

The Investigation of Relationship Between the Major Financial Variables and Disclosure Quality of Listed Companies in Tehran Stock Exchange

A.K. Moghadam and N.A. Alipour

Faculty of Accounting, Payam-e-Nour University, Abu Musa Branch, Tehran, Iran

Abstract: This study examines the relationship between major financial variables and disclosure quality of listed companies in Tehran Stock Exchange. For this purpose, 112 companies were selected over the period 2009-2013. In this study, criteria such as firm value, leverage, firm loss, size of the company and profitability were nominated as the financial factors affecting the level of corporate disclosure quality. In order to test the research hypotheses, multiple regression method was applied. According to regression fundamental postulates and Chow-Hausman test, fixed effects model was selected. The results indicate that firm value and the profitability have a positive and significant correlation with the disclosure quality which is the dependent variable of this study. Leverage and firm loss have a negative and significant correlation with corporate disclosure. However, size of the company did not show any significant relationship with corporate disclosure at 95% confidence level.

Key words: Major financial variables, disclosure quality, leverage, size of company, firm value, firm loss

INTRODUCTION

Commitment to independent examination of results allows administrators to validly disclose confidential information which its direct investigation is costly for them, shareholders and auditors. Mechanisms in which managers are required to honestly disclose the confidential information are still not completely understood but it is known that this confidential data of managers have mostly an informative role rather than a contractual one. However, without a credible commitment of managers to honesty, this potential cannot be fulfilled. Crawford and Sobel (1982) showed that by considering other conditions as constant, unverifiable disclosure which is done by case managers are not honest and therefore, has no informative value. Managers in order to disclose confidential information need a strategic system to deal with disclosures independently.

In other words, should the past financial reports such as revenues, profits and so forth, have sufficient accuracy and meanwhile indicate no obstruction through the manipulation of management or other entities such as board members, they could represent an estimation of manager's honesty in disclosing past information. Therefore, voluntary disclosure of confidential information by aforementioned managers has a greater informative value. Thus, the possibility of commitment to honest disclosure of the information which is not verifiable independently is obtained. Considering the fact that audited financial statements and voluntary disclosure are complementary to each other, their economic roles

cannot be studied separately by researchers and the legislators. Hence, we presume the amount of dedicated resources for financial auditing and voluntary disclosure are determined simultaneously.

The disclosure principle is one of the four principles of accounting. However, most of the concerns and inquiry have been toward the disclosure of retrospective information. Financial entities are required to report and disclose this information in the context of basic financial statements for all the essential financial cases in a desirable fashion. In cases, where disclosure is not possible, disclosure must be reported in the appendix of basic financial statements. Hence, research on voluntary disclosure provides another aspect of disclosure principle which emphasizes on expectation and estimation of the future. This also has a significant role on reducing information asymmetry between managers and investors which appears to be essential.

Conducting financial statements in Iran is primarily done according to financial statement templates published by the National Audit Office which consequently has limited the possibility of voluntary disclosure in the context of financial statements. Thus, the parameters of optional disclosure of information are derived from the activity reports of the board of directors. This method has no standardized basis and it does not have any legal requirement based on the minimum criteria of voluntary disclosure.

This research brings a new perspective on disclosure quality. It intends to investigate the main financial factors in a company that affect the disclosure quality level. So,

far few evidence based papers have been published on factors affecting the corporate disclosure level in the Iranian capital market, thus there have not been any comprehensive review of the financial factors and their effectiveness on disclosure level of listed companies. In this study, the question of “what kind of relationship is there between financial variables and the disclosure quality of listed companies on the Stock Exchange?” will be the main topic of this study.

Fundamentals and background: Research has shown that the quality and adequacy of the information published by the management will improve while there is an effective oversight by the board of directors on the management (Karamanou and Vafeas 2005). Improvement of the corporate disclosure quality reduces the information asymmetry (Nouravesh and Hosseini, 2009).

Voluntary disclosure theory states that managers will disclose corporate information under their supervision when increase in the benefits of disclosure overshadow the costs (Heitzman *et al.*, 2010). Therefore, in the voluntary disclosure, manager is always facing the issue of disclosure versus non-disclosure of information to the capital market. The Manager knows that the decision to disclose or withhold information and the market rational landscape are function of the information disclosure cost, non-disclosure cost (a decline of status to the position of inferior competing companies in the eyes of market players) and benefits from capital market where disclosure takes place (higher stock price) (Khani and Roudbarei, 2012).

The concept of full disclosure states that none of the essential information from the financial statements should be deleted or concealed (Belkaoui, 2004). All stakeholders of the company (including shareholders, investors, employees, customers, government and society) are entitled to have access to the information concerning the company. The amount of information being disclosed matters the most. Hendriksen proposed three concepts of disclosure: adequate, fair and full. Adequate disclosure implies the minimum amount of necessary disclosure required to avoid making the financial statements misleading. Fair disclosure is derived from the moral obligation of providing information to groups of potential readers. Full disclosure is also meant to provide all relevant information (Hendriksen and Michael, 1992).

International literature: The pioneer of empirical research on the subject (Cerf, 1961) during a study on the “Corporate reporting and investment decisions” being made in the United States, found that the disclosure

quality of financial reporting was under the influence of some variables and frequently no correlation between the variables was found. Disclosure principle developed by Cerf was adapted later by other researchers Cerf (1961).

Singhvi and Desai (1971) believed that disclosure of information by business entities can take various forms. Undoubtedly, annual report to shareholders is one of the most important forms of disclosure. Singhvi and Desai, in order to verify the quality of published disclosure information in the annual reports, formed an index of disclosure with 34 items that its disclosure indicators, apart from a couple of differences were similar to Cerf’s research disclosure index. The information index listed in the disclosure index items provided by Singhvi and Desai has the most essential and significant financial information in itself to make informed decisions for investments. By means of the index, the disclosure quality in the annual reports was quantified. Firms were classified into several categories based on their disclosure scores and rankings. In addition, multivariate analysis was carried out to test the significance of the association between disclosure quality and various variables. The following takes account of their findings.

Large corporations have a better disclosure quality in comparison with small businesses. Companies that have more shareholders, have a better disclosure quality. Firms audited by a large CPA firm have a greater disclosure quality compared to firms audited by a small CPA firm. Companies considered profitable as indicated by their rate of return and earnings margin have a better disclosure quality compared to those companies which lack such assets Singhvi and Desai (1971).

Cooke aimed to examine the disclosure level in Japanese corporate annual reports and to assess the impact of the independent variables (size, industry type and stock market listing) on the level of disclosure. In this study, a list composed of 165 items consisting of both mandatory and voluntary disclosure was featured in the scoring sheets. The following remarks were achieved by a regression model: Company size (total assets) was found to be prominently significant on the level of disclosure. Disclosure in Japanese manufacturing was more than non-manufacturing companies. More information is being disclosed by multiple listed companies in their Japanese annual reports compared to corporations being listed on the Tokyo Stock Exchange Cooke (1992).

Heitzman *et al.* (2010) reviewed the effect of the materiality threshold and voluntary incentives of managers on the process of disclosing the cost of advertising. For this purpose, three alternative

specifications for company's disclosure process were investigated: pure mandatory (materiality) disclosure, pure voluntary disclosure and mandatory-voluntary disclosure period. The results indicated that the process of information disclosure was influenced by mandatory incentives (materiality threshold) and voluntary incentives provide a better explanation of disclosure process of the advertising cost.

Hassan *et al.* (2009) examined the relationship between company's disclosures and the firm value in Egypt's capital market. The results indicated that there is a significant and negative correlation between mandatory disclosure and firm value by controlling factors such as asset size, profitability. Although, a positive association between voluntary disclosure and firm value was demonstrated, however this association is statistically insignificant. Erickson *et al.* (2005) examined the relationship between firm's value and the information relevance in Canadian firms over the period 1993-1997. Their results indicate that financial and accounting information relevance leads to an increase in the firm's value (based on Tobin's Q criteria).

Francis *et al.* (2008) investigated the relationship between voluntary disclosure, earnings quality and cost of capital. The results of the disclosure processes of 677 corporates indicated that there was positive relationship between voluntary disclosure and earnings quality and there was a significant negative association between voluntary disclosure and cost of capital.

Schleicher *et al.* (2007) examined the association between annual reports of the loss firms and share price anticipation of earnings. They concluded that the association between the disclosure of the annual report narratives and share price anticipation for profit and loss firms are not the same. Moreover, Zare *et al.* (2011) categorized firms based on size of company into three categories: small, medium and large. Depending on the type of each category, they observed that the level of disclosure varied.

Yu (2005) studied the relationship between transparency and the term structure of credit spreads. Firms with higher AIMR disclosure rankings tended to have lower credit spreads. According to Yu, it is possible to predict that transparency of the disclosed financial information (high level of corporate disclosure quality) will decrease the credit risk. By examination of the New York's stock exchange firms, Yu demonstrated that there is a negative correlation between transparency of financial information and the credit risk. Disclosure of vague and incomplete information results in an increase in credit risk (consequently the leverage). The creditors also correspond to an increase in credit risk by imposing a higher financing cost or reducing the debt maturity.

National literature: Setayesh *et al.* (2011) examined the impact of the disclosure quality on both current and forthcoming common stock of listed companies in Tehran Stock Exchange. Accordingly, the effect of size of company was also measured. Evaluation of the disclosure quality variable was done by reviewing the assigned concessions given to each company by Tehran Stock Exchange. This disclosed information was made available in the "Disclosure quality and appropriate notification report" which was released by Tehran Stock Exchange. The Criteria for assessing the liquidity were the stock turnover rate, stock returns and the volume trading in Iranian (Setayesh Nejad, 2012).

Results of the survey of 105 companies over the period 2004-2008 indicated that there was a significant and positive correlation between the size of company and its current and forthcoming liquidity; however, there was no significant relationship between the disclosure quality, current and forthcoming liquidity of the company. Moreover, there was a significant negative correlation between the disclosure quality, the cost of capital of the current and forthcoming common stock. However, there was no evidence of a significant relationship between the size of company and the cost of capital of current and forthcoming common stock.

Setayesh *et al.* (2011) conducted a study which included 149 companies over the period 2003-2008. Results from regression analysis indicated that the disclosure quality had a significant positive correlation with history, liquidity, profitability and the size of the audit firm; however, a significant negative correlation was identified between disclosure quality, leverage and family-ownership of listed companies in the Tehran Stock Exchange. Based on the result from paired sample t-test, approval of "executive order on the information disclosure of listed companies in organization" had a significant impact on the quality of information disclosure by companies and led to its improvement. Additionally, ANOVA indicated that industry type affected the disclosure quality. Nevertheless, there was no evidence of a significant correlation between the disclosure quality, the size of company and the board of directors' structure. Based on the results of multiple stepwise regression, four variables of leverage, size of the audit firm, profitability and size of the company were accounted for approximately 12% of the variation in the disclosure quality Setayesh and Nejad (2012).

Khani and Roudbarei (2012) conducted a study on the effect of the materiality threshold and voluntary incentives for managers on the information disclosure of listed companies in Tehran Stock Exchange. They reviewed a sample of 98 firms listed in stock exchange which were audited by the Iran Audit Organization. Their

study period 2000-2001 comprised of a year prior and after the implementation of compulsory compliance to auditing instruction by risk management approach. The results indicated that excluding trading volume variable, the rest of the variables which were earning response coefficient, materiality threshold and proprietary cost affected the disclosure in financial statements.

Sanjari investigated the relationship between accounting features of a firm and the disclosure level of financial information in Tehran Stock Exchange. The results indicated that there was a positive correlation between the size of company and the level of voluntary disclosure of financial information. However a significant correlation between leverage, return on equity and liquidity and the level of voluntary disclosure was not observed.

Nouravesh and Hosseini (2009) conducted a study by using the data from 51 listed firms in Tehran Stock Exchange over the period 2002-2006. The correlation between the quality of corporate disclosure (reliability and timeliness) and earnings management was assessed. Results of the study indicated that a significant negative correlation existed between the disclosure quality and earnings management and similarly there was a significant negative correlation between the timeliness of corporate disclosure and earnings management.

MATERIALS AND METHODS

The theory of this study is placed within the field of positive accounting research and it is based on factual information available in corporates' financial statements. Purpose of this study is considered to be a practical research approach to accounting. We examined the impact of change in ownership as an independent variable and the audit quality as a dependent variable. Therefore, the desired method to test the hypotheses was a correlation based on retrospective data. Hence, this study is considered to be a post-event analysis.

Research hypotheses: In order to answer the main question of this study, the following hypotheses were stated. The main hypothesis: there is a significant correlation between financial variables and the disclosure quality of listed companies in Tehran Stock Exchange. The first sub-hypothesis: there is a significant correlation between the firm value and the disclosure quality of listed companies in Tehran Stock Exchange. The second sub-hypothesis: There is a significant correlation between leverage and the disclosure quality of listed

companies in Tehran Stock Exchange. The third sub-hypothesis: There is a significant correlation between the size of the company and the disclosure quality of listed companies in Tehran Stock Exchange. The fourth sub-hypothesis: there is a significant correlation between the firm loss and the disclosure quality of listed companies in Tehran Stock Exchange. The fifth Sub hypotheses: there is a significant correlation between the profitability and the disclosure quality of listed companies in Tehran Stock Exchange.

Research sample and population: The target population in this study is all of the companies listed in Tehran Stock Exchange over the period 2009-2013. The agenda behind selecting these listed companies in the stock exchange was the accessibility of their financial information compared to other companies. Moreover, due to the regulations and standards of Tehran Stock Exchange, the informative content of these financial reports was more homogeneous.

In this study, all the available data were utilized in sample selection. First, all the companies that could participate in the sampling were selected. Then, those companies which did not qualify by the following criteria were dismissed. The remaining companies were selected for the test

- Fiscal year ended in March
- During the study period, fiscal year should not have changed
- During the study period, companies should have actively participated in the stock market
- The intended data was available for data mining
- The firm should not be an investment firm or a financial intermediation firm (due to their different capital structure)
- The annual corporate disclosure quality ranking and its financial information should be available

After systematic sampling based on aforementioned criteria, a total of 112 listed companies were chosen as the sample companies. Through surveys, qualified data was collected from the Stock Exchange's website and financial database software such as RahavarNovin and Tadbir Pardaz. In this study, the method of mixed data was utilized by considering the type of collected data and preferred statistical analysis methods.

Variables and main model: Multiple regression and panel data analysis were utilized to test the hypotheses in the

EViews 7 software. To evaluate the factors affecting the level of disclosure in accordance with previous research the following regression model was utilized:

$$\text{Index quality (it)} = \beta_0 + \beta_1 \times \text{value (it)} + \beta_2 \times \text{leverage (it)} + \beta_3 \times \text{size (it)} + \beta_4 \times \text{loss (it)} + \beta_5 \times \text{earning (it)} + e_i(t)$$

Operational definition of the variables

Indexquality: It is the company's disclosure quality index and it was based on their score in Tehran Stock Exchange. **Value:** logarithm of the firm value of the company which was collected via financial database software such as Rahavar Novin and Tadbir Pardaz. **Leverage:** leverage which was the ratio of total debt to total assets of the company. The data were collected via financial database software Rahavar Novin and Tadbir Pardaz. **Size:** the size of company; the natural logarithm of the total assets of the company. **Loss:** firm's loss; for a company which is a loss firm, the company is given the score of one, otherwise zero is assigned. **Earning:** extracted from the financial statements, the natural logarithm of the company's profit before deducting interest and tax.

Data mining tools: The required data were collected from the companies based on to the variables of the interest. It was done by inspection of their annual reports and various resources such as official released compact disks from Tehran Stock Exchange (Rahavard Novin and Tadbir Pardaz Software), website of information and stock exchange service and official released compacts disks by Iran's Privatization Organization.

Data analysis method: In order to perform necessary calculations and prepare the data needed for the study and subsequent analysis, Microsoft Excel, Eviews 7 and SPSS were utilized. To test the hypotheses, multivariate regression model between independent variables was applied in accordance with cross sectional data (annual) analysis and panel data analysis. Panel data analysis required nominating and selecting between fixed effects model and random effects model via Chow test.

RESULTS

Descriptive statistics: Descriptive statistics containing information about the mean, median, minimum, maximum and standard deviation of the data are presented in Table 1. The sample companies were consisted of 112 companies over a 5 year period 2009-2013 which formed a total of 560 observations.

Table 1: Descriptive statistics of the variables

Variables		Mean	Min.	Max.	SD
Index quality	Disclosure quality	0.76	0.28	0.95	0.06
Value	Firm value	13.65	9.89	17.42	0.23
Lev.	Leverage	0.63	0.21	0.71	0.42
Size	Company size	13.52	10.72	18.62	12.02
Loss	Firm's loss	0.19	0.00	1.00	0.12
Earning	Profitability	10.89	7.02	15.89	1.58

The mean level of the disclosure quality (indexquality) disclosed annually by Tehran Stock Exchange for target companies was 0.76. The minimum and maximum values of this variable were 0.28 and 0.95, respectively. This implies that out of the 100 score which Tehran Stock Exchange assigns for the disclosure quality and items such as relevance and timeliness, the mean disclosure quality index was 0.76 for the target companies. According to the aforementioned literature, if this variable's value is closer to 1, it's an indication to a higher level of voluntary disclosure in companies.

The mean of the firm value (Value) was calculated by taking the logarithm of target companies' firm value which was 13.65. The minimum and maximum were 9.89 and 17.42, respectively. The mean of Leverage (Lev) which was calculated by the ratio of total debt to total assets of the company was 0.63. The minimum and maximum values of this variable were 0.21 and 0.71, respectively. Higher level of total debt increases the probability of decrease in the corporate disclosure quality.

Size of company (Size) had the mean of 13.52. The minimum and maximum values were 10.72 and 18.62 respectively. Firm's Loss (Loss) which is one of the most essential variables to have an impact on the disclosure quality, had the mean of 0.19. This signified that 19% of the companies reported loss. The mean of the profitability variable was 10.89.

The correlation coefficient between the variables in the model should not be high. The correlation between the independent variables in a model distorts the results of regression. In this study, the correlation between the variables indicated lack of significant correlation between the variables. Undoubtedly, the correlation between two variables in two different models, do not generate complications in this study.

Multiple variables model evaluation

Panel data analysis: Result of the test is presented in Table 2. In the implementation of this model, fisher statistic indicates significance at 1% margin of error which points out a strong association between independent and dependent variables of the study. Adjusted R2 was 23% which indicated 23% of variation in the level of voluntary disclosure quality was described by independent variables such as firm value, size of the company,

Table 2: Dependent variable: level of cash holding (fixed effects model); results of the research hypothesis

Index qualityY (it) = $\beta_0 + \beta_1 \times \text{Value (it)} + \beta_2 \times \text{Leverage (it)} + \beta_3 \times \text{Size (it)} + \beta_4 \times \text{Loss (it)} + \beta_5 \times \text{Earning (it)} + \epsilon_i(t)$				
Descriptive statistic	β coefficient	Statistic t	p-value	Results
Value	17.81	6.37	0.00	The first hypothesis is confirmed
Lev.	-0.0241	-0.889	0.0375	The second hypothesis is confirmed
Size	1.41	1.17	0.24	The third hypothesis is not confirmed
Loss	-13.19	-1.98	0.047	The fourth hypothesis is confirmed
Earning	1.09	2.52	0.012	The fifth hypothesis is confirmed
C	15.50	1.73	0.08	F = 30.64; p-value = 0.000
Panel data and fixed effects model	Chow test F = 15.63	p = 0.000	Result: fixed effects model	Hausman Test: Fixed effects model is selected over random effect model
Fisher statistic	28.05	Durbin Watson	2.01	
p-value	0.000	R ² Adjusted	0.23	

leverage, firm's loss and profitability. Furthermore, Durbin-Watson statistic was 2.01. The value between 1.5 and 2.5 confirmed independence of errors.

In order to evaluate the model, first as a result of Hausman-Chow test, fixed effects model was selected over panel data model. Subsequently, through Hausman test, fixed effects model was selected over random effects. Results from testing the first hypothesis indicated that between firm's value and the level of disclosure quality of listed companies, there was a positive and significant correlation (β coefficient = 17.81 and p-value = 0.000). Therefore, the first hypothesis was confirmed.

The result from testing the second hypothesis (β coefficient = -0.0241 and p-value = 0.0375) confirmed the significant negative correlation between leverage and the disclosure quality of listed companies in Tehran Stock Exchange. Therefore, the second hypothesis was confirmed.

The third hypothesis which examined the correlation between size of the company and the level of corporate disclosure quality (reliability and timeliness) in the listed companies was not confirmed on 95% confidence level (β coefficient = 1.41 and p-value = 0.24). This means that size of listed companies in Iran does not have a significant correlation with the level of disclosure quality.

The result from testing the fourth hypothesis (β coefficient = -13.19 and p-value = 0.047) confirmed that in a 95% confidence level, there was a significant and negative correlation between firm's loss and the level of voluntary disclosure. Therefore, the fourth hypothesis was confirmed.

The fifth hypothesis examined the correlation between profitability of the company and the level of disclosure quality provided by Tehran Stock Exchange. In 95% confidence level, there was a significant and positive correlation which confirmed the hypothesis (β coefficient = 1.09 and p-value = 0.012).

DISCUSSION

There have been numerous studies on the disclosure quality in Iran and each study has covered a specific

aspect of this topic. Nonetheless, some aspects have not been explored completely yet. By examining the disclosure quality from a financial perspective, a new insight will be achieved in examination of the disclosure quality and its close relationship with financial and functional features of a company. This could assist current research projects by providing informative material and also developing related research background for disclosure quality. In this study, the relationship between financial variables and the disclosure quality in 5 hypotheses was studied experimentally. The following discusses the remarks and compares them with the material specified in the aforementioned literature.

The result of testing the first hypothesis indicated a significant and positive correlation between firm's value and the level of disclosure quality of listed companies in Tehran Stock Exchange. The confirmation indicates an increase in the disclosure quality as the firm's value rises, which signifies the improvement in the quality of relevance and timeliness of company's financial statements. Improvement in the corporate disclosure quality decreases the information asymmetry Nouravesh and Hosseini (2009) and thus, increases the firm value.

Hassan *et al.* (2009) reported that by controlling factors such as asset size and profitability, there was a significant negative correlation between firm's value and mandatory disclosure. However, they did not observe any significant correlation between voluntary disclosure and the firm's value. An increase in the firms' value subjects them to more attention from investors and shareholders, which leads to more supervision. As a result, the firm is inclined to increase its information relevance and timeliness. Erikson *et al.* (2008) remark a significant positive correlation between firm's value and information relevance Erickson *et al.* (2005). Taking both reports into account, these remarks are in consistent with confirmation of the first hypothesis.

The result from testing the second hypothesis indicated the existence of a negative and significant correlation between leverage and firm's value in 95% confidence level. This confirms the second hypothesis.

An increase in leverage lowers the disclosure quality which indicates presence of low quality financial information with respect to reliability and relevance. Concurrently, increase in leverage is going to raise the financial risk. Yu's finding demonstrated the negative correlation between transparency of financial information and the credit risk Yu (2005). Francis *et al.* (2008) reported a significant negative correlation between voluntary disclosure and cost of capital (leverage) Francis *et al.* (2008). Setayesh and Nejad (2012) also reported a negative correlation between the disclosure quality and leverage in listed companies in Tehran Stock Exchange (Setayesh and Nejad, 2012). These findings are in consistent with confirmation of the second hypothesis.

The results from the third hypothesis indicated that there was no significant correlation between size of the company and the level of the disclosure quality with 95% confidence level. This result implies that size of the company has no influence on timeliness and relevance in listed companies of Tehran Stock Exchange. However, Sanjari reported a positive and significant correlation between size of the company and the level of voluntary corporate disclosure by Sanjari. Zare *et al.* (2011) also concluded that the correlation of information disclosure with regard to size of company varied depending on each size based category. Singhvi and Desai (1971) also reported that large companies compared to small companies had a better disclosure quality.

The results from the fourth hypothesis indicated that firm's loss had a negative and significant correlation with the disclosure quality with 95% confidence level. This result indicated that as the firm's loss increases, the level of disclosure quality (reliability and timeliness) decreases. Consequently, when the firms indicate loss, the probability of distortion and manipulation of financial documents is higher. Similarly, disclosure of the information does not occur on time and does not present itself relevant when firm is in a state of loss.

This result suggests that in those financial years where company is unprofitable, the disclosure quality is lower compared to profiting financial year. This is in consistent with the study done by Schleicher *et al.* (2007) which inspected the association between annual reports of the loss firms' and share price anticipation of earnings. They reported that the association between the disclosure of the annual report narratives and share price anticipation for profit and loss firms were not the same.

The fifth hypothesis was confirmed with 95% level of confidence. It examined the correlation between profitability and the disclosure quality. The significant and positive correlation indicated that profitability

improves the disclosure quality. Firms with high profitability tend to disclose their profit timely to their shareholders and investors which is a feature of high corporate disclosure quality.

The profiting companies report more return in their financial statements which in turn increases the reported disclosure quality of listed companies by Tehran Stock Exchange. This is in consistent with the study done by Setayesh and Nejad (2012) which reported that disclosure quality has a positive and significant correlation with history, liquidity, profitability and the size of the audit firm.

Practical proposals: Taking the concluding remarks of this paper into account, we propose to consider the profitability and leverage in the assessment of disclosure quality of companies by Tehran Stock Exchange in order to acquire more accurate disclosure quality. We would like to recommend featuring the disclosure quality in evaluation and decision makings of shareholders and investors. Furthermore, we believe that the disclosure quality should be accounted as an essential factor in their decision making process.

Further research: Implementing these studies in various industries in Tehran Stock Exchange can provide guidelines for current status of various factors and their difference in affecting the level of disclosure. The level of disclosure prior and after the financial crisis in listed companies of Tehran Stock Exchange could be investigated. Furthermore, the impact of financial crisis on the level of disclosure in different industry groups in Tehran Stock Exchange could also be analyzed.

CONCLUSION

This study deals with examining the financial variables affecting the level of disclosure quality reported by Tehran Stock Exchange. The results from hypothesis testing via panel data analysis and regression model indicated that firm value and profitability have a significant and positive correlation with the disclosure quality which was the dependent variable. Moreover, leverage and firm's loss have a significant and negative correlation with the corporate disclosure with 95% confidence level. However, size of the company did not show any significance with corporate disclosure with 95% confidence level.

According to the first and fifth hypotheses, it is concluded that most of the financial and functional variables such as profitability have a significant impact on the disclosure. This suggests that if the company is

situated in a good financial status, it is more probable for the disclosure quality to increase. On the other hand, based on the second and forth hypotheses, if the company is under financial crisis and the company is unprofitable with high leverage, the disclosure quality is expected to decrease.

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