Journal of Novel Applied Sciences
Available online at www.jnasci.org
©2014 JNAS Journal-2014-3-6/638-643
ISSN 2322-5149 ©2014 JNAS

The effect of the disclosure of financial information quality on the relationship between abnormal earning and abnormal stock returns in Tehran Stock Exchange

Mehdi Talebghasabi and Leila Lak*

Department of Accounting , Andimeshk Branch , Islamic Azad University , Andimeshk , Iran

Corresponding author: Leila Lak

ABSTRACT: This study examines the impact of the disclosure of financial information quality on the relationship between earnings and abnormal stock returns in Tehran Stock Exchange. to measure the quality of disclosure, the scores allocated to each company published by the Securities and Exchange Tehran and the statement of "the quality of information disclosure and proper" were used. The statistical population of this research includes all companies listed in Tehran Stock Exchange from 2003 until the end of 2011. The statistical sample includes 303 firms (about 2082 years - companies). For the analysis of research data and the models, the hybrid approach is used. Assumptions results showed that there is a positive significant relationship between the abnormal earnings and abnormal returns. The extent of the disclosure of financial information quality has a significant positive impact on the relationship between abnormal stock and abnormal earnings.

Keywords: Quality of disclosure, transparency, abnormal profits, abnormal returns.

INTRODUCTION

Increasing the transparency and quality of financial information published by companies, and having inside information reduces information asymmetry and abnormal returns. (Haghighat 2011). it improves the disclosure of better information, coordination and partnerships between companies and investors considering investment decisions based on the price of investment, due to the expected future cash flows at a rate higher balance. Capital market is efficient in determining the true value of the company's disclosure in long-term. Spending information includes the greater intrinsic value of the a company's disclosure. it is expected that spending information is similarto the same information of the competitors with market conditions but for firms with low disclosure and transparency, this spending information will be less. (Madhani, 2009). Despite all the arguments about the greater transparency, companies are reluctant to disclose their information voluntarily. Wish Wanat and Kaufman (1999) explained the reasons as the costs associated with collecting, processing and disclosure of the information, interest in connection with non-discourse and external factors.

Collection, classification and disclosure of information require effort, time and financial resources. It is natural that companies disclose the information depending on these three factors so that the disclosure of the costs and benefits could be equal. On the other hand, because the costs and benefits are difficult to measure accurately and objectively, most companies are moving towards low disclosure. When the impact and influence of strategic interaction between firms does not exist, the disclosure declines the competitive advantage and profitability. In such a situation Strict rules related to disclosure are not desirable in order to increase transparency and companies are looking for ways to not disclose or have a less disclosure. (Samadi, 2010).

Theoretical principles and research background:

Disclosure is the dissemination of important and effective information on market and transparency is the simplicity of meaningful analysis of the company's activities and its economic fundamentals by an person outside of the company. Transparency of management power index is available in providing the necessary information properly and timely. Specifically, the audited information has been published as general and reflected reports in the mass media and other methods. In other words, transparency reflects that if the investors have an actual image of what occurs within that company or not? The terms "quality" accounting disclosure and "transparency" a disclosure system are used in a replacing and common mode. Thus disclosure and transparency are so intertwined.

Broberg et al (2010) have provided a model for the measurement of financial disclosure. They offered three criteria for transparent data:

- the right or accessible information
- relevance
- Quality and reliability

Communications equipments of the company focus on providing financial information. The concept can be tested through the Internet, radio, TV, newspapers and other public advertisements. There are limitations in measuring this factor such as the lack of education and knowledge about how users use the data analysis. The second factor is relevance because it is difficult to choose the appropriate information. The third criterion is the quality and reliability and refers to the fact that published financial information must be clear and simpler. This information must also conform to generally accepted accounting principles.

According to Wsish Wanat and Kaufman (1999) transparency can be achieved by at least three ways:

- improving mechanisms (regulatory / legal) related to disclosure of accounting policies so as to further improve the quality and reliability of information will strengthen,
- a safety mechanism designed to limit moral hazard by exposing more
- Legislative and policy institutions to deal with the inevitable problems of information in financial markets.

Gelb and Zarvyn concluded that when the disclosure quality is higher, the current yield provides more information about future earnings.

Factors affecting the quality of disclosure (Setayesh and kazm nejad, 2012)

Company size: larger firms, disclose data with a better quality.

Industry Type: Due to the unique characteristics of companies in a particular industry, different disclosure practices may be adopted than companies in other industries. The adoption of specific disclosure policies for different industries may have effectiveness on the quality of their disclosure.

Company record: companies improve their reporting procedures and quality over time.

Profitability: if a firm with good news of increase in stock market experiences the management Reputation. The opposite is true for firms with bad news.

Singhavi and Desay (1971) believe that profitability is a measure of proper management. Profitable company management provides better quality information to explain its ability in maximizing the shareholders' wealth and supports of the the status and rewards.

Liquidity: Liquidity shows the ability of financial obligations in a company and the probability of bankruptcy and financial distress, firms with low liquidity ratios is more.

Contacts and levels of disclosure:

The amount of data and expert users is effective on the disclosure amount. In addition, the amount of disclosed information depends on acceptable terms of accounting profession. Proposed concepts including adequate disclosure, fair disclosure and complete disclosure. Adequate disclosure refers to the minimum information of users So that the financial statements are not misleading. Fair disclosure means to pursue moral purpose that considers all groups of users. Full disclosure means to provide all the relevant information that shows financial statements and Financial Events of Business units. Some experts believe that full disclosure of the financial information must be observed even there is the probability of complex financial statements. On the other hand, some may believe that the Full disclosure is inappropriate because it may provide unnecessary information. Of course, we should not ignore the fact that providing high information may be dangerous and minor and less important information may cause problems to important information. The level of disclosure provided by the company depends on the availability of other sources.

Abnormal returns that are created through risk last but abnormal returns that are created through inaccurate pricing are not stable (Mashayekh.2010). Information asymmetry in capital markets increases the investment risk for shareholders and a major part of this Information asymmetry is inside information. Holder of inside information can acquire more return than a normal return and basically, obtaining abnormal returns occurs when accurate information

about corporate performance is not present. Ambiguity and uncertainty of information leads to abnormal returns (Haghighat 2011).

Research Background

Andrade, (2009) investigated the relationship between the transparency of financial statements and the cost of debt paid. They presented evidence that shows that increasing the transparency of financial reporting; the company's cost of debt decreases. They improved the quality of financial reporting perceived by investors, causing a significant amount of savings in financial costs are. Young Vkym (2009) investigated the relationship between abnormal returns method of financing, size, and cash payment. Arabmazar, (1390) explained the relationship between the transparency of financial reporting and tax reporting in Iran. They investigated and inquired five groups, including faculty, university auditors, the securities and exchange experts, financial managers and tax auditors and they indicated that there is a positive relationship between the transparency of financial reporting and tax reporting, and if appendices provide tax reporting, financial reporting, financial reporting transparency they will be largely financed.

Diamond and Vrchya (1991) investigated the relationship between disclosure, liquidity and capital cost American companies. The results show that public disclosure reduces information asymmetry and can capture growing demand by large investors to increase stock liquidity, reduce costs, and the company's capital.

Setayesh and Kazem nejad (2012) identified and explained the factors discussed enhancing the quality of information disclosure of listed companies. Results of the study indicate that the quality of disclosure, experienced significant positive correlation, liquidity, profitability, and size of the audit firm and there is such a significant inverse relationship between financial leverage and family ownership of listed companies in Tehran Stock Exchange. Jabbarzade and Asgari (2010) Research identified effective return stock to the public at the initial offering period. The results showed that the independent variables used in the prediction error under general conditions include supply stock market before, the ratio of debt to equity ratio, net profit margin and return on equity and the only variables positive prediction error and general market conditions of supply and the net profit margin ratio inversely are related to return within a month. In addition, none of the independent variables were related to return in 24 months.

Research hypotheses

First hypothesis: there is a positive and significant relationship between the abnormal earnings and abnormal returns.

Second hypothesis: there is a significant positive relationship between the level of disclosure quality and abnormal stock returns.

Statistical society, sample and sampling method

The statistical society of this study is the listed companies in Tehran Stock Exchange. The time realm of the study is years from 2003 to 2011The following criteria have been used for selection of appropriate method:

- It is not among the investment or financial intermediary firms, holdings, banks and leasing.
- In order to ensure comparability, the end of the corporate financial year is (20 March).
- Corporate financial information is available in the understudy period.
- Stock of the companies has been a continuous trade in Tehran Stock Exchange with no more than 1 month trade-off.

After applying the above conditions, finally 303companies equivalent to 2082year/company were selected to evaluate and test the research hypotheses.

MATERIALS AND METHODS

For the analysis of research data and the models, the hybrid approach has been used. Panel data are primarily during the sectional units. Models based on the data type, are called mixed data regression models. In general, models based on this data type, are called mixed data regression models.

Research models:

1-$ARET_{it} = \alpha + \beta_1 AE_{it} + \varepsilon_{it}$

2-$ARET_{it} = \alpha + \beta_1 AE_{it} + \beta_2 DQ_{it} + \beta_3 DQ_{it} AE_{it} + \varepsilon_{it}$

The variables include:

ARET Abnormal returns

AE abnormal profits
DQ Quality Disclosure Score

Definition of variables:
ARET (Abnormal returns)
The return of the stock return minus the average return on equity in the company in that year
AE (abnormal profits)
Unusual interest in the company's accounting profit is equal to accounting profit minus the mean of companies with a market value of shares at the beginning of the year.
DQ (Quality Disclosure Score)
The annual quality ratings of corporate disclosure for listed companies in Tehran Stock have been calculated using Exchange during the years 2003 to 2011.

RESULTS AND DISCUSSION

The results presented show that the (median) return on equity (0/10), accounting profits (0/16), abnormal returns (-0/11) accounting for abnormal profits (0/05) disclosure quality score (0/52 high). Similarly, the maximum (minimum) return 4/52 (-0/79) accounting profits 1/95 (-2/93) abnormal returns 4/11 (-1/25) abnormal profit accounting 1/92 (-3/01) and the quality of disclosure 1/03 (-0/20).

Table 1. Descriptive statistics of research

Minimum	Maximum	Median	Variables
79/0-	52/4	10/0	RET
93/2-	95/1	16/0	E
25/1-	11/4	11/0-	ARET
01/3-	92/1	05/0	AE
20/0-	03/1	52/0	DQ

Definition of variables:
RET Annual stock return
E: Adjusted annual accounting periods beginning market value of company shares
ARET: abnormal returns Inc.
AE: abnormal profit accounting
DQ: Quality score disclosure

The correlation coefficients table
To investigate the existence and the correlation between variables, correlation coefficient tests were performed and the results are presented in Table.
The results presented show that the correlation coefficient between stock returns and variables accounting profit (0/31), abnormal returns (0/96), profit unusual accounting (0/29 and the quality of disclosure (0/11) are at 1% level significant. between accounting profit and variables abnormal returns (0/31), profit unusual accounting (0/99 and the quality of disclosure (0/22) are significant at 1% level. abnormal returns are correlated with earnings unusual accounting (0/30) at the 1% level.

Table 2. Table of correlation coefficients

DQ	AE	ARET	E	RET	variables
				1	RET
			1	***31/0 (00/0)	E
		1	***31/0 (00/0)	***96/0 (00/0)	ARET
	1	***30/0 (00/0)	***99/0 (00/0)	***29/0 (00/0)	AE
1	***23/0 (00/0)	**07/0 (01/0)	***22/0 (00/0)	***11/0 (00/0)	DQ

The results of the research models estimation
The results of model estimation (1) and testing the first hypothesis

To test the first hypothesis of the study, the model (1) is estimated using combined data approach. The lack of statistical significance Lymyr (03/1) indicates that the model (1) is estimated to be bound method. The estimation results of model (1) the method is presented in the table.

The results presented show that the intercept (-0/80) and variable coefficient accounting for abnormal profits (0/60) are both significant at the 1 % level. The index also shows that the independent variables of the model have the variance inflation factor (1-3) with no multicollinearity problem. Fisher statistical significance (364/27) at the 1% level, indicating the overall significance of the research model. Adjusted coefficient of determination indicates that the independent variables explain about 16 % of the variability.

Table 3. The results of model estimation (1)

Index VIF	Significance level	Student t test	Coefficient	Variable
00/1	00/0	94/8-	***08/0-	Intercept
00/1	00/0	87/16	***60/0	AE
			%33/16	Adjusted coefficient of determination
			***27/364 (00/0)	Fisher's exact test (significance)
			00/2	Watson camera statistic
Tying Pattern prefer			03/1 (41/0)	Lymyr statistic (significance)
			---	Hausman test (significance)

The estimation results of model (2) and test the second hypothesis

To test the second hypothesis, the model (2) is estimated using combined data approach. Lymyr statistical significance (1/82) Hausman statistics significant at 10% (13/62) are at the 1% level, indicating that the model (3.4) should be estimated using fixed effects. The estimation results of model (2 is presented in the following table.

Table 4. The results of model estimation (2)

VIF	Significance level	Student t test	Coefficient	Variable
75/4	94/0	07/0-	00/0	Intercept
32/3	01/0	64/2	**17/0	AE
91/4	51/0	66/0-	04/0-	DQ
40/3	00/0	57/6	***10/1	DQ×AE
			%66/11	Adjusted coefficient of determination
			***76/18 (00/0)	Fisher's exact test (significance)
			95/1	Watson camera statistic
Random effects model prefer			*82/1 (07/0)	Lymyr statistic (significance)
			***62/13 (00/0)	Hausman statistic (Meaningfulness)

The results presented show that the variable factor accounting for abnormal profits (0/17) at the 5% level and differential DQ × AE (1/10) is significant at the 1% level. The variance inflation factor index also shows that the independent variable of model (2) has no multicollinearity problem.

Also, the camera Watson parameters (1/95), indicating the absence of first order serial autocorrelation problem in the model is a disturbing element, so it is Pseudo estimated model. Fisher statistical significance (1/76) at the 1% level indicates the overall significance of the research model. Adjusted coefficient of determination indicates that the independent variables explain about 12% of the variability.

The significant positive coefficient of the variable DQ × AE (10/1) shows that there is a positive and significant relationship between abnormal returns and accounting profit. This means you do not reject the hypothesis of the study.

CONCLUSION

In this study, the quality of financial disclosure on the relationship between earnings and stock returns were extraordinary. The first hypothesis of this study suggests that the abnormal earnings and abnormal returns are positive and significant. These results indicate that the factors that led to the extraordinary profits of stock are also involved in the creation of stock abnormal returns led to the creation of extraordinary profits and also possible factors such as the information content of earnings, mental and handling market, information asymmetry, industry focus, lack of accuracy in predicting earnings per share. So companies should be reduced by unusual factors affecting earnings and abnormal returns to work, because the loss is reduced to one another. The second hypothesis of this study showed that there is a positive and a significant relationship between abnormal returns and accounting profit. That means that the quality of information to increase profits and abnormal returns is low. So long as the transparency

of information disclosure quality is more desirable in a disclosure score. In this case, abnormal returns and profits are abnormally low and this factor will lead to better decisions investors.

REFERENCES

Arabmazar Yazdi M and Shaker G. 1982. Increasing the participation of the Board in the formulation of corporate strategy, Knowledge Management, Issue 2.

Ball R abd Brown P. 1968. An empirical evaluation of accounting income numbers, Journal of Accounting Research, 6: 159–178

Haqiqat H and Alavi M. 2011. Studying the relationship between accounting income transparency and stock unusual returns, Journal of Financial Accounting Surveys, Fifth year, first No2.

Jabbarzadeh Kangrloyi. 2010. Identify the factors affecting stock return during the initial offering to the public listed companies on the Stock Exchange, the Financial Accounting Research Journal, Issue 5.

Samadi Largany M. 2010. explaining the relationship between tax reporting and transparency of financial reporting, accounting PhD thesis, Science and Research Branch, Islamic Azad University, Tehran.

Setayesh M and Kazem nejad M. 2011. Journal of Accounting progress Shiraz University ,fourth period, the number of first:49

Yang J and Kim W. 2009. Merger abnormal returns and payment methods of hospitality firms,Journal of HospitalityManagement, Vol:28:579