Study the relation between Financial reporting quality and corporate Investment *(Case study of firms accepted in Listed Firms of Tehran-Iran Stock Exchange)*

Mahdi Moradzadehfard[1], Narjes Pooryeganeh[2], Behnam Samadiyan[3*], Hadi Ebrahimi[4]

[1]Assistant Professor, faculty of Management and Accounting Islamic Azad University of Karaj branch, Iran
[2]Sama technical and vocational training college, Islamic Azad University, Karaj branch, Karaj, Iran
[3]*Department of accounting, East Azarbaijan Science and Research Branch, Islamic Azad University, Tabriz, Iran
[4]Department of accounting, East Azarbaijan Science and Research Branch, Islamic Azad University, Tabriz, Iran
*behnam.samadian@yahoo.com

Abstract: The main goal in this research is to study the relationship between over investment, under investment and financial reporting quality index (accrual quality) of the firm's accepted in Tehran Stock Exchange. To achieve this goal, all companies in cement, automobile and drug industries of firm's accepted in Tehran Stock Exchange which had presented their financial statements (balance sheet and income statement) and the required data during the years between 2006 and 2011 were carefully studied. On the whole and regarding the present limitations, 63 companies (441 year-company) were selected from 3 industries. Then, the data related to the accrual quality, under investment and over investment were studied during a 6 year time period and they were tested. To test the hypotheses, we used Pearson's coefficient correlation. The results showed that in cement industry; under investment have negative and weak level of correlation with the Financing reporting quality. And over investment have a positive and average level of correlation with the Financing reporting quality. In automobile industry, under investment have negative and weak level of correlation with the Financing reporting quality. And over investment have a positive and weak level of correlation with the Financing reporting quality. In drug industry, under investment and over investment have positive and average level of correlation with the Financing reporting quality.

1. Introduction

By passing from industrialization age to information era, the importance of information has been emphasized in the progressed of decision. The growing importance of private firms such as investment market in improvement of the quality of goods and services result in undeniable role of information in more efficient function of financial markets especially in this section. The main purpose of development in private firms activity is growth of efficient function of financial establishment and improvement in source specialization. In order to achieve the goal the control of market functioning in financial investors is vital. In other hard, market functioning needs healthy competitive atmosphere .Of course there is no meaning for a healthy competition, without qualified information. The importance of information quality is so emphasized that in some democratic societies it has been regarded as a human right. Blur & Kaufman (2005) In other words the more qualified information sharing, the more intentional and conscious taking decisions in both private or public units about supplying and spending more sources and the chance of money embezzled will be reduced. Vich Vanath and Kaufman (1999) Also, the revealing financial information helps investors to more efficient judging of firms. And there will be less ambiguity, and more intentional decisions. As a result, the capital will flow toward the most productive industries or markets, ultimately leads to investment improvement in market which by itself, and it increases the growth and efficiency in the whole society. Investment improvement from one hand absorbs the people capitals and directs them to the productive financial fields; and on the other hand, it leads the capitals to the investment which is more profitable and less detrimental regarding the investors tendency to the profit-loss relation; and ultimately it leads to the more efficient specialization of sources. Considering the changes in the world which have been happening recently the countries, specially developed ones, are facing many threats. In order to solve the financial problems they need to find a solution for the more efficient use of their sources. One of the solutions is development and improvement of arrestment toward the efficient ones. Accounting with the task of informing without any pre Judgment steps in a informative society; with the compilation of accounting standards plays a vital role in the growth of information quality and finally, increases the investment efficiency level.

2. Conceptual framework of research

Numerous obtained researches such as Bushman & smit (2001), Francis et al (2005), Verdi (2006) , McNichols and Stubben (2008) , Francis (2009) pointed this matter that there are relations between Financial reporting and investment efficiency. They believe that the growth of financial reporting quality could be considered as the source of some major influences like increasing investment efficiency. As it has been shown in the table, Financial reporting quality can reduce the possibility of taking the wrong choice through the reduction of informative non symmetry among the firm staff and stock holders and lenders, and the deputy expenses will go down which is the result of the in formative non symmetry .An idea which is got from this Hypothesis suggests 2 main factor for investment efficiency: First; The firm requires more capital during the investment opportunity for its financial needs, in this situation in a comprehensive market all projects with the positive pure present value should be financial – supplied, but in companies with cash flows problems, limitation of supplies results to restricting managers for financial supplies of potential projects. Therefore the investors will be led to this decision that they have to invest their finance in other projects which, perhaps, they are not as suitable, useful and profitable as the present project. This matter results in increasing unfit selection, level of investors' expectation and obviously, the growth of investment risk, and financial supply expenses. Thus it leads to initiation of low level investments. Therefore, If financial reporting quality leads to reduction of reverse choice expenses, with reduction of outside financial supply, it can improve the investment efficiency. Second, even if the firm decides to increase the capital, there is no guarantee about the correct investment. There are numerous thought expressing the idea that In accounting, financial reporting plays a critical role in reducing representative problems. Because of the different information level between managers and stockholders confront between owner and representative .Prevent investment efficiency. Because the managers prefer their ultimate facilities, they can choose investment opportunities that are not at for stockholders profit; This matter can result in overinvestment an informative non symmetry and coordination of stockholders and managers benefit doesn't work; In this case managers can use free cash flows and choose the pure negative present value projects so that this matter leads to over investment. and it affects the investment efficiency; of course, there are several case studies which predict the firm can invest under the limitation . If the investors have a chance to sense that managers can reach the opportunity to embezzle money, the expense of source will rise and the result is under investment Lambert R. C. Leuz and R. E Verrocchio. There for, If the financial reporting quality reduces the agency problem. It can increase the investor's ability for supervising on managers and choosing project and reducing the financial expenses which result in investment efficiency improvement.

3. Research prior studies

Hesarzadeh et al (2007), in a research entitled "the effect of free cash flows and limitation in financial providing on under or over investment" Found that free cash flows result in over investments but there is no significant relation between variable of limitation in financial supply and under investment. **Arab mazar yazdi (2009)**, in a research entitled "financial reporting quality" which had received help from accrual quality index, pointed out that "In Iran, inspire of a slight negative relation between financial reporting quality and over or under investment as investment inefficiency. Practically there is no significant solidarity among those variables. **John Manual Lara, Beatriz García Osma, Fernando Penalua (2010)** in their research entitled "studying the relation between accounting conservatism and investment efficiency" found that there is a possible relation among investment and conservative accounting and financial reporting Quality. They say most of the firms which react conservatively; possibly they have over or under investors. Also with the analyzing the descending conservative movement, there is a positive significant relation between accounting conservatism and profit. They also mentioned there is no proof expressing that less conservative companies invest in projects with high risk possibility. **Feng Chen and ole Christian Hope (2011)** in a research entitled "Financial reporting Quality and investment Efficiency of private firms in Emerging Markets" found that private firms have low quality financial reporting. In other words the quality of financial reporting in companies with fewer investors or with more private investment is lower. Of course it could be because of the little need of public inquiry about financial reporting of these companies. This matter has been reviewed that financial reporting quality in private firms less results to investment efficiency.

4-Research Hypothesis

1- There is a relationship between financial reporting quality and investment efficiency in cement industry.

1-1- There is a relationship between Financial reporting quality and to under investment in cement industry.

1- 2- There is a relationship between financial reporting quality and over investment in cement industry.

2- There is a relationship between financial reporting quality and investment efficiency in Automobile industry.

2-1- There is a relationship between Financial reporting quality and under investment in Automobile industry.

2-2- There is a relationship between Financial reporting quality and over investment in Automobile industry.

3- There is a relationship between financial reporting quality and investment efficiency in Drugindustry.

3-1- There is a relationship between Financial reporting quality and under investment in Drugindustry.

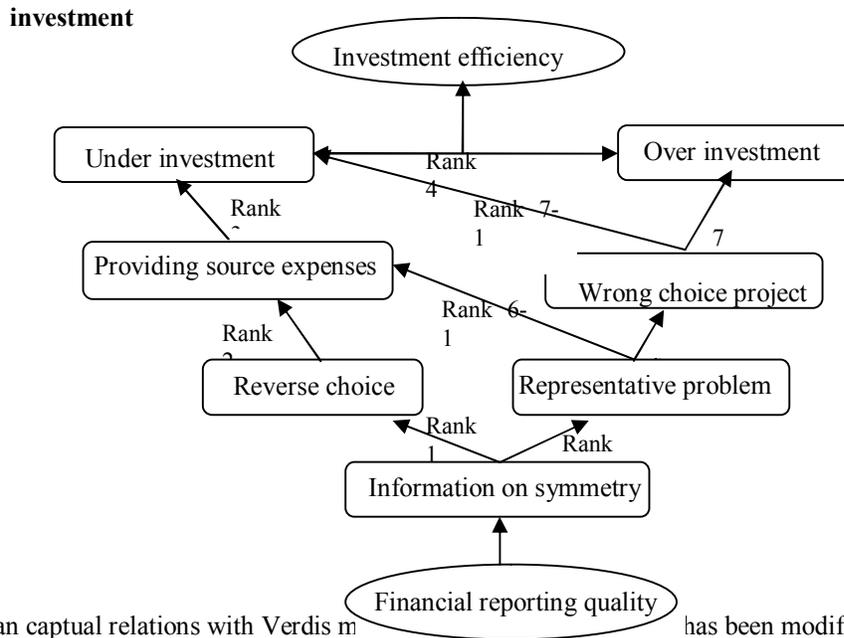3- 2- There is a relationship between financial reporting quality and over investment in Drugindustry.

Diagram 1: Can captual relations with Verdis m...............has been modified based a researcher's idea from other available sources

4. Research methodology

The present study is correlation-descriptive and the methodology used is based on market.

The study of the application in terms of gathering and information collection is from past data.

5. Sample selection

Our statistic society was firms listed in Tehran Stock Exchange in cement, Automobile and drug industries limestone is between 2006 to 2011.

First archiving method was utilized to collect data about theoretical literature and then data collection was done through financial statements of firms and other authentic sources in Tehran Stock Exchange (CDs and rdis.ir & irbourse.com sites)

6. Test the research hypotheses

Pearson's coefficient correlation was used in order to test the research hypotheses. Before presenting the results of research hypotheses' tests, some tests such as the normality of the leftovers and normality of the variance of the leftovers were done.

After the studies carried out, it was found that both conditions are realized. Also the following classifications were done regarding the contents of statistics' books and research methods to interpret coefficient correlation (r)

If r is higher than %90, the correlation is perfect.

If r is between %70 and %90, the correlation is high.

If r is between %40 and %70, the correlation is average.

If r is between %0 and %40, the correlation is weak.

We used SPSS and EXCEL software to do statistical tests and get the related tables, because they have many competencies to do statistical testing

7. Research Findings

7.1. Descriptive statistics

The process of data in researches usually is done in two levels: describing data and analyzing it. In the first level the under discussion society is described with expected parameters; and a scheme of situation is represented. The following table includes

the section of descriptive statistics regarded to the combining data's in a time line series or sectional, which were prepared for theories of research test and 441 observations for sample firms during 2006 – 2011 were reported.

Table 2-Descriptive Statistics

α=0.5%		Std. error		mean	Vari able
Upper limit	Lower limit		SD		
69/5204	64/0725	1/37	15/697	66/79	wc
18/8515	14/6917	1/051	11/985	16/77	Over inv
0/2510	0/1941	0/014	0/1639	0/222	Under inv

According to table (2), it can be seen that the average wc in our sample is %66.79, the over inv in our sample is %16.77, and the average under inv in our sample is %22.25. Also regarding the assurance intervals in variables under our investigation, we can claim with % 95 assurances that the ratio of wc in companies studied was in average amounts between 64.07 and 69.25, over inv was reported to be an average between 14.69 and 18.85, and under inv was reported to be an average between 19.41 and 25.10.

7.2. Inferential analysis of research variables

Regarding the results of table (3), and by comparing the meaningfulness level of the variables under our investigation in our sample companies, and since the level of meaningfulness is more than 0.05 and assurance level is %95 (error level of %5), the variables under investigation have a normal distribution and thus, we can use Pearson's coefficient correlation to test the hypotheses.

Table (3): the outcomes of Kolmogorov-Smirnov test for testing the variables under investigation to be normal

Underinv	Overing	WC	Variables
2.587	3.315	5. 901	Kolmogorov-Smirnov Z
0.456	0.845	0.321	Asymp. Sig. (2-tailed)

7.3. Testing the first hypothesis

This hypothesis states that there is a relationship between Financial reporting quality and investment efficiency in cement industry .We studied this issue by using Pearson's coefficient correlation.

As it is observed, the coefficient correlation between financial reporting quality and under investment in cement industry equals -0.361. The coefficient correlation between Financial reporting quality and over investment in cement industry equals 0.607. And since the observed meaningfulness level is less than α, we do not have enough evidences to accept H0. In other words, we can claim with %95 assurance that there is a negative and meaningful

relationship between Financial reporting quality and under investment. And there is a positive and meaningful relationship between financial reporting quality and over investment in cement industry.

Table (4): coefficient correlation between financial reporting quality and investment efficiency in cement industry

Financing reporting quality		
Over investment	Under investment	
57	41	number of companies
0.000	0.002	Significant level(double side)
0.607	-0.0361	Pearson's coefficient correlation

7.4. Testing the second hypothesis

This hypothesis states that there is a relationship between financial reporting quality and investment efficiency in automobile industry .We studied this issue by using Pearson's coefficient correlation.

Table (5): coefficient correlation between financial reporting quality and investment efficiency in automobile industry

Financing reporting quality		
Over investment	Under investment	
80	95	number of companies
0.009	0.025	Significant level(double side)
0.051	-0.265	Pearson's coefficient correlation

As it is observed, the coefficient correlation between financial reporting quality and under investment in automobile industry equals -0.265. The coefficient correlation between financial reporting quality and over investment in automobile industry equals 0.051. And since the observed meaningfulness level is less than α, we do not have enough evidences to accept H0. In other words, we can claim with % 95 assurances that there is a negative and meaningful relationship between financial reporting quality and under investment. And there is a positive and meaningful relationship between financial reporting quality and over investment in automobile industry.

7.5. Testing the third hypothesis

This hypothesis states that there is a relationship between financial reporting quality and investment efficiency in drug industry .We studied this issue by using Pearson's coefficient correlation.

As it is observed, the coefficient correlation between financial reporting quality and under investment in drug industry equals 0.217. The coefficient correlation between financial reporting quality and over investment in automobile industry equals 0.525. And since the observed meaningfulness

level is less than α, we do not have enough evidences to accept H0. In other words, we can claim with % 95 assurances that there is a positive and meaningful relationship between financial reporting quality and under investment. And there is a positive and meaningful relationship between financial reporting quality and over investment in automobile industry.

Table (6): coefficient correlation between financial reporting quality and investment efficiency in drug Industry.

Financing reporting quality		
Over investment	Under investment	
81	87	number of companies
0.000	0.041	Significant level(double side)
0.525	0.217	Pearson's coefficient correlation

8. Discussion and Conclusion

This research was carried out to study and compare the relationship between Financial reporting quality and corporate investment of the 63 sample firm's accepted in Tehran Stock Exchange(cement, automobile and drug industries) during the years between 2006 and 2011. The statistical method used in this research was Pearson's coefficient correlation.

The results showed that in cement industry; under investment have negative and weak level of correlation with the Financing reporting quality. And over investment have a positive and average level of correlation with the Financing reporting quality.In automobile industry, under investment have negative and weak level of correlation with the Financing reporting quality. And over investment have a positive and weak level of correlation with the Financing reporting quality.In drug industry, under investment and over investment have positive and average level of correlation with the Financing reporting quality.

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