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Investigating the Effect of Geographical Location on the Level of Disclosure in Companies Admitted on the Tehran Stock Exchange

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Abstract

Purpose: The purpose of this research is to investigate the relationship between geographical location and the level of disclosure in companies admitted to the Tehran Stock Exchange.

Method: For this purpose, 134 companies were investigated during the period of 2018-2022. This research is descriptive correlational in nature and applied in purpose. In this research, to measure the geographical location of companies, Google Maps was used and other information was extracted from Rahvard Novin 3 software and summarized, classified and calculated by Excel software, and finally the hypotheses were tested through EViews and Stata software at a confidence level of 0.95.

Results: The findings showed that there is a positive and significant effect between the geographic locations of companies on voluntary disclosure; however, reliable evidence that the geographic location of companies has an effect on mandatory disclosure was not found at the confidence level of 0.95.

Conclusion: Correct and appropriate disclosure of financial information, including providing timely and accurate profit forecasts, by filling the gap of information asymmetry between managers and shareholders, reduces the representation problem.

Contribution: The findings show that the greater the distance of companies from the stock exchange organization, the more willing they are to voluntary disclosure to reduce remote monitoring costs and agency costs. With these interpretations, investors should pay attention to the geographical location of companies, companies can also reduce information risk by increasing transparency and voluntary disclosure, and also the stock exchange organization should make the level of information disclosure uniform for companies in different geographical distances by establishing appropriate laws.

Keywords: Disclosure Level, Geographical Location, Mandatory Disclosure, Voluntary Disclosure.

Research Article

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Introduction

Financial reporting delivers reliable and timely financial information to external stakeholders, facilitating effective communication for managers to attract investment and secure funding (Jabarzadeh Kangarloui & Khodayar Yeganeh, 2009, 26). This transparency helps users make informed economic decisions.

Disclosure is one of the prominent features of financial reporting that is affected by the behavior and motivations of managers as well as the characteristics of the company (Shin, 2002, 2). In the literature on information disclosure, voluntary and mandatory managerial incentives are crucial areas of focus (Depoers, 2000, 246). Disclosure is vital in the capital market, promoting transparency, reducing information asymmetry, enhancing market efficiency, and bolstering sustainability (Homayoun et al., 2023, 2). Disclosure in accounting spans the entire financial reporting process, mandated to include all material and relevant facts about business entities' events and financial activities in financial statements. These statements must be timely, relevant, reliable, comparable, and understandable, facilitating informed decision-making by users (Banimahd & Mohseni Sharif, 2011, 52). Disclosure in accounting comprises mandatory and voluntary elements. Mandatory disclosure, typically found in financial statements, includes financial data. Voluntary disclosure extends beyond financial statements, encompassing strategic, financial (such as management forecasts), and non-financial information (like environmental and social sustainability performance). The scope and nature of voluntary disclosure depend on factors like disclosure costs, corporate governance, management history, and sustainability performance (Homayoun et al., 2023, 3).

In Iran, although mandatory disclosures are legally required, some managers may not fully comply, limiting the information available to investors, shareholders, and stakeholders for informed investment decisions (Hosseinpour, 2010, 6). Mandatory disclosure levels vary based on company motivations, while voluntary disclosure can enhance capital market efficiency by increasing liquidity, reducing capital costs, and expanding information and financial intermediary networks (Maran Jouri & Ali Khani, 2013, 23). Improved disclosure and information transparency also reduce information asymmetry between insiders and outsiders, bolstering market liquidity (Leuz & Verrecchia, 2000, 92). The importance of geographic location in disclosure underscores variations in disclosure levels among companies. This highlights the need for regulations mandating disclosure standards and emphasizes the significance of identifying factors influencing disclosure levels. This research aims to validate the importance of geographic location in information disclosure and inform potential revisions to disclosure regulations by the Securities and Exchange Organization.

Materials and Methods

The research, beneficial for financial managers, investors, and stakeholders, is applied in its purpose. It employs a descriptive correlational study approach, analyzing relationships between various variables.

The research population comprises all companies listed on the Tehran Stock Exchange meeting specific criteria: 1. Listing duration from 2018 to 2022, 2. Exclusion of banks, financial intermediaries, leasing, and other investment firms, 3.

Ensuring completeness of data. The study period spans from early 2018 to late 2022. With these restrictions, a sample of 134 companies was selected.

Model (1) related to the first hypothesis:

$$VD_{it} = \beta_0 + \beta_1 GEOGRAPHY_{it} + \beta_2 SIZE_{it} + \beta_3 LEVERAGE_{it} + \beta_4 ROA_{it} + \beta_5 LIQUIDITY_{it} + \beta_6 MB_{it} + \beta_7 Year\ Dummies_{it} + \varepsilon_{it}$$

Model (2) related to the second hypothesis:

$$MD_{it} = \beta_0 + \beta_1 GEOGRAPHY_{it} + \beta_2 SIZE_{it} + \beta_3 LEVERAGE_{it} + \beta_4 ROA_{it} + \beta_5 LIQUIDITY_{it} + \beta_6 MB_{it} + \beta_7 Year\ Dummies_{it} + \varepsilon_{it}$$

Panel data (year-company) was utilized in the research, offering both cross-sectional and pooled data methods. The F-test of Limmer helped choose between these methods during model estimation, while the Hausman test determined the suitability between random effects and fixed effects models.

The research utilized Stata software to conduct the modified Wald test for homogeneity of variance and the Waldridge test to examine autocorrelation between residuals. Models were estimated using the fixed effects method with panel data.

The research used the F-statistic to test overall model significance, the t-statistic to assess regression coefficient significance, and the R^2 coefficient of determination to evaluate the relationship between independent and dependent variables.

Results and Discussion

The first hypothesis, based on the obtained probability value for the F-statistic (<0.05), rejects the H0 hypothesis, indicating non-simultaneous zero regression coefficients. The model is significant at a 95% confidence level, with a coefficient of determination of 0.4300, explaining 43% of the changes in voluntary disclosure. The coefficient for the geographic location variable is positive (0.367899), with a t-statistic probability value of 0.019, rejecting the null hypothesis. Hence, geographic location impacts voluntary disclosure on the Tehran Stock Exchange, supporting the first hypothesis at a 95% confidence level. Additionally, financial leverage, return on assets and firm liquidity significantly influence voluntary disclosure, as their t-statistic probability values are below 0.05.

Table 1 Data analysis results for testing the first research hypothesis

Variable	Coefficients	Standard Error	t-statistic	Significance
Geographic Location	0.367899	0.156379	2.352606	0.019
Financial Leverage	1.87882	0.67981	2.763744	0.0059
Return on Assets	-1.975923	0.860074	-2.297389	0.022
Firm Liquidity	0.41092	0.095242	4.314485	0.000
R-squared	0.4300	**Adjusted R-squared**		0.3791
F-statistic	2.8508	**Significance**		0.0000

The second hypothesis, supported by a probability value for the F-statistic (<0.05), not rejects the H0 hypothesis, indicating non-zero regression coefficients. The model is significant at a 95% confidence level, with a coefficient of determination of 0.6300, explaining 63% of the changes in mandatory disclosure. However, the coefficient for the geographic location variable is positive (0.000235) with a t-statistic probability value of 0.973, failing to reject the null hypothesis. Hence, geographic location does not influence mandatory disclosure on the Tehran Stock Exchange, leading to the rejection of the second hypothesis at a 95% confidence level. Notably, firm size, financial leverage and return on assets significantly impact mandatory disclosure, as their t-statistic probability values are below 0.05.

Table 2 Data analysis results for testing the second research hypothesis

Variable	Coefficients	Standard Error	t-statistic	Significance
Geographic Location	0.000235	0.006926	0.033888	0.973
Firm Size	-0.008653	0.002744	-3.153458	0.0017
Financial Leverage	-0.083769	0.016145	-5.18852	0.0000
Return on Assets	0.315659	0.028486	11.0811	0.0000
R-squared	0.6300	**Adjusted R-squared**		0.5321
F-statistic	6.4343	**Significance**		0.0000

Conclusions

Information disclosure stands as a pivotal element in capital markets, enhancing transparency and reducing information asymmetry, thus boosting market efficiency. Information asymmetry gives rise to adverse selection and moral hazard problems. Timely and accurate financial disclosure, including profit forecasts, mitigates the agency problem by bridging the gap between managers and shareholders. Accurate forecasting enhances decision-making for accounting report users, while weak disclosure negatively impacts shareholder wealth. This study examines geographic location as a factor influencing disclosure levels, revealing a positive and significant relationship between geographic location and voluntary disclosure. Companies farther from the Tehran Stock Exchange tend to disclose more information voluntarily.

The findings support the idea that companies in distant geographic locations disclose more voluntary information to alleviate remote monitoring and agency costs. This conclusion aligns with the results of Bobakri & et al. (2016) and Droby & et al. (2016). However, the research indicates that geographic location does not significantly impact mandatory disclosure.

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