

Investigating the Interrelationship between Simultaneous Disclosure of Interpretive Report and Management Profit Prediction with Information Symmetry and Investment Quality with Environmental Uncertainty Adjustment¹

Masoud Taherinia¹, Saeed Darbandi Farahani³

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Research Paper

1. INTRODUCTION

According to the recognition hypothesis, the criterion of investors' willingness to invest and exchange in company shares is the degree of recognition of companies. The purpose of financial reporting is to provide useful information for business decisions. Healthy and transparent financial investment is important for every person. In other words, investors look to the future. Therefore, the financial future is formed by the disclosure of information and the decisions that are made based on them. The more quality and complete forecasted information of companies is presented to the market, not only the participation of investors in the market will increase, but also the price of adjusted securities and investment risk will decrease. One of the important consequences related to the quality of information is the asymmetry of information that leads to the superiority of the information of one group (managers) over other groups (investors), which will create a basis for the creation of profit management by managers.

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2. Associate Professor, Department of Accounting, Faculty of Management and Economics, Lorestan University, Khorramabad, Iran. (taherinia.m@lu.ac.i).

3. Ph.D. Student, Department of Accounting, Khomein Branch, Islamic Azad University, Khomein, Iran. (Corresponding Author). (safarahani1358@yahoo.com).

Profit forecasting by managers is an important criterion for evaluating companies and influencing stock prices and one of the mechanisms of mandatory information disclosure is that managers communicate additional information to stakeholders about the company's future performance, and it improves the efficiency of resource allocation in the capital market. Despite the high accuracy in profit forecasting, these forecasts are based on past information and its complement is the presence of information related to the company's vision and future, and this information gap can be completed by providing an interpretive management report. Also, the management's interpretive report can be considered as a narrative description of the company's performance in the past periods as well as the company's future plans to bring about change, and it is an important element in informing the capital market and supplementing the financial statements.

2. MATERIALS AND METHODS

In this research, library sources were used in order to formulate theoretical foundations and obtain the support of the research, and in order to collect financial data, the publishers' comprehensive information system (Kedal) was used. Excel software was used to categorize and summarize the data, and SPSS26 and Eviwes11 software were used to test the research hypotheses. Considering that the preparation of an explanatory report is mandatory from December 2016, the statistical population of this research is all the companies accepted in the Tehran Stock Exchange for the period of 2016 to 2018, and an example of the screening method (systematic elimination) was used. According to the investigations, 76 companies have the conditions and were selected as research samples.

According to the theoretical foundations and the obtained results, there is a two-way relationship between the research variables. In studying the effect of variables on each other, it is better to use the system of simultaneous equations instead of single equations. In this research, the existence of a causal relationship between the variables was confirmed by performing the Granger causality test.

The following conceptual model has been developed based on research hypotheses:

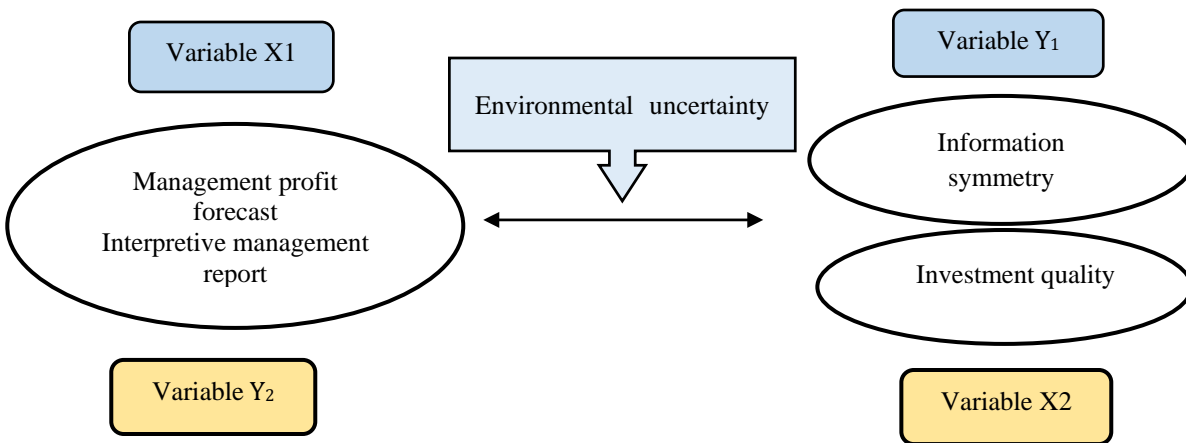


Figure (1): conceptual model of research (source: research findings)

Based on this, the general hypothesis of the research was presented as follows:

There is a reciprocal and meaningful relationship between the quality of the disclosure of the interpretive report and the profit forecast by managers with informational symmetry and investment efficiency with the moderation of environmental uncertainty.

3. RESULTS AND DISCUSSION

In order to test the hypotheses of the research, the system of simultaneous equations and the regression coefficient analysis method were used.

The test of the first and fifth hypotheses shows that the variable coefficient of disclosure quality is positive and significant. In other words, the higher the quality of disclosure and reporting of financial and non-financial information in the explanatory report and forecasted profit in a financial period, it indicates an increase in information symmetry (a decrease in information asymmetry).

The test of the second and sixth hypotheses shows that the coefficient of the disclosure quality variable is positive and significant, and according to the value of F-statistic and T-statistic at a significance level of 95%, the second hypothesis of the research is confirmed and it shows that between the quality of disclosure and the quality of investment, statistically There is a positive and significant relationship. According to the value calculated for the secondary independent variable, i.e. the variable that moderates environmental uncertainty and quality of disclosure, the t-statistic is significant at the 5% error level and the value of the coefficient of this variable (73.631) is lower than the coefficient of the variable of quality of disclosure individually. (452/85), it can be stated that by adding the moderating variable to the model, the intensity of the relationship between disclosure quality and investment quality has decreased, and thus, the sixth hypothesis of the research is confirmed.

The results of the third hypothesis test show that the coefficient of effect of information symmetry on the quality of disclosure of expected profit and the interpretive report of positive management (110/548) is significant at the 5% error level. In other words, by increasing the informational symmetry of managers and investors, the quality of information disclosure through interpretive reports and predicted profits by managers improves.

Also, due to the reduction of the coefficient of the second independent variable (information symmetry and environmental uncertainty), compared to the coefficient of the information symmetry variable, the

decreasing effect of the environmental uncertainty variable on the intensity of the relationship between information symmetry and disclosure quality is concluded. Therefore, the fifth hypothesis of the research is confirmed.

The test of the fourth hypothesis showed that the coefficient of investment quality is positive and significant, and the variable of investment quality has a probability of less than 5%. Therefore, this variable is significant at the 95% confidence level in the model. In other words, with the increase in the quality of investment, in order to maintain or improve the quality of their investment, investors seek to increase new information and rely more on the company's fundamental information than the market information and base their decision on the accounting information disclosed by the managers. Ultimately, it will lead to an improvement in the quality of information disclosure.

4. CONCLUSION

This research was conducted with the aim of investigating the mutual relationship between the simultaneous disclosure of the interpretive report and profit forecast by managers with information symmetry and investment quality with the presence of environmental uncertainty modifier variable. For this purpose, six hypotheses were formulated and tested. In order to investigate the bidirectional relationship between the variables, the Granger causality test was performed. Then, to test the hypotheses and check the defined relationships, the system of simultaneous equations and regression was estimated.

The results of the present study indicate that; there is a positive and significant relationship between the quality of the disclosure of the interpretive report and the profit predicted by managers with informational symmetry and investment efficiency, and with the improvement of reporting quality, informational symmetry and

investment quality increase. On the other hand, with the increase of information symmetry (reduction of information asymmetry) and the improvement of the quality of investment, the quality of disclosure and reporting through interpretive reports and predicted profits by managers also increases. Considering that, the profit forecast and management's interpretive report have informational content and lead to the improvement of information symmetry and investment efficiency, therefore, the correct and distortion-free disclosure of interpretive reports and profit forecast by managers in financial statements has a strengthening effect in the market and its efficiency.

Keywords: Interpretive Report, Management Profit Forecast, Information Symmetry, Investment Quality, Environmental Uncertainty.

JEL Classification: D82, E22, G17, Q51.

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