Effect of voluntary disclosure on stock prices of listed firms in Tehran Stock Exchange

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Abstract

The present study sought to provide evidence of voluntary disclosure impact of financial information on stock prices of firms in Tehran Stock Exchange. Sample of this research is listed firms in Tehran Stock Exchange and the sample consists of 55 firms in the period of 1384 to 1390 sampling method is selected from target population. The dependent variable is stock price and independent variable is financial information disclosure and control variables include: rate of return on assets, earnings per share, firm size, gold price and exchange rates. For testing hypothesis, we used multivariate regression models. Hypothesis test results indicate a positive association between voluntary disclosure and the stock price.

Keywords: voluntary disclosures, stock price, return on assets, profit ratio, firm size, exchange rates, gold price

1. Introduction:

One of the main reasons of emphasizing on voluntary disclosure and transparency is that these two are base for maintaining stockholders benefit. Full disclosure approach with transparency in financial reporting can construct certain situation and increase certainty of investors support. Also researches show that voluntary. Research also has shown that voluntary disclosure has a positive effect on firm’s performance and affects the interests of shareholders and other interested parties. In other words, lack of clarity and ambiguity in reporting may have suspicions of unethical behavior in order to reduce the value of firm (Madhani, 2009).

Quality of disclosure, transparency and qualitative characteristics of financial statements, voluntary disclosure, lack of information asymmetry between investors and managers, as well as the absence of information asymmetry among different groups of investors reduces through a balance between the amounts of knowledge. The voluntary disclosure which reduces information asymmetry is not related to the usefulness of the information. Based on the theoretical framework of financial reporting information that is useful, relevant, reliable, and understandable.

In previous studies it was found that the disclosure of information at a high level reduces the risk associated with decisions. Low risk also leads to an increase in firm value, and some companies seem far more transparent information disclosure in return, they get a bad reputation. As a result, their management approaches, leading to higher reliability, higher rates of price to earnings (P / E), increase in liquidity and a reduction in the cost of equity (Madhani, 2009).
2.1. Literature and theoretical framework

2.1. Voluntary disclosure:
In relation to the importance of transparency and voluntary disclosure we should say that the disclosure of information is beyond the legal obligations that have been developed by the legislative bodies. Information disclosure is process of preparing a reporting entity to disclose information to the financial markets for making Market participants' expectations and thus strive to shape due to the additional disclosure of the terms of trade with the benefit of individuals (Madhani, 2009).

Little transparency and information symmetry has normal relationship. Little transparency reveals that there is insufficient data to interact with investors. So lack of information asymmetry between informed and those who are not aware exist. Such lack of information asymmetry leads to spending a lot of information. In an efficient market, the company's value is defined as present value of future cash flows at an appropriate rate of return risk. The purpose of financial disclosure is providing timely information useful to investors in evaluating the uncertainty of future cash flows. Information provided by the voluntary disclosure, improve the investment decision process and put other users of corporate information disclosure in a better position to affect the allocation of economic resources (Taheri, 1389).

Better disclosure of information, coordination and partnerships between companies and investors considering investment decisions based on the price of the investment, would improve due to the balance between the expected future cash flows at a higher rate. One of the major benefits of voluntary disclosure of information is reputation of management. When a management has a good credit position and, market support his activities, even if in short term it leads to lower profits.

One of the issues that have been raised about the transparency and voluntary disclosure, is that companies in order to reduce the risk of information, disclose voluntarily; But at the same time trying to avoid to disclosure which their maintains in future is difficult. In determining the level of disclosure, companies must weigh the potential benefits resulting from the disclosure of certain expenditure. In determining the main benefits of voluntary disclosure, companies must disclose the initial costs to consider. This means that the cost of providing and disseminating information and competition losses to a voluntary disclosure is relevant.

One of the major limitations of transparency and voluntary disclosure is the balance between benefit and cost
1) Definitions of stakeholder-based information,
2) Definitions based on accountability, and
3) Transparency from legal aspects (Taheri, 1389).

A. Vishwanath and Kaufmann (1999) argue that transparency means increase of timely and reliable information flow and on the contrary lake of transparency is defined as unavailability and inability of market in gathering accurate information.

B. Florini (1999) defined transparency as the disclosure of information by companies to assess performance and doing accountability responsiveness. He believes transparency is a tool to facilitate the process of evaluating the performance of companies. In fact, transparency and accountability have close relationship and transparency is due to market demand which consider companies responsible for their policies and actions.

C. Third dimension of transparency is in the area of legal responsibility, because the company in order to implement the above approach by the state legislatures, are required to adhere to the requirements of disclosure and transparency of information.

These definitions show that total transparency, quality of output information is their common point (Taheri, 1389).

2.2. Stock price

The most important factor influencing investment decisions in the stock is stock price index. Hence, the factors affecting this indicator are divided into two groups:

2.3. Internal Factors: factors affecting stock prices in relation with company's operations and decisions of the company. Like Companies features (including size, activity level, management practices, etc.), dividends, price to earnings ratio, internal capital and...
2.4. External factors: those factors are beyond the power of company management and as such, will affect the company. The causes of those events occur outside the company, but affect stock price. These factors include such things as war, peace, foundations of political, economic prosperity, and economic variables can be changed. Economic factors affecting stock prices are in two categories of monetary variables (liquidity, exchange rates, interest rates, inflation) and real variables (GDP, savings, tax rates) (Karim Zadeh, 2006).

3. Literature review

Hassan et al (2009) empirically studied the relationship between voluntary disclosure and firm value among Egyptian companies. They found a positive correlation but small correlation between voluntary disclosure and firm value there. They argued that this result, confirms the traditional view that the disclosure of more information on the company adds on its value.

Banghøj and Plenborg (2008) review relationship between disclosure level and current return and future profits among Danish companies in 2000 to 1996. The results of their study showed that voluntary disclosure of current return, information providers and information about future profits would not make a discretionary annual report to investors in predicting future profits.

Khani and Mir Bagheri (1390) examined the impact of incentives for managers on the eve of the importance of information disclosure of listed companies on the Tehran Stock Exchange. The results suggest that the threshold of crossing the importance of information disclosure (financial) have been effective. Threshold applies to 1379 disclosure (voluntary disclosure) which have shown that the effect of the threshold level of disclosure in the course of disclosure is mandatory.

Hassni and Bashir Hoseyni (1389) examined the relationship between accounting information disclosure and stock price volatility. And according to the research results they find a positive relationship between two variables.

Esma'ilizadeh Maqry and Ahmad Sherbafi (1389) examined the voluntary disclosure and its relation with stock returns on investment firms. The hypothesis that there is a significant correlation between the quality of disclosure and stock returns in any year of study was not accepted. Parchini (1388) studied relationship between voluntary disclosure (external control mechanisms) and managers (internal control mechanisms), which reduce the agency problems. The results showed that the model used, 20% of voluntary disclosure changes some previous findings, recounts. However, no significant association between voluntary disclosure and non-executives found.

4. The hypothesis:

Hypothesis can be expressed as follows:

There is a significant relationship between voluntary disclosure and stock price.

5. Research sample:

The sample used in this study ranged companies in Tehran Stock Exchange for seven years, including the years 1384 and 1390 respectively. Sampling, the following criteria apply to the society, sampling is available.

Research models and measuring variables:

In this research for examining hypothesis, following regression is used:

\[ \text{PRICE}_t = A_0 + \beta_1 \text{DISC}_t + \beta_2 \text{SIZE}_t + \beta_3 \text{ROA}_t + \beta_4 \text{EPS}_t + \beta_5 \text{COIN}_t + \beta_6 \text{CUR}_t + \epsilon \]

6. Dependant variables:

Dependent variable of this research is stock price. Stock price is quantitative and determined number or figure which is gathered from stock exchange.

7. Independent variable:
Voluntary disclosure of company, in recent years, has much attention. Understanding why firm’s optional disclosure of accounting information is useful for providers and users, as well as featuring accounting policies (the McCain and others, 1995). Although most research to date in America, England and countries of continental Europe, but in contrast, very few studies (eg, Koki, H., and Lu) are interested in the nature and extent of corporate voluntary disclosure in Asian countries (Parchin, 1388).

This study was conducted to measure voluntary disclosure measure without the help of Jensen weight. The criterion used to investigate 22 cases of financial statement entity can be associated with disclosure rankings and payment options, which are listed below. Each item has 5 points and if do not disclosed they will not get any score. For each of the following companies surveyed following item is reviewed:

<table>
<thead>
<tr>
<th>description</th>
<th>description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Develop a public participation of strategy</td>
<td>12. Describe the characteristics of investments</td>
</tr>
<tr>
<td>2. Develop a time frame for achieving the goals.</td>
<td>13. Discussion on Research and Development Expenditures</td>
</tr>
<tr>
<td>3. Describe the ethical questions facing</td>
<td>14. Discuss the company’s capital expenditure</td>
</tr>
<tr>
<td>4. Expression strategy of political and environmental consequences ahead</td>
<td>15. Discussion on investment development cycle.</td>
</tr>
<tr>
<td>5. Expected future profits</td>
<td>16. Talk about the new investment</td>
</tr>
<tr>
<td>6. Earlier than anticipated and realized benefits</td>
<td>17. Talk about value / classification capability of identifying the company's trademark</td>
</tr>
<tr>
<td>7. predicted market share</td>
<td>18. Talk about revenue from new services</td>
</tr>
<tr>
<td>8. Providing business risk estimates</td>
<td>19. Talk about the experience of the management team</td>
</tr>
<tr>
<td>9. Talk about the competitive landscape ago</td>
<td>20. Provide a description of the work force</td>
</tr>
<tr>
<td>10. Discuss the impact of restrictions on corporate profits</td>
<td>21. Stating the amount to be spent on education</td>
</tr>
<tr>
<td>11. Discussion of the influence of competing interests</td>
<td>22. Other measures of intellectual capital</td>
</tr>
</tbody>
</table>

8. Control variables:

Variables which their impact is controlled on dependent variable include asset return rate, earning per share, firm size, gold price and exchange rate.

9. Research findings:

Descriptive statistics and inferential statistics used for the analysis of this study. That in descriptive statistics for each variable, tables, graphs and indicators of central tendency and dispersion used. And in inferential statistics to evaluate multiple hypotheses, regression testing will be used.

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>variable</th>
<th>average</th>
<th>Standard deviation</th>
<th>minimum</th>
<th>maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>VOLUNTARY DISCLOSURE</td>
<td>Voluntary disclosure</td>
<td>66.6</td>
<td>16.96</td>
<td>35</td>
<td>95</td>
</tr>
<tr>
<td>SIZE</td>
<td>Firm size</td>
<td>12.8</td>
<td>1.38</td>
<td>9.47</td>
<td>17.2</td>
</tr>
<tr>
<td>ROA</td>
<td>Rate of asset return</td>
<td>0.154</td>
<td>0.14</td>
<td>-0.151</td>
<td>0.77</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
<td>904.7</td>
<td>1089.7</td>
<td>-712.7</td>
<td>7154.8</td>
</tr>
<tr>
<td>COINS</td>
<td>Gold price</td>
<td>2775.3</td>
<td>1597.1</td>
<td>1228.9</td>
<td>6330</td>
</tr>
<tr>
<td>CURRENCY</td>
<td>Exchange rate</td>
<td>10205.7</td>
<td>1457.7</td>
<td>9042</td>
<td>13568</td>
</tr>
<tr>
<td>PRICE</td>
<td>Stock price</td>
<td>5397.1</td>
<td>7325</td>
<td>348</td>
<td>59615</td>
</tr>
</tbody>
</table>
Result of descriptive statistic is provided in the table above.

10. Result of research hypothesis test:

According to the above hypothesis model, result of hypothesis test is provided in the following table:

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>variable</th>
<th>coefficient</th>
<th>T statistic</th>
<th>significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>( A_0 )</td>
<td>Fixed amount</td>
<td>-28831.3</td>
<td>-2.629</td>
<td>.009</td>
</tr>
<tr>
<td>VOLUNTARY</td>
<td>Voluntary disclosure</td>
<td>31.07</td>
<td>2.224</td>
<td>.027</td>
</tr>
<tr>
<td>DISCLOSURE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>Firm size</td>
<td>395.17</td>
<td>2.380</td>
<td>.018</td>
</tr>
<tr>
<td>ROA</td>
<td>Rate of asset return</td>
<td>-8052.8</td>
<td>-3.181</td>
<td>.002</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
<td>6.066</td>
<td>19.134</td>
<td>.000</td>
</tr>
<tr>
<td>COINS</td>
<td>Gold price</td>
<td>-3.010</td>
<td>-2.388</td>
<td>.017</td>
</tr>
<tr>
<td>CURRENCY</td>
<td>Exchange rate</td>
<td>3.058</td>
<td>2.239</td>
<td>.046</td>
</tr>
</tbody>
</table>

Adjusted determined coefficient: 0.693

The results indicate that the fitted regression is statistically significant (0.05 > 0.0001). Durbin-Watson statistic (1.719) is located between 1.5 and 2.5 indicate that the correlation between the errors is rejected and regression can be used for hypothesis test. Determine coefficient is 0.698 and adjusted determine coefficient (0.693) indicate that 69 percent changes in stock price with control variables is predicted. Correlation coefficient (31.07) indicated a positive correlation between these two variables.

According to the results we can say that in significance level (sig=0.027<0.05) there is positive and significance relationship between voluntary disclosure and stock price.

11. Discussion and conclusion:

More issues in accounting need judgment and decision making. Decision related to voluntary disclosure by management or using voluntary disclosure by investors and analysis are as an example of these decisions. This study examines the question of whether the level of voluntary disclosure on stock prices of companies in Tehran stock exchange effective. The results confirm the effectiveness of the disclosure option price per share. In this respect a sample of 55 companies in Tehran Stock Exchange in the period 1384 to 1390 were studied. The relationship between voluntary disclosure and the stock price of these companies were analyzed using multiple regression models, also asset return rate, earning per share, firm size, gold price and exchange rate impact controlled. According to the results we can say that there is positive and significance relationship between voluntary disclosure and stock price.

References: