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The Relationship between the Board's Dependence and the Quality of Disclosure and Announcement in the Listed Companies Accepted in Tehran Stock Exchange

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ABSTRACT: The purpose of this research was to investigate the relationship between the board's dependence and the quality of disclosure and announcement in the listed companies accepted in Tehran stock exchange. Accordingly, information related to 94 companies accepted in stock exchange for the years 2008 to 2013 was used. In order to analyze the data, combined data has been used and results have been analyzed using multivariate regression. The research results showed that there was not a significant relationship between disclosure quality and dependence presence of the board's members.

Keywords: Tehran Stock Exchange, Disclosure Quality, Dependence of the Board's Members.

INTRODUCTION

A company's board plays a determining role in company's performance as the mastermind and the main performers of its activities. This group, which do the necessary policy making to improve the conditions based on their knowledge and experiences as the main operators and managers of a complex, also, actually manage the shareholders (Foroughi and Olad-Hossein, 2011). The reason of this issue has been originated from two sources: the board is consisted from shareholders and their elected members. So, it tries to attract the majority of shareholder members' attention (Fan et al, 2007). Shareholders make decisions as the most important and reliable sources, based on the published information by the board. So, according to the fact that information is provided only with the order of this group, the shareholders and investors' decision-making can be managed by the information providing management (Kashanipour & Rasaeian, 2009). Therefore, the present research investigated the relationship between the board's dependence and the quality of disclosure and announcement in the listed companies accepted in Tehran stock exchange.

METHODOLOGY

The research method was correlation- descriptive. The studied population included all the companies accepted in Tehran stock exchange between the years 2008 to 2013, which through systematic elimination method, all the companies of statistical population which have had the following conditions have been regarded as statistical sample and those companies which have not had these conditions have been eliminated from statistical sample, respectively. These conditions are as following:

1- Companies which their information exists during the research period (beginning of 2008 to the end of 2013).
2- They should not be financial intermediation and investment companies.
3- Companies which have been traded regularly and have not a pause in transactions for a long period (a three-month period according to the experts' opinion)
4- Their financial year should be ended to solar year.

By applying the abovementioned criteria, 94 companies have been selected as samples. Related data has been extracted from financial statements, activity report and other information software. Data analysis has been done using Excel software and Eviews statistical software. The dependence of the board was the independent variable and the quality of information disclosure was the dependent variable. The control variables were total assets, operating cash flow, company's net sales, company's size, financial leverage, company's age, price of company's stock, and Tobin's Q ratio. The following regression model was used to meet the research goals:

$$ABCFOit = a0 + a1BETAit + a2SIZEit + a3BMit + a4SPREADit + eit$$

$$TRIit=\alpha + \beta 1\ nINDDit + \beta 2\ Sizeit + \beta 3\ Levit + \beta 4\ logageit + \beta 5\ logpit + \beta 6\ Qit + \varepsilon it$$

Also, in order to measure the abnormal cash flow, the following model was used, so that the result of the model is used as the abnormal cash flow in the previous model:

$$Cfoit/Ait-1 = a0 + a1\ (1/Ait-1) + a2\ (Sit/Ait-1) + a3(dSit/Ait-1) + eit$$

CFO equals operating cash flow inserted in cash flow statement. A equals all total assets. S is the company's net sales and equals the first number in income statement. Size is the result of assets' natural logarithm. Beta is the covariance of company's stock return and market's portfolio divided by the variance of market's portfolio (this data is extracted through Rahavard Novin software). Spread is the measure of information asymmetry (the range between the lowest bid price and the highest ask price), which this amount was calculated using the stock's three-month average price.

$$spread = \frac{(\mathrm{AP} - \mathrm{BP}) * 100}{(\mathrm{AP} - \mathrm{BP})/2}$$

AP variable equals the highest amount of stock's three-month average of ask price. BP is resulted from the least amount of three-month average of bid price. NINDD equals the board's dependent members. Lev is the financial leverage, which is calculated from the ratio of debts to assets. Logage equals the natural logarithm of company's age. Logp equals the natural logarithm of the last price of company's stock at the end of the financial year. Q is the result of the ratio of company's current value to the book value. Regression, F fisher test, t significance test, and Hausman test were used in order to analyze data. Also, in order to select between the methods of panel data and integrated data, the F-limer test was used. For testing lack of autocorrelation, the Durbin-Watson test was used. For testing the lack of heteroscedasticity, the White test was used. Also, for testing the sustainability of variables, the Fisher test was used.

RESULTS

The results, related to the investigation of the relationship between the number of dependent members of the board and the quality of information disclosure, are shown in table 1. With regard to the last column of the table, the amount of VIF was less than 5 (VIF<5) for all independent variables. So, there was no linearity between independent variables. Therefore, the fitted model was valid. With regard to the probability of calculated F statistics (0.000000), it could be claimed that the fitted regression model was significant. The estimated coefficient for the independent INDD variable in the table showed no significant relationship between the board's dependence and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained more than 0.05. So, it could be said that there was no significant relationship between the ratio of the board's dependence and disclosure quality at the confidence level of %.95. The estimated coefficient for the independent SIZE variable in the table showed a positive significant relationship between the company's size and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained less than 0.05. So, it could be said that there was no significant relationship between the ratio of the company's size and disclosure quality at the confidence level of %95. The estimated coefficient for the independent LEV variable in the table showed a positive significant relationship between the financial leverage and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained less than 0.05. So, it could be said that there was no significant relationship between the ratio of the financial leverage and disclosure quality at the confidence level of %95. The estimated coefficient for the independent LOGAG variable in the table showed a positive significant relationship between the logarithm of company's age and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained less than 0.05. So, it could be said that there was a significant relationship between the ratio of the logarithm of company's age and disclosure quality at the confidence level of %95. The estimated coefficient for the independent LOGP variable in the table showed no significant relationship between the logarithm of stock's price and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained more than 0.05. So, it could be said that there was no significant relationship between the ratio of the logarithm of stock's price and disclosure quality at the confidence level of %95. The estimated coefficient for the independent Q variable in the table showed no significant relationship between the Tobin's Q ratio and disclosure quality at the error level of 0.05, because the amount of calculated p-value for the coefficient of this independent variable of the research has been obtained more than 0.05. So, it could be said that there was no significant relationship between the ratio of the Tobin's Q ratio and disclosure quality at the confidence level of %95. With regard to the determination coefficient of the fitted model, it could be claimed that about %64 of changes in dependent variable of the model have been explained by independent variables.

Table 1. Summary of statistical results.

Variable	Coefficients	Standard Deviation	T Statistics	Level of significance (sig.)	VIF
y-intercept ©	-5.28225	0.59487	-8.87967	0.0000	------
Board's Dependence (INDD)	-0.00538	0.010268	-0.52428	0.6003	1.23
Company's Size (SIZE)	0.124986	0.056257	2.221681	0.0267	1.35
Financial Leverage (LEV)	0.300785	0.146731	2.049911	0.0408	1.25
Company's Age (LOGAG)	0.897268	0.157573	5.694285	0.0000	1.09
Logarithm of Stock's Price (LOGP)	0.092059	0.064447	1.428446	0.1537	1.24
Tobin's Q Ratio (Q)	0.000	0.398026	0.6908	1.05	1.05
F Fisher Statistics (level of significance)	10.13035 (0.000000)	Durbin-Watson Statistics		1.716973	
Determination Coefficient	0.643752	Balanced Determination Coefficient		0.580205	

DISCUSSION AND CONCLUSION

The purpose of this research was to investigate the relationship between the board's dependence and the quality of disclosure and announcement in the listed companies accepted in Tehran stock exchange. The results showed no significant relationship between the board's dependence and disclosure quality. This result was in contrast with the research findings of Noravesh and Hesarzadeh (2012) and Hejazi et al (2010). This finding indicated the issue that disclosure quality in listed companies accepted in Tehran stock exchange has not been related to the managers' activity type of the company and has not been influenced by the board's structure. Due to the fact that the preparation and presentation of company's financial statements have been available and the responsibility of company's board, it has arose a question in researcher's mind about this issue and therefore, overall investigations have been done about the discussed issue and the reason of achieving this goal, which their results are explained in the following. In this regard, many reasons could be stated as the reasons for the disapproval of this relationship. According to the researcher, one of the most important reasons for these findings was the fundamental weakness in correct measurement of information transparency. According to the issued notifications by Tehran stock exchange about information transparency, the necessary explanations have not been induced to the audience and therefore, the effectiveness of these changes has not been visible for the researcher. Another possible reason for its disapproval has been the emergence of corporate governance system in Tehran stock exchange and lack of full implementation of this instruction until the date of this research and most probably, lack of the role-playing of the dependent board in company's meetings and also in managing company's affairs. Based on the investigation of a large number of financial statements and according to the auditors, the board's meetings have not been held regularly. So, these individuals had not the chance of active participation in managing company's affairs and in addition, they would remain unaware of company's general issues. Investors are recommended to consider the findings of this research as a top activity in decision-making time and pay special attention to comparative information. Also, they are recommended to consider the ranking of companies' disclosure quality as an important issue and always look for receiving the message of these changes, because the reduction of disclosure quality in a company could be due to an important problem or ambiguity which the company tries to hide it through not disclosing the sufficient information.

Conflict of interest

The authors declare no conflict of interest

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