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THE EFFECT OF FINANCIAL REPORTING TRANSPARENCY ON FRIM VALUE ACCORDING TO THE ROLE OF PRODUCT MARKET COMPETITION

Omar Adeeb Qassim
Lecturer of the Financial and Banking Department, Faculty of Administrative Sciences and Economics, University of Wasit, Wasit, Iraq
E-mail: oqassim@uowasit.edu.iq, https://orcid.org/0009-0008-9861-8234

Abstract
This study aims to investigate the correlation between business value and transparency, considering the moderating impact of market rivalry. The Amman Stock Exchange includes all the companies that are listed as part of its statistical population. The systematic elimination strategy was used to choose the sample, and 36 firms from the years 2009 to 2021 made up the final sample size. A To evaluate the study hypothesis, a multivariate regression model based on pooled data was employed. The study's findings demonstrated that a company's worth is positively impacted by financial reporting openness. Furthermore, the findings demonstrate that the link between corporate openness and business value is unaffected by market rivalry.

Keywords: Financial Reporting Transparency, Firm Value, Market Competition.

Introduction

Transparency is defined as the timely and trustworthy public release of information that helps users comprehend the operational operations, risk distribution, financial situation and performance, and risk management strategies (Anderson et al., 2009). When a company has high transparency, its information helps people understand its risks and actions. Even though openness in financial research has several facets, prior studies have not adequately characterized and differentiated between various forms of transparency. In this study, transparency is divided into general categories. The correlation between transparency and improved information disclosure and quality indicates that transparency has a noteworthy effect on improving corporate performance. Equality comes at a lower cost when ethics are clear. Moreover, it enables investors to make more educated decisions that support the assessment of large organizations. Because of their strong relationship, Cheng et al. (2015) discovered that disclosure frequently leads to more transparency. Firms that disclose non-financial information more voluntarily are rewarded by the capital markets. For instance, stronger business value is correlated with higher carbon disclosure. Consequently, it is anticipated that a company's worth will rise in tandem with improvements in transparency (Liu et al., 2022). Because of the survival of the fittest, market rivalry puts pressure on businesses. The division of ownership and control gives managers the freedom to pursue their own objectives, even if they conflict with owners' best interests, according to agency theory.

Managers who are actively involved in the business can manipulate disclosures and deceive investors by using their insider knowledge and influence to lower the company's worth. Because managers must maximize company value in a competitive market and cannot expect spectacular profits, market rivalry works as a shared pressure to eliminate this management slack. Put differently, market competition serves as a useful method for resource allocation. First, in a situation where there is fierce rivalry in the product market, managers rarely have resources to spare due to the narrow profit margins. Second, higher levels of competition make bankruptcy and liquidation more likely, particularly for expensive companies, which encourages management to operate efficiently. Thus, it is anticipated that market rivalry will play a role in enhancing management effectiveness and raising the value of the company (Liu et al., 2022). The problem of market rivalry and financial reporting transparency has not been examined in any of the numerous studies that have been conducted recently about business value from various perspectives and aspects. Examining how transparent financial reporting affects a company's value while taking market competitiveness into account is the goal of this research. The research's methodology and theoretical underpinnings are described below. Subsequently, the research findings are outlined, and ultimately, a conclusion is drawn from the data, concluding with recommendations for further study and implementation as well as limits.

- **Theoretical Foundations**

Transparency in business means the "broad availability of enough, pertinent, and trustworthy data on an organization's value, risk, governance, investment prospects, and periodic performance. When a company releases information, it's seen as having a high level of openness. available to the public that enables them to fully comprehend the risks and actions it takes. A high level of transparency enables stakeholders to make informed decisions by accurately assessing the firm's risk and financial status as well as their underlying quality. Despite being obligated to furnish comprehensive disclosure, listed businesses have autonomy over the information they choose to disclose, resulting in diverse variations in corporate opacity (Anderson et al., 2009). The presence of some issues, such as poor earnings quality, is frequently indicated by the lack of openness in information sharing. Nonetheless, most of the earlier research has emphasized the possible advantages of corporate openness and demonstrated that it significantly lowers stock price volatility and particular return volatility. Additionally, by closing lines of communication and information asymmetry between companies and shareholders, mispricing lowers accruals that increase company value. The agency theory states that openness has a direct impact on the governance mechanism as well. For instance, it raises the firm's value by deterring managers from acting opportunistically (Liu et al., 2022) More broadly, corporate transparency is essential for both raising external scrutiny and decreasing information asymmetry and agency issues. Reduced ambiguity about the firm through corporate transparency helps to cut down on reduces the expense of litigation, lowers financing expenses, and diminishes the effect of market sentiment on stock prices. In addition, Buck et al. (2004) found that throughout the crisis, stock prices of businesses with higher disclosure quality performed better. According to Anderson et al. (2009), The agency conflict between dominant shareholders and minority

investors is exacerbated by a lack of corporate openness, which leads to poor company performance. Conversely, extensive openness might deter insiders from using company assets for their gain at the expense of the value to shareholders. Francis et al. (2009) used cross-national data to confirm that corporate transparency promotes resource allocation across industrial sectors. Being transparent about a company's operations prevents good organizations from being underestimated, which is crucial for growing corporate value.

Transparency immediately raises business value by lowering. According to information asymmetry theory and signaling theory, there is an information imbalance between businesses and outsiders. From the perspective of information transmission, there are benefits and drawbacks for both parties involved in a market transaction depending on their relative levels of knowledge possession and mastery. Well-performing companies are highly driven to set themselves apart from badly performing companies by utilizing disclosures to highlight their superior qualities to prevent making mistakes in judgment (Liu et al., 2022). Due to pressure from the market, underperforming businesses are compelled to communicate with the public and increase transparency. Consequently, there is a lower chance of unfavorable selection. Reducing transaction expenses, corporate debt financing obstacles, and the cost of capital are the benefits of this kind of reduction (Patel and Dallas, 2002). Additionally, increased focus from analysts lowers the deviation of market expectations, so increasing the company's worth. Increased transparency is a dynamic monitoring method that helps investors understand the company's profitability and risk profile. This helps to prevent moral hazard issues and raises the company's value (Liu et al., 2022). Consequently, the research's initial hypothesis is as follows:

First hypothesis: Transparency has a positive effect on company value.

Market competition is seen to be "possibly the most powerful force of economic efficiency in the world." Businesses exploit market resources—such as market fragmentation and the survival of the fittest to maximize profits and achieve long-term development. To remain in operation and save costs, more competitive firms must continuously raise their production efficiency and management standards. The impacts of market rivalry, however, are the subject of two opposing theoretical positions (Liu et al., 2022).

First, several papers have looked at market rivalry as an external disciplinary instrument, which is the positive aspect from the perspective of the competition. The primary justification is that pressure management and information asymmetry are lessened by competitive risks. One way that competition benefits businesses directly is by increasing market efficiency, which helps regulate corporations in developing nations, and by making them less dependent on bank loan funding (Lee et al., 2009). By pushing them to fight for finance, more fierce market rivalry drives businesses to enhance governance transparency and the caliber of financial reporting (Hidalgo, 2013). However, competition is viewed as a disciplinary tool that overcomes slack, lowers owner-agent disputes, and offers management incentives (Amman et al., 2013). Intense rivalry between businesses raises the risk of failure, particularly for expensive Businesses. Additionally, because managers run the possibility of insolvency, liquidation, layoffs, and takeovers, it pushes them to attempt to make decisions that add value rather than focusing on their objectives.

Second, according to some theoretical research, Management opportunism and laxity are made worse by market rivalry. This body of evidence, which demonstrates how market rivalry breeds immoral behavior like profit manipulation, lends credence to the dark worldview. As managers preserve private information to prevent weakening competitive advantages, increased rivalry results in an opaque information environment (Cheng et al., 2013). According to Staton et al. (2017), market rivalry results in wasteful investment, a slowdown in the flow of information, and a reduction in the substance of information. According to Bagnoli and Watts (2010), managers may participate in earnings management because of lower returns on effort, which may cause them to misreport real performance.
Second hypothesis:
The link between transparency and business value is positively impacted by market rivalry..

Preliminary Research Background

Liu et al. conducted research titled "Corporate Transparency and Corporate Value: The Regulatory Role of Market Competition" in 2022. The results showed a strong correlation between business value and corporate transparency. Additionally, the rivalry in the product market lessens the effect of corporate transparency on company value.

Mobel and Ahsan (2021) carried out a study titled "Cost Asymmetry and Company Value" to look at how cost stickiness affects company value. The results of the study showed a negative correlation between cost stickiness and firm value. Moreover, the results showed that agency problems and resource reallocation aggravate the effect of cost stickiness on firm value. Additionally, the outcomes showed that free cash flow and the cost of capital both increase the impact of cost stickiness on the firm's value.

Sheikh (2018) carried out a study on the topics of business value, product market competitiveness, and CEO power. The findings demonstrated that the value of the firm is directly impacted by the CEO's influence. Competition in the product market, however, has little effect on the link between CEO power and company value.

Staton et al. (2017) examined the effects of product market rivalry on investment efficiency. The results showed that in markets with competition, investment efficiency decreases.

Markarian and Santello (2014) looked at earnings management and competitiveness in the product market and the accruals-based earnings management measuring approach has been applied in this study. These findings demonstrated that competition in the product market benefits profit management.

Research Methodology:

Population: The population for this study consists of all the companies that are publicly traded on the Amman Stock Exchange from 2009 to 2021. In addition, data from the year 2008 has been gathered to compute the research variables.

Sampling Method: A systematic exclusion method has been employed for sample selection. The selected companies meet the following criteria:

1. The fiscal year of the company ends in December for comparability.
2. The company has not changed its fiscal year during the research period.

3. All required data for the research is available and accessible for the selected companies
4. The company is not a financial intermediary (banks, investment, or leasing companies).

Taking into account the previously mentioned restrictions and criteria, the study encompassed 36 businesses that are listed on the Iraq Stock Exchange. Data collection and processing were done with Microsoft Excel, and the model estimate was completed using Views software.

Variables: Each of the factors used in this study dependent, independent, moderating, and control is described below.

The value of the company is the dependent variable in this study. It is calculated as the ratio of the market value of the stock and the total book value of liabilities to the book value of all assets.

The openness of financial reporting, which is used to gauge how transparent financial reporting is or is not, serves as the study's independent variable. The degree of opaqueness in financial reporting has been gauged through earnings management. The modified Jones model has been utilized to quantify discretionary accruals since earning management is accomplished with their assistance. Discretionary accruals are determined by subtracting total accruals from non-discretionary accruals, in accordance with this paradigm. To compute the total of non-discretionary accrual items from the outset, utilize equation (1) is estimated:

$$TACC_{i,t} = \alpha_0(1/A_{i,t-1}) + \alpha_1 \Delta Sale_{i,t} + \alpha_2 \Delta Rec_{i,t} + \alpha_3 PPE_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where TACC: total accruals that are obtained from the difference between operating earnings and operating cash flow; A: The company's assets at the end of the previous year; ΔSale: change in company sales; ΔRec: change in net accounts receivable; PPE: net tangible fixed assets.

Then, the parameters α_0, α_1, α_2 and α_3 obtained from this estimate are used to calculate non-discretionary accruals as described in equation (2).

(2)

$$NDACC_{i,t} = \hat{\alpha}_0 \left(\frac{1}{A_{i,t-1}} \right) + \hat{\alpha}_1 \Delta SAL_{i,t} + \hat{\alpha}_2 \Delta REC_{i,t} + \hat{\alpha}_3 PPE_{i,t}$$

Where NDACC: Accruals are non-discretionary

Finally, discretionary accruals are calculated based on equation (3):

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \quad (3)$$

Where DACC: Accruals are discretionary.

After calculating discretionary accruals, the amount of earning management has been measured as a measure of the lack of transparency of financial reporting through equation (4):

$$OPA_{i,t} = Abs(DACC_{i,t}) + Abs(DACC_{i,t-1}) + Abs(DACC_{i,t-2}) \quad (4)$$

Where OPA: lack of transparency of financial reporting; Abs: Absolute value symbol.

The moderating variable of this research is market power. This variable is measured using Herfindahl and Harishman index. To calculate Herfindahl's index, equation (5) has been used.

(5)

$$CC_{it} = \sum_{j=1}^{J} \left(\frac{Sales_{ijt}}{Sales_{it}}\right)^2$$

Where $Sale_{i,j,t}$: sales of business i to significant client j in the year t, $Sale_{i,t}$: Total sales of company i in year t.

Based on the research of Liu et al. (2022), Here is how control variables will be applied.

Company size: the total book value of the company's assets expressed as a natural logarithm financial leverage (Lev): the proportion of total debt to the entire asset book value.

Cash retention: the proportion of cash to total asset book value

Sales growth (SaleG): the difference in the sales ratio between the current and prior years.

To investigate the first hypothesis, the study team looked at Liu and Cheng's findings. (2022), the connection's description of the regression relationship (6) has been used.

$$FirmV_{i,t} = \beta_0 + \beta_1 Opacity_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Cash_{i,t} + \beta_5 SaleG_{i,t} + \varepsilon_{i,t} \quad (6)$$

Where $FirmV_{i,t}$: value of firm i in year t.

$Opacity_{i,t}$: lack of transparency of company i in year t

$Size_{i,t}$: size of company i in year t

$Lev_{i,t}$: financial leverage of company i in year t

$Cash_{i,t}$: cash holding of company i in year t

$SaleG_{i,t}$: sales growth of company i in year t

To confirm the first research hypothesis, the β_1 coefficient is expected to be negative and significant, otherwise it is rejected.

To test the second hypothesis of the research, following the research of Liu and Cheng (2022), the regression relationship as described in relationship (7) has been used.

$$FirmV_{i,t} = \beta_0 + \beta_1 Opacity_{i,t} + \beta_2 HHI_{i,t} + \beta_3 Opacity_{i,t} * HHI_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + \beta_6 Age_{i,t} + \beta_7 Cash_{i,t} + \beta_8 SaleG_{i,t} + \varepsilon_{i,t}$$

Where $HHI_{i,t}$: market competition of company i in year t

The β_3 coefficient must be negative and significant to support the second research hypothesis; if it is not, it is rejected.

Research Findings

Descriptive Statistics

The Detailed information on the research variables' descriptive statistics is included in table No. 1.

Table 1. Analysis of study variables using descriptive statistics

Variable	Median	Mean	Maximum	Minimum	Std. Dev
FirmV	7.314	6.478	31.641	17.307	17.553
Opacity	0.840	0.259	0.580	0.034	2.741
HHI	0.026	0.023	0.321	0.0005	0.0246
Size	14.907	14.777	20.614	10.660	1.550
Lev	0.648	0.588	9.457	-0.0099	0.616
SaleG	0.082	0.002	0.433	-0.959	0.647
Cash	0.043	0.026	0.356	0.0002	0.047

The findings indicate that the company's average value is 14.777 (14.907), its greatest value is 31.641, and its lowest value is 17.307. Corporate transparency has a mean of 0.259 and a median of 0.840. The surveyed firms' average cash holdings indicate that they have 2.6% liquidity. Market competition has the lowest dispersion and corporate transparency has the largest, as indicated by the market competition standard deviation of 0.0246 and the corporate transparency standard deviation of 2.741.

The results of the first hypothesis test

Table number (2) contains the findings of the first research hypothesis test. The model's fit between the pooled model and the fixed effects model was assessed using Limer's F test. Pooled data is the sort of model fit, according to Limer's F test. The first hypothesis is that it is anticipated that corporate openness will raise the company's worth. Given that the corporate transparency criterion was utilized in the computation, it follows that, to validate this hypothesis, it is anticipated that, at the 95% significance level, the variable representing corporate lack of transparency will have an estimated coefficient that is negative and significant.

Table No. 2. The outcomes of the initial test of the study hypothesis

$FirmV_{i,t} = \beta_0 + \beta_1 Opacity_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Cash_{i,t} + \beta_5 SaleG_{i,t} + \varepsilon_{i,t}$					
Variable	**Coefficients**	**standard error**	**t statistic**	***p-value***	***VIF***
Intercept	19.783	52.529	0.377	0.7066	-
Opacity	-0.480	0.237	-2.023	0.0434	1.18
Size	1.568	0.255	6.136	0.0000	1.03
Lev	0.990	0.263	3.764	0.0002	1.15
Cash	41.647	8.046	5.176	41.647	1.06
SaleG	0.1450	0.277	0.5222	0.1450	1.02
F- FisherTest significance of the whole) (model			2.881		0.0000
F-Leamer Test			1.103		0.2412
Durbin-Watson stat			1.930		
Adjusted R-squared			0.1990		
Likelihood ratio test			1216.24		0.0000

According to the findings, the financial lack of transparency variable has a significance level of (0.0434), which is lower than the intended error threshold of 5%. Thus, it can be said that there is a strong correlation between a company's worth and its financial openness. However, the financial lack of transparency variable coefficient (-0.480) is negative. in other words, there is a bad correlation between a company's worth and its level of openness. Therefore, it can be concluded that openness adds value to a firm, and the first hypothesis is accepted at the five percent error level. There isn't a collinearity issue among the independent variables in connection (7), according to the variance inflation statistic values. This full connection (7) is significant, as evidenced by Fisher's statistic (2.881). Furthermore, the significance of the Likelihood Ratio Test suggests that there is a heterogeneity of variance issue in the way that connection (7) is implemented. The variance heterogeneity problem in this study has been resolved using the generalized least squares approach.

The results of the second hypothesis test

Table number three contains the findings of the study's second hypothesis test. The model's fit between the pooled model and the fixed effects model was assessed using Limer's F test. Pooled data is the sort of model fit, according to Limer's F test. The second hypothesis is that the impact of financial reporting transparency on firm value is anticipated to be mitigated by market competition.

The findings demonstrated that the variable's significant level, which is greater than the error level of 5%, is the outcome of the company's lack of openness in the market competition (0.8456). Thus, it can be said that there is no meaningful correlation between business value and the outcome of market competition's lack of transparency. This indicates that transparency's impact on business value is unaffected by market rivalry, and the second hypothesis is rejected at the five percent error level.

Table No. 3. The outcomes of the study hypothesis test number two

$$FirmV_{i,t} = \beta_0 + \beta_1 Opacity_{i,t} + \beta_2 HHI_{i,t} + \beta_3 Opacity_{i,t} * HHI_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + \beta_6 Cash_{i,t} + \beta_7 SaleG_{i,t} + \varepsilon_{i,t}$$

Variable	**Coefficients**	**standard error**	**t statistic**	***p-value***	***VIF***
Intercept	19.438	52.236	0.372	0.7100	-
Opacity	-0.555	0.5456	1.017	0.3091	1.18
HHI	25.667	12.043	2.131	0.0334	1.06
Opacity*HHI	-03.630	18.630	-0.1948	0.8456	2.21
Size	1.645	0.2322	7.084	0.0000	1.03
Lev	1.030	0.2683	3.841	0.0000	1.15
Cash	41.509	7.672	5.410	0.0000	1.06
SaleG					
F- FisherTest(significance of the whole model)			2.889		0.0000
F-Leamer Test			1.100		0.2476
Durbin-Watson stat			1.947		
Adjusted R-squared			0.2026		
Likelihood ratio test			1152.17		0.0000

The variance inflation statistic's findings indicate that there isn't a collinearity issue with relation (8)'s independent variables. The importance of the entire connection (8) is indicated by Fisher's statistic (2.889). Furthermore, the significance of the Likelihood Ratio Test suggests that there is a heterogeneity of variance issue with the way connection (8) is implemented. The variance heterogeneity problem in this study has been resolved using the generalized least squares approach.

Discussion

Increased openness is intended to reduce risks and boost investor trust, which will increase the value of the firm by providing investors with more thorough information. Furthermore, the competitive environment in the product market serves as a great tool for allocating resources optimally, improves management performance, and disciplines inefficient behavior. Considering this, the current study's goal is to examine how corporate transparency affects firm value while taking market competitiveness into account.

The first hypothesis test's findings demonstrated that a company's worth is positively impacted by financial reporting openness. This result is consistent with the findings of Liu and Cheng's investigation (2022). The second hypothesis test's findings demonstrated that the link between financial reporting transparency and firm value is unaffected by market rivalry. This result contradicts the conclusions of Liu and Cheng's investigation (2022). The study's findings generally have several management ramifications for businesses, the market, and authorities. when enhancing overall governance efficiency, firms ought to be obligated to take the level of market rivalry into account to mitigate information asymmetry and agency issues.

The Tehran Stock Exchange Organization is urged to strengthen internal controls over financial reporting and boost transparency in its financial reporting, as the first hypothesis's results showed that corporate openness increases a company's worth. Give other instructions for financial reporting and transparency as well.

Future studies could look at how corporate governance practices affect the link between transparency and firm value as a monitoring tool. Furthermore, to investigate the connection between business value and transparency considering information asymmetry circumstances and business credibility.

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