Voluntary ethic disclosure in the annual audit report: The case of Tehran Stock Exchange

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Abstract. The purpose of this study is to examine element that affect on voluntary disclosure in annual report for 73 the companies of Tehran security exchange. For this target two variables are examined: profitability، Complexity of business.

For the examination of our hypothesize we use multi variable regressions model for during period 2007 to 2011. The result study suggests that only two profitability complexities are associated with level of disclosure. Finding from study there is a significant negative relationship between profitability with level of disclosure. There is also significant negative relationship between complexities with level of disclosure.

Key words: voluntary disclosure, Profitability, Complexity of business, Annual repor.

1.Introduction.

This research tries to study the extent of the voluntary disclosure of information in the annual report of the accepted companies in the Tehran Stock Exchange. Financial information disclosure in the annual report is considered as a key area of accounting research and many academic research have been done both in the developed countries (Bradbury,1992;Rafforinier,1995; Hossain, Perera, and Rahman,1995 et al.)and the developing countries (Cooke,1991; Chaw,Wong–Born, 1987;Hossain,Tan ,Adams,1994; Ferguson et a. 2002,Hossain and Reza ,2007,Hossain ,2008,et al.).Annual report is an important element in the disclosure process, since it is accounted as the most widespread base information for companies, especially in limited companies(Tadd,scherman,1991).By purpose voluntary disclosure we mean the information which describe the financial statement((Kumar, Wilder,&Stocks ,2008). In other words, optional information disclosure is used to give more information that has some management motivation(Healy, Palepu,(2001).By examining the conducted research it can be observed that there are lots of ways for management or the companies to take advantages through the disclosure improvement

(Healy,Hutton,Palpu,1999).In addition, while information disclosure is a society demand,(Ferloe,2004) The counter effect between costs and the given benefits can be led to avoidance of some of information disclosure ,in such situations the question is posed if disclosure can be voluntary or compulsory. In accounting and economic literature , with respect of information asymmetry , it is supported that secret information disclosure can lead to increasing economic efficiency and the rate of efficiency increase and its eventual effect on financial conditions significantly depends on the manner of disclosure and the information disclosure content and the method of its use(Hossain ,Reaz,2007). Therefore ;it is expected that the companies voluntarily tend to disclose their information and spontaneously in front of receiving profits sustain direct and indirect costs from disclosure(Ferguson ,2002).Despite this problem ,voluntary disclosure of information In the Tehran Stocks exchange does not happen regularly and is not expectable and such situations frequently exist in the middle east countries(Helmi Hammimi,2009).the most important factor that encouraged the research group to carry out such a research ,is the increasing understanding of the information disclosure mechanism in Iran and recognition of the procedural weak points and strengths in action. ,but in standards , much attention is not paid to them. Furthermore ,the purpose of this research is to find a relationship between the companies' characters and the level of voluntary disclosure.

2. Review of literature. Theoretical bases.

Company decision to disclose information depends on the company expectancy from the competitors beliefs and investors.(Danto,1989).In many of the recent researches it is hypothesized that the company decides the voluntary disclosure of the information according to the control of advantage conflict between

stockholders ,creditors and the managers (Watts, Zimmerman,1986,et al.).Considering this advantage confliction, it can be induced that the underlying motivations of voluntary disclosure in companies depends on its characteristics (Chaw, Wang Burn, 1987). A comprehensive review of voluntary information disclosure literature is done by Healy and Palpepo. In this paper , it is suggested that decision making direction related to voluntary disclosure depends on the role of information in reporting for capital Market activism. In fact, university researchers, businessmen, and legislators view the voluntary information disclosure as a n important factor in decreasing the information asymmetry between staff inside and outside the organization(Gandia,2005). Healy and Palpep research (2007)suggest five factors as effective in capital market decision in voluntary information disclosure: capital market exchange hypothesis, battle of company control hypothesis, stock dividends, legal costs hypothesis, material related to the owner hypothesis. There is a brief history of the related hypotheses in the Cult and Rasky research (2008). They introduced these issues:(1). Capital market exchange: In order to reduce information asymmetry and as result a reduce in cost of capital through reducing information risk, companies have the motivation to disclose information voluntarily.2. battle of company monitoring hypothesis: when companies performance is poor, the managers try to increase their firm value through voluntary information disclosure and hence describe their poor performance and as a result reduce their job loss.3.stock dividends hypothesis: if manager rewards denote through stocks, they have motivation to voluntarily disclose information and through which reduce destructive cases, as well as the companies have the motivation to voluntary information disclosure through which reduce the treaty cost with rewarding stock dividend's managers.4.Legal costs hypothesis: Managers tend to disclose bad reports to avoid legal clash for insufficient information disclosure and also try to limit and reduce predictive disclosure that might question such cases. 5.Owner –related issues hypothesis :If managers understand that information disclosure has competitive disadvantages, they will limit voluntary information. Disclosure. To understand motivations and benefits or advantages of voluntary information disclosure , it is necessary to discuss the voluntary information disclosure. A lot of researches have been done in defence of voluntary information disclosure(Latridis,2008;Mcknight& Tomkins,1999).Voluntary information disclosure motivations can be divided into four groups:(1) Managers are accountably responsible and must achieve companies' financial and commercial purposes of the firm while voluntary disclosure is the right tool to solve this problem.(2).In order to attract the attention of the capital market, managers tend to voluntarily disclose information about their performance(Mc. knight, Tomkins,1999).

2-2. Background:As mentioned before, a lot of researches have been done in both developing and developed countries to measure voluntary information disclosure(eg. Valas and Naser ,1995,Assa'ed ,2006; el Jeffry, 2008;Wang &Sun,Gibson,2008) Nowravesh and Hosseini (1388)investigated the relationship between quality of companies' voluntary information disclosure (including reliability , the timely)and benefit(earning) management and found that there was a significant negative correlation between benefit management and companies' voluntary information disclosure in Tehran security exchange. Mashayekhi and Mohammad Abadi(1391),after investigating 111 Iranian companies ,found out that conservatism has a direct effect on the quality of disclosure and financial information report. Setayesh and Kazem Nejad (1390)In order to find out the effect of disclosure quality over cashing and current and future stock capital cost ,investigated 105 Iranian companies and found that there was no significant relationship between disclosure quality and current and future cashing of the company while there is a significant negative correlation between disclosure quality and current and future stock capital cost .Etemadi and Amirkhani (1390)attempted to find the answer to this question whether compulsory disclosure improves the correlation between stock yield and future profits and provides more informative answers for stockholders and finally found out that disclosure done in companies' reports contain information about future profits and the investors use these disclosure information for their decision makings.

3. Methodology and hypotheses.

3-1.sample selection: Statistical model of research consists of Tehran security exchange and temporal research circle is defined as a six year annual from 1380 till 1390.As well, statistical sample is an elimination method selected with four criteria:1.Selected company should be accepted in the stock exchange from the beginning of 2006.2.financial statement and other required research data must be in access from 2007-2011.3.Time delay must not exist in more than three months in the certain area .4. The selected companies must not belong to the exchange industries such as banks-institutes and other fund organizations, financial agencies ,financial investment and other multi-disciplinary industrial companies. According to the conditions mentioned above , from the total accepted companies in the stocks exchange , 73 companies are used as the research samples.

3-2. Item selection of voluntary information disclosure :Deciding about what items to be disclosed voluntarily is a judgment issue. In addition , selection of the above mentioned items depends on nature and identity of the company and the industry activating. In some of the researches financial companies ' report(like Islamic banks) and international financial institutes (such as IMP and the Global bank) have been considered. In addition, some of the organizations , both in the private section and in governance section like FASB in

U.S.A , international accounting standards committee ,international accounting standards board , standard institute and Poors suggested guidelines related to voluntary information disclosure .Finally , the research group, after studying a lot of resources including researches carried out by Academics, and the businessmen , studying instructions of different business communities , collected a set of suggested voluntarily disclosed items and found 44 cases. The annual reports of all sample companies during the observation period, are checked and in case of disclosure of the intended item figure 1 and otherwise zero is given.

Primary calculation score of information disclosure by company is obtained through = first equation

Dcor = cumulative information disclosure score

Dcor = £j = 1dj/n = disclosure score

Dj – if case is not disclosed , score is 1 ,

If j is not disclosed , score is zero

N = maximum score for each company

3.3Independent and dependent variables and sample of model

DcoR index is used as base for independent variable in research analysis

Independent variable and expected symbol are showed in the table below

Expected symbol	Description	Variable
-	Equity yield = owner Equity / profit	Profitability
+	Number of subsections	Operation complexity

4. Regression model.

OLS regression model is used to examine the affect of each variable on information disclosure related to DCOR index and hypothesis testing

$$I_{i,t} = B_0 + B_1 \, \text{Profitability}_{i,t} + B_2 \, \text{Complexity}_{i,t} + \varepsilon_{ij}$$

I = sample company voluntary discloser score

H1 : profitability

Many researches refer to a positive correlation between profitability and companies disclosure rate (such as Watts and Zimmerman , 1989 , values 1989).

According to the base of agency theory , it would be probable that companies with more profitability , for other people advantage , tend to disclose more information. For example : managers tend to disclosed more information for achieving and supporting their position and awarding (Inchausti1997).

H1 : there is a significant positive correlation between profitability and voluntary disclosure rate

Company complexity ; Haniffa and Cooke (2002) stated that structural complexity is important in description of differences on the level of disclosure.

Court's 1987 and Cooke 1989 argued that in case of structural complexity , companies need an effectiveness information management system to control activities and the existence of such a system reduces information product cost level per unit that leads to more information disclosure.

H2 : hyphosis

There is negative asscociation between complexity and voluntary disclosure.

5. Data analysis and hypotheses testing.

Descriptive statistics : Descriptive statistics shows figures related to central and dispersion indices.

Statistical descriptive awareness is one step toward understanding data leverage and relationships between them as well as their approximate distributive control. The most important descriptive statistics related to variables are explained in this part.

In this table leverage of model dependent variable is 0.438, standard deviation is 0.084.

We can conclude that disclosure position in companies under study is approximately equal.

	Leverage	St-dev	min	max	mean	
Profitability	0.370	0.275	0.09	1.822	0.309	
Complexity	0.969	1.791	0	10	1	

5.1.Dependent variable normal test.

Normal dependent variable distribution is one basic hypothesis for correlation method , so in this research for determining normalization of the dependent variable kolomongorov – Smirnoff test is used. Results of the test is shown in table 2. Since Significant level is more than %5, therefore the dependent variable has normal distribution.

description	disclosure
Kolmogorov Simonov test	.0982
Level of Significant	0.290

Hypnosis testing : In table 3 significant level f lime is less than %5. Profitability coefficient is -224.0. T lime is – 498.3, at certainty level %95 has a negative significant correlation with disclosure index. If VIF is less than 10 there is no autocorrelation there are no autocorrelation between variables. According the figure VIF of all the variable is less than 10 so shows that there no self- correlation.

Ijt= B0+B1 profitability j + B2 complexxityg + eji						
Descriptive variable	coefficient	Std.Error	test	Significant level	Tolerance	Vif.
Profitability	-0.224	0.020	3.498	0.001	0.996	1.004
Complexity	0.094	0.003	.362	0.175	0.862	1.161
C	0.438	0.019	2.525	0.000		
Coefficient correlation	0.071	Durbin Watson 1.679				
Coefficient correlation	0.055					
F test Probe(f-statistic)	4.384 0.002					

For achieving the comparative purposes , companies disclosure scores are used as dependent variable in ' companies ranking based on transparency and disclosure ' statement announced by security exchange.

4-2: Hypothesis testing Results

Ijt= B0+B1 profitability j + B2 complexxityg + eji						
Descriptive variable	coefficient	Std.Error	test	Significant level	Tolerance	Vif.
Profitability	-0.224	0.020	3.498	0.001	0.996	1.004
Complexity	-8.488	2.683	3.163	0.002	0.982	1.019

C	0.438	0.019	.148	0.000	
Coefficient correlation	0.081	Durbin Watson 2.240			
Coefficient correlation	0.069				
F test Probe(f-statistic)	7.109 0.000				

As the result show profitability and number of subsection companies and complexity variables have negative significant relationship with disclosure scores. If profitability variable reduces, disclosure index will increase. In some period that a company has less profit or loss, it discloses more details, increasing transparency level. For complexity : if companies complexity increases level of disclosure will reduce. Trade volume between group increases and causes unmoral price, this case cause transparency disclosure in financial statement.

1. Conclusion.

This research investigates effectiveness factors on the disclosure rate and 73 companies data in Tehran security exchange information from 200-2012 have been studied. Results showed that there is only negative significant relationship between profitability with level of voluntary disclosure rate. In case of annual report disclosure score use that companies publish in board , in addition to companies profitability , there is negative significant relationship between complexities of subsection companies with voluntary disclosure level. The cause of negative relationship between profitability of the companies in the loss or low profit era, the companies try to increase disclosure level to achieve market confidence. Also they state that this is a short time case and prevent from companies stock reduction. Finding of this research differs from the findings of the other researches about voluntary disclosure information , such as Healmy hamimy research (2009) that investigates disclosure level report in Qatar security exchange that shows there is positive significant relationship between profitability and complexity with voluntary disclosure.

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