Journal of Scientific Research and Development 2 (3): 1-4, 2015
Available online at www.jsrad.org
ISSN 1115-7569

The impact of profit quality on information disclosure in petroleum companies listed in Tehran Stock Exchange

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Abstract: Disclosure poses as one of the principles of accounting and based on this principle, all information related to company activities should be placed for different groups of users in proper way and in time. In fact, the main objective of disclosure consists of helping to users in making decision related to investment, interpretation of companies' financial condition, evaluating the management performance, predicting future cash flows. In this context, all the important facts of economic unit should be disclosed in proper and fully way to prepare the possibility of making decision and prevent confusion. Based on this context, the objective of this research is to study the impact of effective factors on information disclosure in petroleum industries of Tehran Stock Exchange during the period of the years 2006 to 2013. The results indicate that the profit quality variable has had positive and significant effect on dependent variable of information disclosure. Diversity variable on information disclosure is positive and significant, on the other hands, with increasing diversity variable and somehow competition among existing companies, information disclosure for asymmetry and reducing their costs will increase. The impact of information asymmetry on information disclosure is positive and significant. The impact of company size variable, sales growth variable, debt ratio variable, company age variable and audit quality variable on dependent variable of information disclosure has been positive and significant.

Key words: Profit quality; Information disclosure; Petroleum companies

1. Introduction

Disclosure should be related and on time through legal reports include basic financial statements which contains all important information and these information offer somehow understandable and possibly complete to prepare the possible of making consciously decision for users. One of the main objectives of providing required information for decisions is information disclosure. In fact, information disclosure contains all financial processes. The aim of information disclosure in financial reporting is providing necessary information for evaluating the performance of unit profit, judgments about the use of profit unit from available resources, and predicting profitability process of profit unit in future. Lack of information transparency and ambiguity in reporting may lead to suspicion and unethical behavior in order to reduce the value of the company. Information which present in disclosure should not be such in terms of quality and quantity that provide confusion for users of financial statements. Generally, disclosure can be divided into two basic sectors: compulsory disclosure and voluntary disclosure. If the management can present better guidance in connection with the company's goals and future prospects and optimum use of the resources at its disposal with disclosing the additional and voluntary information and shows the clearer picture of the current situation, in this case, investors and other users of financial statements can be aware of management measures and their criticism on performance of the institution is resolved and they become hopeful about the future of the institution.

Nowadays, the management of profit is one of the most controversial topics of the researches and because investors pay special attention to the rate of profit as an important factors in making decisions, therefore, information disclosure and profit management help investors in making proper decisions and since the improvement of disclosure quality causes to reduce the absence of information asymmetric and absence of information asymmetric has less profit management.

The objective of this research is to study the amount of effect of profit quality on information disclosure in petroleum companies listed in Tehran Stock Exchange during the period of the years 2006 to 2013.

2. Theoretical principles of the research

There are two explanations for explaining the relationship between quality of reporting and information disclosure. These explanations refer to various aspects of the casual relationship between these two variables. The first explanation is based on the company tendency for minimizing the negative

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effect of absence of information asymmetry. In the absence of costs related to the information disclosure, individual disclosure of information can lead to gain the individual profit (Spence, 1973). Therefore, companies are willing to disclose the require information in voluntary way to reduce the absence of information asymmetry by this way and reduce the costs of branch (Jensen and Mac Ling, 1976; Grosman, 1981; Milgroom, 1981; Hags, 1986; Mooris, 1987). The management can increase the profits obtained by information disclosure with improving the quality of reporting published by company. However, because the number of reports (e.g. Balance sheets and profit and loss account) is too generaland if companies do not try to present information in reports truly and impartially to show the company's situation very well, there will be the possibility that there is not enough reliability of whether the available resources are allocated efficiently or not. Disclosure of information leads to reduce the absence of information asymmetry and facilitate the improvement of resource allocation. In addition, other experimental researches show that disclosure of information has led to reduce the absence of information asymmetry and decrease the costs of branch (Greecnten and Sami, 1994; Hoop et al, 2009; Bennis and Moonhan, 2004; Burger an Han, 2007; Thomas and Hoop, 2008; Wang et al, 2011). Consequently, the first explanation about this shows the positive relationship between the number of reports and information disclosure which shows the companies those show high profit quality can reach decreasing the absence of information asymmetry and costs of branch and also they have high motivation to disclose a part of information to offer comprehension information to investors that is suitable for their decisions. Also, the management of the companies who present high profit quality can increase the value of their companies (e.g. with reducing the capital cost and or reducing branch costs). The other categories of explanations are supporting the fact that the casual relationship flows between these two variables by profit quality to disclose a part of information in way that the improvements made in the environment of information (e.g. better profit quality) increases motivation of managers to disclose information and this way the activists in market are less likely to interpret the lack of information as a bad news (Dvay, 1985; Jang and Woon, 1988). This explanation also is supported by Lafvand and Ets (2008) which expresses that the richer information environment is in favor of other information resources.

While the previous discussion suggests that profit quality leads to increase the disclosure of information; if the specific costs in this field are considered, this view may be changed. It seems logical to assume that despite the specific costs related to the disclosure of information about the quality of profit, the high profit quality can lead to reduce the disclosure part of information.

Fransis et al (2008) and Wang et al (2011) have dealt with the study of relationship between profit quality and disclose the part of information, but they have not dealt with whether profit quality can be determination factors of information disclosure or not. The available explanations in relation with casual relationship (between the quality of profit management in before and disclose part of information in present) seems to indicate this issue that information disclosure is useful only when companies are committed and transparent and otherwise they cannot manage profit. So, it is possible to disclose the information just when companies are not committed to manage their profit. These findings are consistent with the obtained results of Lafvand and Wats (2008) study which mention that it is only possible to disclose the more information in improved information environment. This casual relationship about the information disclosure is a case that presents in financial literature.

However, other studies argue that the casualty relationship may be existed of profit quality toward the number of reports. With complete disclosure of information and until when disclosed information is correct, it is easier to monitor the choices made by manager, and therefore, the profit management is more difficult (Hantoon et al, 2006). This finding is also consist with Joe and Kim (2007) obtained results which mention that companies those disclose more information, do less work for managing profit and Deiring et al (2012) also mention that companies those control their profit by foreign operation, monitoring them is more difficult. This causal relationship also can be effective and beneficial for choosing better accountant and management.

3. Research model

The model used is derived from the article of Blanco, Lara and Trybo (2014) in this research and it is as follow:

$$\begin{aligned} Qtt\_Seg_{j,t} = {} & \alpha + \beta_1\ Earnings\ Quality_{j,t} + \beta_2\ Business\ Diversification_{j,t} \\ & + \beta_3\ Geographic\ Diversification_{j,t} + \beta_4\ Information\ Asymmetries_{j,t-1} + \beta_5\ Size_{j,t} \\ & + \beta_6\ Growth_{j,t} + \beta_7\ Leverage_{j,t} + \beta_8\ Audit\ Firm_{j,t} + \beta_9\ Listing\ Status_{j,t} \\ & + \beta_{10}\ Proprietary\ Costs_{j,t} + \beta_{11}\ NewFinancing_{j,t} + \beta_{12}\ Profitability_{j,t} + \beta_{13}\ Age_{j,t} \\ & + \Sigma_k \beta_k\ Control\ year_{k,j,t} + \varepsilon_{j,t} \end{aligned}$$

Dependent variable: information disclosure

Independent variables: profit quality, diversity, information asymmetry, size, sales growth, the debt ratio, audit quality, profitability index, company's life and year.

4. Model estimation

To do this research, in order to estimate the parameters of the model, it will use the ordinary least square method and this method is on this assumption that dependent variable of the research has normal distribution, in a way that abnormal distribution of dependent variable has led to violate from the assumptions of this model for estimating parameters and it does not present correct results. Hence, it is necessary to test the distribution normality of this variable. Normality of remains of regression model is one of the regression assumptions which shows the validity of regression tests, therefore, normality of dependent variables leads to normality of model remains (differentiate of estimated amount from real amount).

Table 1: the results of research dependent variable normality test

Variable	Statistic(K-S)	Sig.
Information disclosure	3.452	0.001

According to the issue that for dependent variable of this research, the significance level of statistic K-S is less than 0.05, therefore, the H_0 hypothesis based on distribution normality in the ensure level of 95 percent is rejected and it indicates that dependent variables of this research do not have normal distribution.

Obtained results of K-S test after normalization process of data are as follow:

Table 2: the results of research dependent variable normality after normalization process

Variable	Statistic(K-S)	Sig.
Information disclosure	0.458	0.275

According to the table 2, since that after data normalization the significance level (Sig) of KolmogorovSmirnoff statistic for dependent variables is higher than 0.05, therefore, the H0 hypothesis in the ensure level of 95 percent is confirmed and it indicates that dependent variables have normal distribution after normalization process.

To determine whether using of panel data method in estimating model is efficient or not, it will use the LimerF test and in order to determine which method (fix effect and or accidental effect) is more suitable for estimation (determine fix or accidental differences sectional units), Hasman tests will be used. The obtained results of these tests are presented in table3.

Table 3: the results of LimerF test and Hasman testfor research model

Test	Statistic	Amount of statistic	P-Value
FLimer	F	1.426	0.0045
Hasman	χ^2	2.152	0.1226

According to the results of LimerF test and its P-Value (0.0045), H_0 hypothesis in ensure level 95 percent is rejected and indicates that we can use panel data method. Also, with regard to the results of Hasman test and its P-Value (0.1226) which is less than 0.05, H_0 hypothesis of test in ensure level of 95 percent is rejected and H_1 hypothesis is accepted. So, it is required to estimate model with using of accidental effects model.

Table 4: the results of research first hypothesis test with using of accidental effects model

Variable	Coefficient	T Statistic	P-Value
Fix component	0.3452	2.95	0.0023
Profit quality	- 0.1524	-3.34	0.0043
Diversity variable	0.3223	2.73	0.0021
Information asymmetry	- 0.4326	-3.31	0.0001
Company size	0.7032	3.03	0.0032
Company sales growth	0.4213	3.32	0.0045
Debt ratio	- 0.1423	-3.95	0.0012
Audit quality	0.5243	5.03	0.0002
Profitability index	-0.2453	-7.34	0.0001
Company age	0.1423	2.02	0.0523

The results of research show that profit quality variable has had significant and negative effect on dependent variable of information disclosure. In fact, the relationship between information disclosure and profit quality is negative. The effect of diversity variable on information disclosure is significant and positive, on the other words, with increasing diversity index and somehow competition among available companies, information disclosure toward the information asymmetry and decreasing its costs will increase. The effect information asymmetry on information disclosure is positive and significant. The effect of company size variable on dependent variable of information disclosure is positive and significant. Company sales growth variable on dependent variable of information disclosure is positive and significant. The effect of company debt ratio variable on dependent variable of information disclosure is positive and significant. The effect of company audit quality variable on dependent variable of information disclosure is positive and significant. The effect of company profitability index variable on dependent variable of information disclosure is negative and significant. The effect of company age variable on dependent variable of information disclosure is positive and significant.

5. Conclusion

The results of the research show that profit quality variable has had negative and significant effect on dependent variable of information disclosure. In fact, the relationship between information disclosure and profit quality is negative. These results are against the results of Fransis et al (2008) and Wang et al (2011) which has shown a positive relationship between disclosing information and profit quality. When the profit quality is high and the costs related to disclosing part of information is also high, this can lead to create a negative relationship between disclosing information and profit quality. Also, if companies force to disclose part of information, it might face to difficult competition to reduce their costs that this issue can lead a negative relationship between informative and profit quality. Previous researches show that specific costs play a key role in making decision for disclosing part of information (Hiss and Landholm, 1996; Heris, 1998). Fransis et al (2008) and Wang et al (2011) explicitly have been dealt with to study a relationship between profit quality and disclosing part of information, however, they have not dealt with to study whether profit quality can be determining factors of disclosing part of information or not. Available explanations in relation with casual relationship (between quality of managing profit in past and disclosing part of information in present) seem only show that information disclosure is only beneficial when companies are committed and transparent and otherwise, they cannot manage profit. Therefore, when only companies are not committed to manage their profit, it is possible to disclose the information. These findings coordinate with obtained results of Lafvand and Wats (2008) studies which indicate that only in one optimum information environment is possible to more disclosing information. This casual relationship about information disclosure is a case that is presented in financial literature.

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