information on the value relevance of earnings in determining the company's market value. Sampling was undertaken and finally, during the period 2006 to 2013, 117 companies were selected. Then, the sample firms have been separated into two groups: firms with low transparency of financial information and firms with high transparency of financial information. Corporate separation criterion based on the transparency of financial information. was Points for the ranking system and information disclosure quality in Tehran Stock Exchange .The methodology of research is descriptive according to the type of data, a correlation analysis (spierman coefficient) and Multiple regression was used To test the hypothesis .Also we uses a number of control variables. These variables consist of Size, CF, E, and BV. based on the results of the test hypothesis, Using a modified Olson discretionary For calculated relevance of earnings it was found; Transparency of financial information is effective on the value relevance of earnings in determining the company's market value.

Introduction

The transparency of financial information is one of the important concerns of the investors and one of the effective factors in appointing the shape of the investors' entrance for getting the stocks of the companies (PurAli and Alipur, 20012). The companies which are weak in creating clear standards have a lot of risks which affect their validity, in this way these companies would face with a decrease of the investors' and stock holders' reliability which leads to a loss in investment market and fall of the company's validity and decrease of cash-making in the market (Samadi Lorgani, 2011).

The first emphasis on the financial report is to deliver some information about the performance of the agency which would be provided by its profit and components and the profit of accounting is the most important source in determining the users of financial invoices of the company. In other words more transparency leads to the increase in the information content of the profit. Stock holders depend more on the information related to profit in comparison to other performance indexes like cash profit, cash flow and cash changes (Bart and Shaiper, 2008 said by Darabi and Moradlu, 2011). The transparency level used in writing the financial reports may affect the quality of information and cause an increase in the value of the information and their relevance. The feature of relevance has effective role in determining the investment market activists (Lashkari, Zahra, Naderi, Shiraz, 2001).

In recent years, in some countries, researches about the value of accounting information like the profit of each stock have increased. The advantage of this research is that the financial market law makers and accounting standard providers can be informed about the effect of information transparency on the relevance of accounting information like the profit of each stock.

Stating the problem

We must know that in the over whelming world of today, most of the investors pay a special attention to the transparency of information in their strategy. Lack of information or not having reliance upon them has become a major problem in financial markets today. Revealing incorrect information in companies' causes non- existence of certainty among the beneficiaries. This non- existence of certainty has on information risk for the investors and certainty has on the increase of proficiency rate and high investment expense and decrease of stock price in the market. As a result, investors spend their wealth in markets like gold, currency instead of investing in financial market and directing this investing on economy generator and have on irreparable damage on the economy of the country. According to the topics mentioned above, this research tries to deal with this problem that whether transparency of information has no effect on the value relevance of earnings in determining the company's market value?

The importance of the research

Transparency is one of the important effective factors on the attractiveness of the company for the investors .the amount of Transparency mostly depends on the willingness and capacity of management for correcting any kind of informing varieties for the participants in the market. In the long term way, the investing markets can only progress via establishing a transparent information environment. In this transparent environment, transparency of financial information has a critical role In fact; the companies which are unable in creating transparent standards have too much risk which affect the credit of their managers. In this way, these companies will face a decrease in the reliance of the investors and stock holders which leads to the loss of investment market and the decrease of the credit position of the company and the decrease of liquidity in

the market. Voluntary revealing of the information and financial report will help the companies in the long – term to create competitive advantages.

The concept of transparency

Transparency is the increase in the flow of economic, financial, social and political information which are accessible by all people who can benefit (vishwanath &Kaufmann, 1999).

The concept of value relevance of earnings

It means to have the ability to affect or in other words appointing the price of company's stock in the market by the profit of the company (Ghaderi and Saieedi, 2007).

Review of the literature

Ahangari and Shakeri (2009) examined the effect of profit management on the amount of value relevance of earnings and the office value with the value of the accepted companies' stock market in Tehran securities stock market. Their result shows that the weak potentiality of the profit shows the relevance of the profit. Also, profit management decreases the relevance of the profit and increases relevance of the office value.

Sinaiee and Davudi (2009) examined the relationship between the transparency of financial information and the behavior of the investors in Tehran's securities stock market. The results show that all three dimension of transparency meaning, revealing financial information, the transparency of possession structure and transparency of the board of directors' structure, affect on the behavior of investors in the stock market. They also mentioned that the investors' perception is different based on the dimensions of transparency and variables of cognitive population.

Mehrazin, Masihabadi and Dehnavi (2011), examined the transparency of the financial information and the content of profit information. The results of the test showed that in companies with small information transparency, there is more profit for information content in market. Also, in companies with high transparency, the content of information profit is less. According to their idea, these results indicate that in more clear companies, the information related to profit is included in the price of the stock. Hence, the content of information profit is less in such companies in comparison to other companies.

Knodamipur and Mahroomi (2011) studied the effect of voluntary revealing on the relevance of profit for each stock. The results showed that the voluntary revealing does not have an effect on the relevance of the profit. An important reason for this conclusion can be the inability of investors and other users from financial reports is revealed in using the accounting information.

Leen (2007) examined the relationship between the transparency and the content of information profit. They concluded that the financial information transparency causes an increase in the content of profit information and the profitability of accounting properties among investors.

Kim, Leem and Park (2008), examined relationship between the reported profit and the value of companies' stocks. They concluded that, if the change in profit is as a result of change in the range of sale, the company changes for other reasons, that change does not have any effect on the investors' judgment about the value of the company.

Haten and Marcos, (2009) examined the relationship between the non-transparency of financial report and the risk of fall in the price of stock. They concluded with the help of profit management as a criterion for financial information transparency, that non-transparency of financial information has a less relationship with revealing financial information. Besides, the companies which have unclear financial invoices are more exposed to the fall of the stock price.

Chuchi (2009) has examined the effect of financial report transparency on the performance of the company value in Taiwan securities stock market. His study shows that there is a positive relationship between the whole qualities of the financial report transparency with the financial performance of the company.

Lee (2010), in examining the effect of the competition of the market on the quality of revealing voluntarily, found that, competition cause to the increase of quality in voluntary revealing. His research also indicated that enormous companies in comparison to small companies.

The research hypothesis

Hypothesis: There is meaningful relationship between the transparency of financial report and the relevance of profit in appointing the value of the company market.

The subjects and sampling method

The subjects include all the companies accepted in the securities stock market of Tehran. Because of the expansion of the subjects the situations below are put for selecting the subjects.

1)Their stock must be traded from the beginning of 2006 up to the end of 2012.

2)The stoppage in the stock dealing should be at most 6 month.

3)The rank of company's transparency is confirmed by the securities stock market.

4)The financial year of the company must finish at the end of March and the company must not have financial periodic change which causes the increase or maintenance of comparing ability of financial information.

Paying attention to the mentioned conditions leads to the selection of 117companies for the research and the period of the research is limited to the years of 2006 to 2012.

Method

This research is practical and descriptive and correlative on the basis of content. It is a case study on the basis of its type of gathering the information. It is periodic – correlative on the basis of its test. The multi-regression is being used for analyzing the data and testing the hypothesis

Research variable

Research findings

For examining closely the relationships between the research variables, dependent variable and control variables or the dependent variables of the research would be tested simultaneously in the form of model and regression.

$$P_{i,t} = \alpha_0 + \alpha_1 E_{i,t} + \alpha_2 BV_{i,t} + \alpha_3 E_{i,t} \times TRA_{i,t} + \alpha_6 Lsize_{i,t} + \alpha_7 CF_{i,t} + \varepsilon_{i,t}$$

Descriptive Statistics after standardization

Statistical statement of the research hypothesis is as follows:

H_0: There is no relationship between the transparency of the information and the value relevance of earnings in determining the company's market value.

H_1: There is a meaning foul relationship between the transparency of the information and the value relevance of earnings in determining the company's market value

Conclusion

The basis of making decision confirming or rejecting the hypothesis is the meaningfulness of the third variable correlation, model (E. TRA). According to t-test which is 0/000 for the third variable and of course it is less than 0/05 and as a result, this correlation is meaningful statistically and the zero hypothesis is rejected and the second hypothesis of the research is confirmed.

Data, calculation methods, sources and compiledthemare as follows:

Type of variable	Variable name	Data	Information required	Data Source
Independent	Transparency of information	Rating transparency set by the Exchange	Rated corporate transparency	Exchange website and database
Dependent	Profit	Revenue-Cost	Profit and loss account	Profit and Loss Statement
Dependent	Stock Prices	Market price of the Company's shares	Market price of the Company's shares	Exchange website and database
Control	Operational cash flow	Operational cash flow	Operational cash flow	Cash Flow Statements
Control	Company size	Book value of assets	Natural logarithm of book value of assets	Company balance sheet
Control	Book value of equity	The sum of equity	The sum of equity	Company balance sheet

Std. Deviation	Mean	Maximum	Minimum	N	Variable
1.64919	10.7702	4.97	15.61	818	NI
.50029	.5037	.00	1.00	818	TRA
.55398	5.7460	4.27	8.01	818	SIZE
.12331	.0993	.00	1.10	818	LEV
5.13131	1.4950	-103.12	14.03	818	MB
3.68784	.6625	-5.19	44.11	818	CF
15.62173	65.1652	.00	120.46	818	P
1308.49189	810.4394	-4002.61	13448.11	818	E
1881.79593	2092.8667	-10618.58	13494.88	818	BV

Table: Results of statistical analysis and modeling assumptions

Multi collinearity statistics		P-Value	T-student	Coefficients	TVariable
VIF	Tolerances	.000	13.612	63.712	(Constant)
1.907	.524	.000	4.075	.002	E
1.510	.662	.000	10.675	.003	BV
1.619	.618	.000	5.045	.003	E.TRA
1.050	.952	.098	-1.655	-1.352	Siz
1.026	.974	.324	-.987	-.120	CF
.132			The probability of the Kolmogorov-Smirnov(K-S)		

The amount of the variable correlation is 0/003, and the positive sign of it signifies the direct relationship between this independent variable and the dependent variable of the research. As it is declared in the results and in the table, it is clear that the variable correlation E in the model which indicates the extent of profit relevance in appointing the value of the company is 0/002, which shows the direct relationship between profit and the value of the company that with entering the variable of information transparency, the variable correlation (ETRA) increases to 0/003 which shows a positive effect of financial information transparency on the value relevance of earnings on appointing the value of the company and its increase.

Hypothesis	Test result	Final result
Hypothesis	Proved	There is a direct and meaningful relationship between the transparencies of the financial information on the value relevance of earnings appointing the value of the company market.

The limitations of the research

1) Lack of the necessary and reliable data for variables of the research in some companies caused their elimination from the statistical society which affects the potentiality of generalizing the results to the statistical society

2) The ranking of the companies on the point of revealing quality and informing quality has been informed four times a year, by stock market organization in the periods of 31/3, 31/6, and 31/9 and the annual period ending to 29/12.

In this research only the rank of the companies has been used at the end of the year which can cause limitations in gaining accurate evidences.

Suggesting for future researches:

1) Utilizing other suitable methods as a criterion for financial information transparency like the amount of earning management by the company managers.

2) Analyzing the effect of the financial transparency on the other important variables of the accounting in the acceptable companies in the stock market such as the stock value of the company, circulation of cash and other accounting information.

3) The effective factors on the transparency of financial information via using suitable methods should be examined.

Resources

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