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The Relationship between Disclosure Quality and Company Performances Using SPSS Software

Shaban Mohammadi
Department of accounting and management, Payame Noor University (PNU), P.O.Box 19395-3697, Tehran, Iran

Abstract
The purpose of the present study is to investigate the relationship between disclosure quality (DIQ) with current and future performance of the listed companies on the Tehran Stock Exchange (TSE). The population includes 94 firms selected through systematic sampling. The data is collected from the audited financial statements of the firms provided by TSE's website from 2010 to 2015. In this study the variables, return on assets (ROA), return on equity (ROE), and Market value to book value (MV/BV), TOBIN'S Q (TQ) has been used to investigate current and future performance. The results of multiple linear regression analysis show that there is a significant relationship between disclosure quality with return on assets, return on equity, Market value to book value and TOBIN'S Q. Also, the results of multiple linear regression analysis show that there is a significant relationship between disclosure quality and current performance. Also, the results of multiple linear regression analysis show that there is a significant relationship between disclosure quality and future performance.
JEL Classification: G31, G38, M41, M48
Keywords: Disclosure quality, ROA, ROE, MV/BV.

INTRODUCTION

(Bushman & Smith, 2003) discussed economics-based research focused on the properties of accounting systems and the surrounding institutional environment important to effective governance of firms. They provided a framework for understanding the operation of accounting information in an economy, discuss a broad range of important research findings, present a conceptual framework for characterizing and measuring corporate transparency at the country level, and isolate a number of future research possibilities. (Amihud & Mendelson, 1986) investigated the effect of the bid-ask spread on asset pricing. They analyzed a model in which investors with different expected holding period's trade assets with different relative spreads. The resulting testable hypothesis is that market-observed expected return is an increasing and concave function of the spread. They tested this hypothesis and the empirical results are were consistent with the predictions of the model.

REVIEW OF LITERATURE

(Blanco, et al., 2014)We investigate the relation between segment disclosure and earnings quality. Using a US sample for the period 2001–2006, we find a positive relation between earnings quality and the quantity of segment disclosures. We use lead-lag tests to examine the flow of causality, and our results show that current segment disclosure is positively related to prior levels of earnings quality, while current earnings quality scores are not related to prior levels of segment disclosure. Thus, the causality flows from earnings quality to segment disclosure. Our results hold for both business and geographic segment disclosure.(Shinong et al,. 2011) investigated how disclosure quality affects the relation between chief executive officer (CEO) power and the variability of firm performance. Moreover, it also examined the impacts of ownership structure and disclosure quality on the relationship between CEO power and performance variability. Empirical research was carried out. It was found that: first, firms whose CEOs have more power will exhibit higher performance, but display more variability in firm performance. Second, disclosure quality can affect the relationship between CEO power and the variability of firm performance and more specifically, increase in disclosure quality reduces the performance variability caused by CEO power. Third, the effects of CEO power on the variability of firm performance are higher in state - owned firms than in non - state - owned firms. Moreover, the effect of higher disclosure quality for lowering the variability of firm performance was stronger in state - owned firms than in non - state - owned firms.(Ball, 2000) International differences in the demand for accounting income predictably affect the way it incorporates economic income (change in market value) over time. They characterized the `shareholder' and `stakeholder' corporate governance models of common and code law countries respectively as resolving information asymmetry by public disclosure and private communication. Also, code law directly links accounting income to current payouts (to employees, managers, shareholders and governments). Consequently, code law accounting income was less timely, particularly in incorporating economic losses. Regulation, taxation and litigation cause variation among common law countries. The results have implications for security analysts, standard-setters, regulators, and corporate governance. (Barth & Schipper, 2008). They first observed that transparency was not well-defined in a financial reporting context. Extrapolating from the ways transparency is used in other contexts, they defined financial reporting transparency as the extent to which financial reports

reveal an entity's underlying economics in a way that is readily understandable by those using the financial reports. They discussed limitations of this definition relating to its two components, but observe that the conceptual frameworks of the IASB and FASB provide a standard setter perspective on them. They next point out that theoretical research suggested that increased reporting transparency can reduce the cost of capital provided that transparency reduces information risk, and empirical research using a variety of measures of financial reporting transparency provides evidence of an association between transparency and cost of capital. Thus, research supports the notion that transparency was a desirable characteristic of financial reports. Given this potential benefit, they then identify characteristics of financial reporting that foster transparency - either by better reflecting the firm's underlying economics or by enhancing the understandability of information in financial reports. Finally, they described the challenges to achieving financial reporting transparency globally and discussed how the IASB was attempting to address them. Their discussion implied several standard setting actions that might increase financial reporting transparency. (Gerald, et al,. 2008) researched and discussed the issue of the lack of transparency in financial reporting and how companies take advantage of accounting rules in ways that inhibit transparency. Various legal cases were studied as well as Securities and Exchange Commission (SEC) and Financial Accounting Standards Board (FASB) studies of the impact of off‐balance‐sheet arrangements allowed by the FASB and SEC. There are many ways that companies accomplish off‐balance‐sheet financing by taking advantage of rules‐based accounting. If there is not a rule to prevent an entity from handling a particular transaction a certain way, then it is difficult for the auditor to stop it from happening.(Lang & Lundholm, 1996) examined the relation between the disclosure practices of firms, the number of analysts following each firm, and properties of the analysts' earnings forecasts. They used data from the Financial Analysts Federation Corporate Information Committee Report (FAF Report), They provided evidence that firms with more informative disclosure policies have a larger analyst following, more accurate analyst earnings forecasts, less dispersion among individual analyst forecasts and less volatility in forecast revisions. The results enhance their understanding of the role of analysts in capital markets. Further, they suggested that potential benefits to disclosure include increased investor following, reduced estimation risk and reduced information asymmetry, each of which have been shown to reduce a firm's cost of capital in theoretical research.(Lakhal, 2009) examined the relationships between voluntary earning disclosures made by French-listed firms and financial analysts' behavior. They focused on voluntary earnings disclosures' contribution in explaining analysts' coverage and their earnings forecasts properties including forecast error and dispersion. They examined voluntary disclosures and analyst coverage as two decisions that could be endogenously determined. Their sample includes 154 French-listed firms from 1998 to 2001. Results using simultaneous equation model showed that the disclosure decision influences and was not influenced by financial analysts' coverage, suggesting analysts choose to follow firms with high voluntary disclosure practices. Additional findings showed that voluntary earnings disclosures were likely to improved analysts' forecasts accuracy and to reduce the dispersion among financial analysts' forecasts suggesting these disclosures reduce market uncertainty about forecasted earnings. These findings imply that corporate disclosure policy is helpful to financial analysts. (Healy et al,. 1999) investigated whether firms benefit from expanded voluntary disclosure by examining changes in capital market factors associated with increases in analyst disclosure ratings for 97 firms. The disclosure rating increases are accompanied by increases in sample firms' stock returns, institutional ownership, analyst following, and stock liquidity. These findings persisted after controlling for contemporaneous earnings performance and other potentially influential variables, such as risk, growth, and firm size. While it is difficult to draw unambiguous causal conclusions, these results were consistent with disclosure model predictions that expanded disclosure leads investors to revise upward valuations of the sample firms' stocks, increases stock liquidity, and creates additional institutional and analyst interest in the stocks. (Gelb & Zarowin, 2000) examined the association between voluntary corporate disclosure and the in formativeness of stock prices. They measured corporate disclosure using the AIMR-FAF annual corporate disclosure ratings. They defined price informativeness by the association between current stock returns and future earnings changes: more informative stock price changes contain more information about future earnings changes. To measure this association, they regressed current returns against (current and) future earnings changes. The aggregated coefficient on the future earnings changes, which They referred to as the future ERC, was Their measure of informativeness (association).They hypothesized and found that greater disclosure is associated with stock prices that are more informative about future earnings (i.e., higher future ERC). These results provided empirical support for the widely held, but heretofore empirically undocumented, belief that greater disclosure provides information benefits to investors. (Botosan, 1997)The effect of disclosure level on the cost of equity capital is a matter of considerable interest and importance to the financial reporting community. However, the association between disclosure level and cost of equity capital is not well established and has been difficult to quantify. He examined the association between disclosure level and the cost of equity capital by regressing firm-specific estimates of cost of equity capital on market beta, firm size and a self-constructed measure of disclosure level. Their measure of disclosure level was based on the amount of voluntary disclosure provided in the 1990 annual reports of a sample of 122

manufacturing firms. For firms that attracted a low analyst following, the results indicated that greater disclosure is associated with a lower cost of equity capital. The magnitude of the effect is such that a one-unit difference in the disclosure measure is associated with a difference of approximately twenty-eight basis points in the cost of equity capital, after controlling for market beta and firm size. For firms with a high analyst following, however, he found no evidence of an association between my measure of disclosure level and cost of equity capital perhaps because the disclosure measure is limited to the annual report and accordingly may not provide a powerful proxy for overall disclosure level when analysts play a significant role in the communication process. (Chi, 2009) investigated whether differences in the quality of firm-level transparency and disclosure of corporate governance practices help to explain firm performance in a cross-section of companies in Taiwan. He provided evidence that is consistent with Taiwanese regulators' initiatives that good corporate disclosure practices play a significant role in firm performance. Finally, the results showed that the back-propagation neural network approach can be successfully implemented to predict the financial market-based performance of a firm. (Jensen et al,. 2006) to investigated whether a firm's financial disclosure size can help investors predict performance. Controlling for size and industry, the relationship between financial disclosure size and subsequent stock performance for all Standard and Poor's (S and P) 500 firms over a seven - year period was examined. It is found that firms with smaller 10 - Ks tend to have better subsequent performance relative to their industries. However, the findings suggested that the performance explanation may not lie in the size of the 10 - K itself. Firms with smaller 10 - Ks tend to perform better because they were smaller in terms of total assets and more focused, with fewer business segments.

HYPOTHESES

H_1: There is a significant relationship between disclosure quality and return on assets.
H_2: There is a significant relationship between disclosure quality and return on equity.
H_3: There is a significant relationship between disclosure quality and Market value to book value.
H_4: There is a significant relationship between disclosure quality and TOBIN'S Q.
H_5: There is a significant relationship between disclosure quality and future return on assets.
H_6: There is a significant relationship between disclosure quality and future return on equity.
H_7: There is a significant relationship between disclosure quality and future Market value to book value.
H_8: There is a significant relationship between disclosure quality and future TOBIN'S Q.

METHIDOLOGY

Population and sample

The present research studies two types of industries; the chemical and pharmaceutical listed companies on the TSE. The sample comprises firms that meet the following conditions:
1. Firms that have been listed in the stock exchange before 2015;
2. Firms whose financial year ends at the end of the Iranian calendar;
3. Firms that have no financial year changes;
4. Firms that have been operating in TSE during the period of interest;
5. Firms that have data available for the period of interest;
6. Investment companies are excluded.
Given these conditions, 94 firms were selected as sample.

Research models and variables

The present research uses the models proposed for the hypotheses:

$$\text{RoA}_{i,t} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .1)$$

$$\text{RoE}_{i,t} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .2)$$

$$\text{MV/BV}_{i,t} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .3)$$

$$\text{TOBIN'S Q}_{i,t} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .4)$$

$$\text{RoA}_{i,t+1} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .5)$$

$$\text{RoE}_{i,t+1} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .6)$$

$$\text{MV/BV}_{i,t+1} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .7)$$

$$\text{TOBIN'S Q}_{i,t+1} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t} \quad (Model\ .8)$$

$DISCLOSURE_{i,t}$: Disclosure quality for firm i in year t.
$RoA_{i,t}$: Return on assets for firm i in year t.
$RoA_{i,t+1}$: Return on assets for firm i in year t+1.
$RoE_{i,t}$: Return on equity for firm i in year t.
$RoE_{i,t+1}$: Return on equity for firm i in year t+1.
$MV/BV_{i,t}$: Market value to book value for firm i in year t.
$MV/BV_{i,t+1}$: Market value to book value for firm i in year t+1.
$LEV_{i,t}$: Financial leverage for firm i in year t.
$SIZe_{i,t}$: Firm size. It is the natural logarithm of total sales for firm i in year t.

Dependent variable
In this study, the dependent variable is current and future performance that involves: returns on assets, return on equity, Market value to book value, Q- Tobin.

Independent variables
In this study, the independent variables is disclosure quality

Control Variables
In this study, the Control variables are firm size and financial leverage.
Firm size is the natural logarithm of total sales.

$$financial\ leverage = \frac{total\ debt}{shareholders\ equity}$$

Data analysis
Multivariate regression analysis was applied at the 5% significance level for testing the hypotheses.

FINDINGS
Descriptive and inferential (multivariate regression analyses) analyses are used for testing the hypotheses of the research.

Descriptive statistics
The data is collected from 94 samples firms listed in Tehran Stock Exchange for the period from 2010 to 2015. Table 1 provides mean, median, standard deviation, maximum, and minimum values for the research variables.

	N	Mean	Std. Deviation
DIQ	470	43.01	22.152
ROA	470	0.174	0.141
ROE	470	0.07	11.35
MV/BV	470	3.92	6.21
TQ	470	1.88	1.478
SIZE	470	0.710	0.158
LEV	470	27.01	1.612

Inferential statistics
In the regression model, the effect of the independent variable (DIQ) on the current and future performance (ROA, ROE, MV/BV, TQ) of the sample firms is examined. A multivariate linear regression model is used at the 5% significance level for testing the hypotheses. If there is no relationship between the independent variables and the dependent variable, all the coefficients in the regression model must be equal to zero. Thus, we can test the significance of the regression model, which is often done using F test. If the obtained F-statistic is less than the Table value of F at the 95% confidence level, the regression model will be significant.

Hypothesis 1

Table 2. Results of testing the first hypothesis with multivariate regression analysis

$$RoA_{i,t} = \beta_0 + \beta_1 DISCLOSURE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEVERAGE_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-0.184	-	-4.187	0.000
DIQ	0.002	0.321	7.021	0.000
SIZE	0.041	0.48	14.021	0.000
LEV	-0.315	-0.412	-9.499	0.000

Table 3. Model Summary

R- Square	F	Durbin-Watson
0.421	132.014	1.84

According to the first hypothesis, disclosure quality (DIQ) is significantly associated with RoA. Based on the results of multivariate regression model (Table 2), DIQ has a beta coefficient of positive and p-value of 0.000. Therefore, there is a significant relationship between DIQ and RoA at 5% significance level.

Hypothesis 2

Table 4. Results of testing the second hypothesis with multivariate regression analysis

$$RoE_{i,t} = \beta_0 + \beta_1 DISCLOSURE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEVERAGE_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-1.989	-	-8.021	0.000
DIQ	0.007	0.198	4.825	0.000
SIZE	0.172	0.412	9.021	0.000
LEV	0.495	0.090	1.999	0.044

Table 5. Model Summary

R- Square	F	Durbin-Watson
0.1871	34.652	1.75

According to the second hypothesis, DIQ is significantly associated with RoE. Based on the results of multivariate regression model (Table4), DIQ has a beta coefficient of positive and p-value of 0.000. Therefore, there is a significant relationship between DIQ and RoE at 5% significance level.

Hypothesis 3

Table 6. Results of testing the third hypothesis with multivariate regression analysis

$$MV/BV_{i,t} = \beta_0 + \beta_1 DISCLOSURE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEVERAGE_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-23.741	-	-11.021	0.000
DIQ	0.058	0.321	6.254	0.000
SIZE	1.424	0.398	9.254	0.000
LEV	12.047	2.981	8.014	0.000

Table 7. Model Summary

R- Square	F	Durbin-Watson
0.321	56.258	1.985

According to the third hypothesis, DIQ are significantly associated with MV/BV. Based on the results of multivariate regression model (Table6), DIQ has a beta coefficient of positive and p-value of 0.000. Therefore, there is a significant relationship between DIQ and MV/BV at 5% significance level.

Hypothesis 4

Table 8. Results of testing the fourth hypothesis with multivariate regression analysis

$$TOBIN'S\ Q_{i,t} = \beta_0 + \beta_1 DISCLOSURE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEVERAGE_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-3.021	-	-5.087	0.000
DIQ	0.024	.301	6.587	0.000
SIZE	0.421	0.428	12.011	0.000
LEV	-2.021	-0.214	-4.541	0.000

Table 9. Model Summary

R- Square	F	Durbin-Watson
0.365	69.011	2.147

According to the fourth hypothesis, DIQ are significantly associated with TOBIN'S Q. Based on the results of multivariate regression model (Table 8), DIQ has a beta coefficient of positive and p-value of 0.000.Therefore; there is a significant relationship between DIQ and TOBIN'S Q at 5% significance level.

Hypothesis 5

Table 10. Results of testing the fifth hypothesis with multivariate regression analysis

$$\mathrm{RoA}_{i,t+1} = \beta_0 + \beta_1 \mathrm{DISCLOSURE}_{i,t} + \beta_2 \mathrm{SIZE}_{i,t} + \beta_3 \mathrm{LEVERAGE}_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-.0351	-	-5.021	0.000
DIQ	0.002	0.354	6.098	0.000
SIZE	0.041	0.401	9.124	0.000
LEV	-0.214	-0.208	-3.547	0.000

Table 11. Model Summary

R- Square	F	Durbin-Watson
0.321	44.124	1.898

According to the fifth hypothesis, DIQ are significantly associated with RoA. Based on the results of multivariate regression model (Table10), DIQ has a beta coefficient of positive and p-value of 0.000. Therefore; there is a significant relationship between DIQ and RoA at 5% significance level.

Hypothesis 6

Table 12. Results of testing the sixth hypothesis with multivariate regression analysis

$$\mathrm{RoE}_{i,t+1} = \beta_0 + \beta_1 \mathrm{DISCLOSURE}_{i,t} + \beta_2 \mathrm{SIZE}_{i,t} + \beta_3 \mathrm{LEVERAGE}_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-0.702	-	-2.014	0.069
DIQ	0.005	0.172	3.981	0.003
SIZE	0.120	0.335	4.965	0.000
LEV	-0.821	-0.219	-3.211	0.019

Table 13. Model Summary

R- Square	F	Durbin-Watson
0.098	14.254	1.727

According to the sixth hypothesis, DIQ are significantly associated with RoE. Based on the results of multivariate regression model (Table 12), DIQ has a beta coefficient of positive and p-value of 0.03.Therefore; there is a significant relationship between DIQ and RoE at 5% significance level.

Hypothesis 7

Table14.Results of testing the seventh hypothesis with multivariate regression analysis

$$\mathrm{MV/BV}_{i,t+1} = \beta_0 + \beta_1 \mathrm{DISCLOSURE}_{i,t} + \beta_2 \mathrm{SIZE}_{i,t} + \beta_3 \mathrm{LEVERAGE}_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-13.214	-	-6.032	0.000
DIQ	0.044	0.199	4.215	0.000
SIZE	0.802	0.324	5.321	0.000
LEV	7.033	0.198	3.987	0.000

Table 15. Model Summary

R- Square	F	Durbin-Watson
0.187	19.625	1.702

According to the seventh hypothesis, DIQ are significantly associated with MV/BV. Based on the results of multivariate regression model (Table14), DIQ has a beta coefficient of positive and p-value of 0.745.Therefore; there is a significant relationship between DIQ and MV/BV at 5% significance level.

Hypothesis 8

Table 16. Results of testing the eighth hypothesis with multivariate regression analysis

$$\text{TOBIN'S } Q_{i,t+1} = \beta_0 + \beta_1 \text{DISCLOSURE}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEVERAGE}_{i,t}$$

	Estimated coefficient	standardized Coefficients	T	Sig
CONSTANT	-0.365	-	-0.541	0.69
DIQ	0.016	0.328	5.606	0.000
SIZE	0.187	0.369	5.471	0.000
LEV	-2.032	-0.291	-3.741	0.000

Table 17. Model Summary

R- Square	F	Durbin-Watson
0.187	29.087	2.148

According to the eighth hypothesis, DIQ are significantly associated with TOBIN'S Q. Based on the results of multivariate regression model (Table 16), DIQ has a beta coefficient of positive and p-value of 0.000. Therefore; there is a significant relationship between DIQ and TOBIN'S Q at 5% significance level.

Discussion

The present research examined the relationship between five variables (return on assets (ROA), return on equity (ROE), and Market value to book value (MV/BV), TOBIN'S Q (TQ)) and disclosure quality of the chemical and pharmaceutical firms listed in Tehran Stock Exchange. The results of multivariate regression accepted eight the hypotheses of the research. The results of multiple linear regression analysis show that there is a significant relationship between disclosure qualities with return on assets, return on equity, market value to book value, TOBIN'S Q. This finding is consistent with results (Lan & Lundholm, 1993), (Lan & Lundholm, 1996), (Healy et al,. 1999), (Gelb & Zarowin, 2000) and (Chi, 2009). Also, this finding isn't consistent with results (Jensen et al,. 2006). The results of multiple linear regression analysis show that there is a significant relationship between firm size and leverage with current and future performance of the listed companies on the Tehran Stock Exchange (TSE).

Limitation

The limitation is related to the lack of classified data in the database of TSE. Therefore, the researchers were forced to use the audited reports of the firms and data collection became a very time consuming process.

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