INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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CONTENTS

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iv

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    INTRODUCTION

    REVIEW OF LITERATURE

    NEED/IMPORTANCE OF THE STUDY

    STATEMENT OF THE PROBLEM

    OBJECTIVES

    HYPOTHESES

    RESEARCH METHODOLOGY

    RESULTS & DISCUSSION

    FINDINGS

    RECOMMENDATIONS/SUGGESTIONS

    CONCLUSIONS

    SCOPE FOR FURTHER RESEARCH

    ACKNOWLEDGMENTS

    REFERENCES

    APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

THE EFFECT OF DISCLOSURE QUALITY ON STOCK TURNOVERS OF ACCEPTED COMPANIES IN TEHRAN STOCK EXCHANGE

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ABSTRACT

In present research, the effect of financial information disclosure on turnovers of listed companies in Tehran stock exchange is studied. The components of disclosure quality rank and announced informing of Tehran stock exchange organization and timeliness of financial statements are chosen as quality criterions of financial information disclosure, and stock circulation rate is also selected as a criterion to evaluate firms' stock turnovers. The statistical population under study consists of 130 corporations among the companies registered in Iran-Tehran Stock Exchange during the period 2005-2011, other than investment and financial intermediation companies. To test the research hypothesis, multi-variable regression methods were applied. Research results indicate a direct linear significant relation between disclosure quality rank and stock turnovers, as well as a significant inverse relation between financial information disclosure timeliness variable and stock turnovers.

KEYWORDS

Disclosure Quality, Timeliness, Stock Circulation Rate, Stock Turnovers.

INTRODUCTION

The main role of financial reporting is effective transferring of information to extra-organizational individuals in a valid and timely manner. Managers can utilize their knowledge about company's commercial activities, to improve financial statements effectiveness, as a tool for transferring the information to investors and potential creditors. However, if managers have motivations to mislead financial statements users through their powers in accounting selections at financial reporting, then it is likely to occur profit management.

According to agency theory, managers as shareholders agents may operate in such way or make decisions which are not necessarily in line with maximizing shareholders wealth. Based on this theory, there must exist sufficient controlling or monitoring mechanisms to protect the shareholders against conflict of interests. Transparency of financial statements and quality of presented information disclosure is considered as a practical strategy. Transparent and qualitative flow of information leads to reduce information asymmetry [9].

PROBLEM STATEMENT

Importance and reliability of financial information for interest groups' decision-making in today' world is clear to all. The significant point is that information needs of users about financial statements are different. Presenting the information through appropriate disclosure in financial statements will be useful in users' decision-making process to the extent that provides prediction of profit trend, profitability continuation, management performance and so on.

Disclosure is an accounting principle which affects all aspects of financial reporting. Disclosure principle demands that all important facts related to financial activities and events of commercial unit must be reported completely. According to this principle, basic financial statement should include all important, relevant and timely information, and this kind of, and this kind of information must be perfect and intelligible to provide a wisely decision-making for users. On the other hand, presented information should not mislead users of financial statements in terms of quantity and quality [2].

On the other hand, stock's liquidity is an important topic in stock dealings at capital markets as well. For investors of an assured liquidity level, it is necessary to be traded in desired volume without any prices reduce. Liquidity role in stock pricing is also significant, since shareholders consider this fact that it they want to sell their stock is there any suitable market for them or not [8]?

Whatever stock's liquidity is less, then that stock will be less attractive for investors [8]. Empirical evidences indicate the factor of liquidity can play an important role in stock dealings at capital market. Some investors may need their financial investment resources immediately, which in such cases, stock liquidity power can have a notable role in stock dealings.

Proper decision-making for investment in financial agencies and optimum allocation of rare resources in society requires financial information which is clear and comparable. Existence of clear and comparable information is key element for answering and wisely economic decision-making, and is one unique requirement of economic growth in private and public sectors. Lack of information or existence of misleading information, will cause backwardness and economic poverty and public welfare reduce. Financial information users, especially investors, need financial information to make decisions about stock's buying and selling, managers' performance evaluation and other important economic decisions, and investors will invest in a capital economic unit, if they have enough information about them [10].

In this study, the main purpose is to investigate the effect of financial statements disclosure quality on stock turnovers of companies listed in Tehran stock exchange, and it is important, since shows this fact to managers, investors and other decision-makers that conservatism or non-conservatism of managers in important information disclosure, must be considered in financial and investment decisions.

LITERATURE REVIEW AND EXTRACTION OF HYPOTHESES

Information asymmetry due to agencies relations necessitates information disclosure demand. According to asymmetry economic theory, information disclosure will reduce both asymmetry and capital cost. Since information disclosure mostly leads to more liquidity, less trades' cost and eventually more stock demand [3]. Based on studies of Leuz and Wysocky in 2000, more information disclosure reduces information asymmetry and makes more liquidity.

Benston and Hojerman (1974), have performed a research entitled as "Determination of buying and selling's offered price difference of stock in market". They have examined price difference of month's end related to 314 companies. They specified their model in a logarithmic form. Absolute price difference was

inserted to model as dependent variable. Shareholders, price of each stock, special deviation and quantity of dealers were considered as independent variables. They have reached to this result that all determiner factors of price difference will enter the regression with expected sign and they all are statistically significant [5].

Chong et al. (2008) investigated the relationship between corporate governance and market liquidity using the index of financial and operational transparency. Mentioned index is based on 24 selected governance standards among standards of shareholders services institute, and is an institution which has more connection with financial and operational disclosure of company. They also utilized standards such as price gap, price effect and dealings probabilities based on information (final) to evaluate liquidity, and they found out that the companies with better governance, narrower price gap and greater market quality index will have the least price effect of turnovers and dealings probability reduce on basis of final information [6].

Bani mahd et al. (1389), timely presentation of information to stock exchange organization was considered as main factor of companies rankings by stock exchange in this research, therefore, time period between date of financial statements provision and date of audit was considered as dependent variable. Results of research indicated that disclosure rank has a positive and significant relation with company size and type of industry. But it has a negative significant relation with auditor's report and stock ownership percentage. No relation was seen between assets yield, financial leverage, auditors' type and commercial unit type with disclosure rank [4].

Fakhari et al. (1388) have performed a research entitled as "study of information disclosure effect on stock liquidity of listed companies in Tehran stock exchange". In this research, difference between the average of sell offered price and the average of purchase offered price was used as liquidity standard. Companies' disclosure quality rank based on accounting standards was also considered as independent variable. Results indicated that there is a reverse significant relation between information disclosure and liquidity index [8].

Ahmadpour and Rasaeian (1385) have studied the relation between financial information and stock's buying and selling offered prices difference in Tehran stock exchange in their research entitled as "study the difference of stock's buying and selling offered price in Tehran stock exchange". Results indicated that independent variables of this research including: daily frequency of dealing, trade days' percentage, volume of stock daily dealings in term of Rials (monetary unit in iran), daily circulation of company's stock, stock price, company's market value, market beta and price changeability will measure more than 51 percent of variations in difference of stock's buying and selling offered price [1].

RESEARCH QUESTIONS AND HYPOTHESES

In this study, we are seeking to answer the following question:

Do the Disclosure Quality affect the Stock Turnovers?

In order to conduct this investigation and to answer the proposed question and considering the results achieved by the previous studies, the following hypotheses are formulated:

H1: hypothesis: the Disclosure quality rank of the companies is significantly effective on the Stock circulation rate.

H2: hypothesis: the Timeliness of financial information disclosure of the companies is significantly effective on the Stock circulation rate.

RESEARCH METHODOLOGY

The research method is deductive and inductive and the correlation is cross-sectional in terms of test statistical method.

In order to study hypotheses, multi-variable regression method has been used. Equations used in this research are as follows:

$CS = \beta_0 + \beta_1 DQ + \beta_2 TIMELINESS + \beta_3 FL + \beta_2 T + \beta_4 SIZE + \text{€}_t$

DQ: Disclosure quality rank

TIMELINESS: Timeliness of financial information disclosure

FL: Financial Leverage

T: Turnovers

SIZE: Company size

€: Residual error

POPULATION AND SAMPLE

The sample of this study includes 130 companies among all the companies registered in Tehran Stock Exchange which have been randomly selected with respect to the following conditions:

They should be registered in TSE within the period of research.

Its fiscal year shall be finished before 20th March (end of Esfand in Georgian Calendar).

It shall not be of the investment and dealer companies.

VARIABLES

In present research, two independent variables of disclosure quality rank and financial information timeliness, and one dependent variable of stock liquidity, and three control variables of financial leverage, turnovers and company are considered which will be discussed in following.

INDEPENDENT VARIABLE

DISCLOSURE QUALITY RANK

Considering importance of disclosure quality and companies' managers' responsibility in informing, Tehran stock exchange decided to reflect to market the rank of all exchange accepted companies from aspect of "disclosure quality and appropriate informing". Then companies will be aware of their own positions and will try to promote their positions. Disclosure quality points of accepted companies for 3, 6, 9 and 12 months periods are calculated and published by stock exchange organization for the years of after 2003. These points will reflect exchange evaluation about awareness of company's disclosure. Mentioned points, will be calculated based on weight average of the standards of timeliness and exposed information reliability. Evaluated information, are based on information disclosure regulations in exchange including annual financial statements, 3, 6 months midterm (audited) financial statements, 9 months midterm financial statements and predicted income of each stock in time periods of 3, 6, 9, 12 months [13].

In this research, annual points of disclosure quality and informing are utilized, which were calculated for accepted companies of Tehran stock exchange through years of 2005-2011 by Tehran stock exchange organization.

TIMELINESS OF FINANCIAL INFORMATION DISCLOSURE

Timeliness is one important qualitative index of financial information. Timeliness means information must be received by users in shortest time and in a fastest way. Whatever time period between financial year end and date of commercial units' financial statements' publication is shorter, then obtained profitability of audited financial statements will be more [12]. If this time period increases, the probability of information disclosure increases, in favor of one group of users and against others. In this research, the difference between company's financial year end and date of financial statements approve by auditor, is used as information timeliness index.

Timeliness = presentation date of financial statements – financial year's end date

DEPENDENT VARIABLE

STOCK CIRCULATION RATE

Dealings volume on stock in a specific time period is a criterion to show this stock's liquidity. Liquidity means market ability in attracting great volume of dealings without high vibrations of price. In general, liquidity depends on deepness, width, flexibility and also dealings' speed in market. Lots of substitute variables are introduced for liquidity such as traded stock value, traded stock quantity, traded stock volume, stock circulation rate and difference of stock's buying and selling offered price. One important criterion of a stock's liquidity value is stock circulation rate which is obtained from dividing traded stock volume in a time period by quantity of published stock. Advantages of using stock circulation rate as liquidity criterion are as follow [7]:

1.   This criterion has strong and powerful theoretical foundations.
2.   It is easy to find data related to circulation rates of turnover, and provides possibility to calculate assets liquidity month by month.

Therefore, stock circulation rate in this research, is the criterion to evaluate dealings amount and stock liquidity which is obtained by following relation:

Stock circulation rate = $\dfrac{\text{Traded stock volume through the year}}{\text{Quantity of published stock through the year}}$

CONTROL VARIABLES

FINANCIAL LEVERAGE

Accounting method are related to financial leverage, since an important criterion for creditors (In Iran, Banks), is companies' liability rate. Therefore, whatever companies' liability rate is higher, companies' tendency to use conservative methods will be less. Thus, it is expected that managers be less conservative in their financial statements to reduce probability of load demand rejection and to prevent higher interest costs. Financial leverage is also one of those rates that shows company's risk, and can affect stock liquidity. Therefore, this variable is determined as control variable. In present research, financial leverage is defined as follow:

Financial leverage = $\dfrac{\text{Total debts}}{\text{Total assets}}$

TURNOVERS

Dealings volume (turnovers) is on important indicator of boom and stagnation and also liquidity in stock market. Therefore, change of this index, which is mostly affected by economic macro-factors such as financial policies, inflation and so on, is always attractive for researchers. Barckley and Kandle and Marks (1998) have stated that liquidity is influenced by turnovers and stock dealings frequency. In present research, turnovers mean average monetary unit value of performed dealings on a stock in research time period.

COMPANY SIZE

Since company size, can affect their information disclosure or non-disclosure by their management or shareholders, then this criterion is considered as on control variables of this research. In this research, common logarithm of company's assets is considered as index of this criterion, which is defined as follow:

SIZE = LN (Total Assets)

RESULTS

Considering table 1 which shows descriptive statistics of the study, it is found that skewness coefficients of variables of Stock Circulation Rate, Disclosure Quality Rank, Timeliness, Financial Leverage, Turnovers and Company Size which are 2.039, -0.220, 0.361, 0.6454, 10.228 and 0.723 respectively show that because all variables except Turnovers is close to 0.5(symmetry proportion) , their skewness is low. Kurtosis coefficients of these six variables are 5.591, -0.940, -1.148, 57.700, 134.774 and 2.316 respectively and show that because variables of Stock Circulation Rate, Disclosure Quality Rank, Timeliness, Financial Leverage, and Company Size are close to 0.5 (Kurtosis proportion), they show lower dispersion and are closer to normal and Turnovers variable are longer than normal distribution.

TABLE 1: DESCRIPTIVE STATISTICS

Variables	Maximum	Minimum	Median	Variance	Skewness	Kurtosis
Stock Circulation Rate	524.17	33338.63	4460.75	1.715E7	2.039	5.591
Disclosure Quality Rank	-16	99	54.47	667.995	-0.220	-.940
Timeliness	-69	366	162.49	9074.979	0.361	-1.148
Financial Leverage	35	16.16	0.9674	1.573	0.6454	57.700
Turnovers	60	2.19E9	3.1939E7	1.783E16	10.228	134.774
Company Size	8.76	18.30	12.4272	1.831	0.723	2.316

Statistical Results of Hypotheses: In order to test hypotheses, Pearson correlation coefficient and, multi-variable linear regression have been used. In order to ensure reliability of the results, presupposition tests of using regression model have been used.

Residuals Normalization Test: Statistic of this test is calculated in picture 2 and its value is equal to 1.832 while statistic of this test between 1.5 and 2.5 is suitable. It can be concluded that errors are independent of each other and regression model can be used for testing hypotheses.

TABLE 2: RESIDUALS NORMALIZATION TEST

Normality test data	Standardized Residual **-** Sig	Results
Durbin-Watson	1.832	Normal
One-Sample Kolmogorov-Smirnov Test	0.561	Test distribution is Normal

Kolmogorov-Smirnov Test: It is a nonparametric test which is formulated through the following hypotheses.

H_0: Data are normal.

H_1: Data are not normal.

In case statistic value is Sig>5%, statistical hypothesis of normal distribution of the studied variable is accepted with confidence of 95%. Statistic of this test is calculated in table 2 because Sig>5%, and is equal to 0.561. Therefore, null hypothesis is accepted and as a result, data follow normal distribution.

THE STATISTICAL RESULTS OF FIRST HYPOTHESIS

The Disclosure quality rank of the companies is significantly effective on the Stock circulation rate.

Considering the relationships so resulted, it was demonstrated that the correlation between The Disclosure quality rank and the Stock circulation rate. Correlation coefficient of this variable is 0.245 and its coefficient of determination is 0.088; it means that about 8.8% of the Disclosure quality rank changes are explained by the Stock circulation rate.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT   84

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TABLE 3: STATISTICAL RESULTS SUMMARY OF HYPOTHESES

Dependence Variable		Dependence Variable	
Model Enter		1	2
Stock circulation rate		**Disclosure Quality Rank**	**Timeliness**
Correlations	Sig	0.000	0.022
	Pearson	0.245	-0.079
Model Summary	R	0.297	0.221
	R Squared	0.088	0.049
	Adjusted R Squared	0.083	0.043
ANOVA	F	15.583	8.147
	Sig	0.000	0.000
Coefficients	Beta	0.229	-0.108
	t	5.912	-2.756
	Sig	0.000	0.006
Hypothesis Rejection or Confirmation		Confirmation	Confirmation

Significance Test of Coefficients: This test, in addition to determining the significance of coefficients, specifies their impact direction of those coefficients on dependent variable. The statistic related to the significance of coefficients is the t statistic, instead of which the Sig column can be used. After confirmation of coefficients significance, both direction and amount of each independent variable effect on the dependent variable can be determined using the calculated coefficients in Beta column*.

H_0: β = 0

Disclosure quality rank has no effect on Stock circulation rate*.

H_1: β ≠ 0

Disclosure quality rank has effect on Stock circulation rate*.

The Sig column of the table 3 shows that Sig statistic rate for the Disclosure quality rank variable is equal to 0.000 Since the error level for this study has been considered as 5%, then the Sig<0.05 and t>2; thus this variable is significant and the first research hypothesis is confirmed and it may be said that the Disclosure quality rank variable has been directly and significantly effective on the Stock circulation rate.

STATISTICAL RESULTS OF SECOND HYPOTHESIS

The Timeliness of financial information disclosure of the companies is significantly effective on the Stock circulation rate.

Considering the relationships so resulted, it was demonstrated that the correlation between the Timeliness and the Stock circulation rate. Correlation coefficient of this variable is -0.079 and its coefficient of determination is 0.049; it means that about 4.9% of the Stock circulation rate changes are explained by the Timeliness of financial information disclosure.

SIGNIFICANCE TEST OF COEFFICIENTS

H_0: β = 0

Timeliness of financial information disclosure has no effect on Stock circulation rate.

H_1: β ≠ 0

Timeliness of financial information disclosure has effect on Stock circulation rate.

The Sig column of the table 3 shows that Sig statistic rate for Timeliness of financial information disclosure variable is equal to 0.000 Since the error level for this study has been considered as 5%, then the Sig<0.05 and t>2; thus this variable is significant and the first research hypothesis is confirmed and it may be said that the Timeliness of financial information disclosure variable has been inversely and significantly effective on the Stock circulation rate.

ANALYSIS AND INTERPRETATION OF THE RESULTS

In present study this question is discussed that does financial statements provision in such way that is first timely and reliable in term of reporting aims, and second, is comparable and intelligible and helps financial statements users in wisely decision-makings, affect market liquidity and tendency to buy company's stock?

Based on research results we have following conclusions:

1. Results of first assumption test indicated that quality rank which is annually announced by Tehran stock exchange organization, can have a significant effect on shareholders tendency to buy or not-buying of their stocks. Existence of positive relation means managers decisions to observe disclosure cases of operational instructions of stock exchange accepted companies, can have straight significant effect on stock market turnovers. Thus, attaining a higher rank of transparency ranking and Tehran stock exchange informing, can directly affect stock turnovers. Therefore, shareholders must consider transparency rank and companies' informing in their stock buying so they can attain more value by investing in high-ranked companies. Company managers can also affect stock turnovers well by their decision-makings in special conditions.

2. In second assumption which the relation between criterion of financial information disclosure timeliness and market liquidity is examined, results indicated that timeliness criterion of financial statements presentation has inverse significant effect on market liquidity. This means that by increasing days between date of financial year date and date of audited financial statements presentation, stock's dealings volume will decrease, and shareholders less tend to purchase these companies' stock. In other words, shareholders prefer that these companies deliver their financial statements of year's end in shortest possible time. This has and important role in stock' buying and selling.

FURTHER SUGGESTIONS TO THE RESULTS OF THE STUDY

Considering result and achievements of research, one can specify the following cases regarding the applied fields:

1. Shareholders which follow achieving more value from their investment must consider companies' disclosure rank announced by Tehran stock exchange in their investment choices, and should invest in companies which have higher ranks. Since on one hand, price of these kinds of stocks which have an appropriate information disclosure, is valuated more close to real prices at any possible time, and on the other hand, if there is any need of liquidity, it can sell its stock faster.

2. It is expected that shareholders, while decision-making, consider companies financial reports and financial statements timely disclosure. This can be important for shareholders in value incensement, since based on present research's results, the companies which present their financial statements in a time period longer than financial year's end, will decrease capital market and shareholders tendency to buy their stock. So these companies are not appropriate choices for investing.

3. Companies' managers are suggested to present their reports and financial statements in shortest time as much as possible, therefore capital market attracts to by their companies' stock and their annual stock dealings will increase.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT   85

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FURTHER SUGGESTIONS FOR FUTURE STUDIES

1. In this research, stock circulation rate is utilized as liquidity criterion of market. It is possible to use other liquidity models such as traded stock value, traded stock quantity, traded stock volume, stock circulation rate and difference of stock's buying and selling offered price, and compare their results with this research's results.
2. It is possible to divide companies in term of ownership type (external ownership, shared ownership, management ownership, governmental ownership, real ownership and institutional ownership), and to study their effects on information disclosure.
3. It is possible to re-perform this research by using time delays and study the effect of delay increment on improving model's predictability.
4. Since validity and reliability of a research are higher when a research time interval is longer and its results are generalized more reliably, it is advisable to perform the research again for longer time interval, which can provide more accurate results for the research.

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86

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