

An Investigation into the Impact of Information Disclosure on the Stock Liquidity and Company Performance

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Abstract: Taking 655 listed companies from Shenzhen Stock Exchange in 2009 as examples, this article examines how the quality of information disclosure impacts stock liquidity and company performance. We find that in China higher quality of information disclosure can reduce information asymmetry between companies and investors thus improve investors' rational decision making ability, and lower stock liquidity, which is helpful for capital market's stable development. Besides, higher quality of information disclosure can reduce agency cost, enhance company's reputation value, and improve the companies' performance.

Keywords: Information disclosure; Stock liquidity; Company performance

1 Introduction

Information disclosure is of great significance in corporate governance practice and its quality impacts capital market seriously as well. When there exists asymmetric information between companies and investors, the agency problem will appear. For companies, it may choose the strategic decision of maximizing the interests of top managers instead of investors. And this can easily lead to all kinds of trust problems between investors and companies. One of the effective ways to solve such problem is high quality information disclosure. Through the media, websites and other channels, companies could release financial information and other non-financial information to the investors, which could reduce information asymmetry between companies and investors.

First of all, the high quality information disclosure can minimize information asymmetry between companies and investors, which could reduce the information difference between investors. In this way, the stock trading in the stock market will tend to be a reasonable price, thus the liquidity of the stock will drop. Lang and Lundholm (1993) noted that the companies with good quality of information disclosure would be followed by more analysts, and their forecasts would be of less dispersion.

Secondly, better information disclosure may also reduce the company's capital cost, thereby enhancing its performance. Easley and O'Hara (2004) found that the quality and quantity of information disclosure would affect the pricing and the cost of capital. Barry and Brown (1984) suggested that the investors would bear risks in forecasting the future payoffs from their investment when the disclosure quality is better. For investors, the company with good quality of information disclosure has lower information risk. Due to it owns high attractiveness for investors, which enables the company lower capital cost. Amir and Lev (1996) studied the wireless communication industry, and found that some non-financial information disclosure such as market growth could improve the company's value. Myers and Majluf (1984) pointed out that the asymmetric information will increase the cost of external finance. Obviously, improving the quality of information disclosure not only can reduce the information asymmetry between companies and investors, but also can reduce the interest divergence between them.

2 Research Methodology and Development of Hypotheses

2.1 Samples selection and data

In this paper, the listed companies are chosen from Shenzhen Stock Exchange in China, which are normally listed in 2009. After excluding the companies issuing after January 1st, 2009, belonging to financial listed companies, lacking of available data, 655 companies are taken as the sample. The data of information disclosure is from the Trust Record issued on Shenzhen Stock Exchange website, and the rest of the data is from Guo-tai-an database.

2.2 Development of hypotheses

The quality of information disclosure will influence the market activity. Nittai K. Bergman and Sugata Roychowdhury (2008) indicated that the company’s disclosure policy could affect investor sentiment, so that bias investors expect and condition stock price further. Information disclosure level could affect investors’ sentiment, resulting in price fluctuation. Good information disclosure could establish the clear information channels between companies and investors, which could build up investors’ confidence to the companies and hold company’s stock perennially. Good quality of information disclosure can also reduce the information asymmetry between companies and investors, weaken the noise interference to the investors, and improve the level of rational decision of investors, which benefits capital market’s stability. Based on this, the paper proposes the following assumptions:

H1: The quality of information disclosure is negatively correlated with stock turnover rate with other conditions unchanged. The better information disclosure quality could lower stock turnover rate and vice versa.

Next the relationship between information disclosure quality and company performance is to be probed. According to agency theory of Coase (1937), Jensen and Meckling (1976) believed that the accounting information aimed at monitoring managers’ behavior to lower agency cost. Admati and Pfleiderer (2000) stated that companies’ value was correlated with the companies’ disclosure information that was taken by investors. Watts and Zimmerman (1978) also believed that companies should increase voluntary information disclosure to avoid the press from government and stakeholders, which might lead to increased agency cost in the future. Fishman and Hagerty (1989) indicated that IRM could reduce the fixed cost for external traders to get valuable information by information disclosure. Marcus and Wallace (1997) studied the disclosure practice of U.S companies, and found it has significant impact on companies’ size and performance. Good information disclosure quality not only can effectively decrease agency cost, but also can enhance the value of companies’ reputation, reduce the information asymmetry between investors and companies as far as possible. In this way, the effective communication channels can be built and companies’ performance is enhanced thereby. Based on this, the following assumption is made.

H2: The quality of information disclosure is positively correlated with companies’ performance with other conditions unchanged. The better information disclosure quality could increase companies’ performance, same on the contrary.

2.3 Empirical models

Multiple linear regression analysis method is taken to test the hypothesis. The quality of information disclosure is independent variable. The dependent variables are stock flowing status and companies’ performance, which are measured by stock turnover rate and companies’ EPS respectively. Control variables include: 1) the natural logarithm of total assets (SIZE); 2) leverage (LEV); 3) β value (RISK). To find out how the quality of information disclosure relates to the stock flowing status and companies’ performance separately, the regression models are introduced:

$$\text{TURNOVER} = a_0 + a_1\text{INFO} + a_2\text{SIZE} + a_3\text{LEV} + a_4\beta + \epsilon \tag{1}$$

$$\text{EPS} = b_0 + b_1\text{INFO} + b_2\text{SIZE} + b_3\text{LEV} + b_4\beta + \epsilon \tag{2}$$

Table 1 Variables Explanation

Variables Type	Variables name	Variables Code	Variables Explanation
Independent Variables	Information disclosure quality	INFO	The trust record issued on the website of Shenzhen stock exchange
Dependent Variables	Stock liquidity	TURNOVER	The average of stock turnover rate daily in 2009
	Company performance	EPS	Earning per share in 2009
Control Variables	Company size	SIZE	The natural logarithm of total market capitalization of the companies
	Financial leverage	LEV	Liability/asset ratio of 2009
	Risk	RISK	β value

Where the quality of information disclosure (INFO) is the independent variable and its value

is from the evaluation of Shenzhen Stock Exchange. According to the Trust Record issued on the website of Shenzhen Stock Exchange, we can get the evaluation of the companies' information disclosure quality. The record includes four categories, which are excellent, good, qualified and not-qualified, and they are valued as 3, 2, 1 and 0 respectively.

The dependent variables are stock turnover rate (TURNOVER) and Earning per share (EPS). TURNOVER means the average of stock turnover rate daily in 2009, measuring stock flowing status. EPS means earning per share in 2009, measuring the company's performance.

Size is commonly used to proxy for the level of information available about a firm, and we measure firm size (SIZE) as the natural logarithm of total market capitalization of the companies. Liability/asset ratio of 2009 is used to measure financial leverage. According to CAPM, most literatures use β value measure stock risk, which is used to control the risk. And all of these three variables are control variables.

3 Empirical Results

3.1 Descriptive statistics and correlations

Table 2 shows the descriptive statistics of all variables.

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
INFO	655	0	3	1.94	0.613
TURNOVER	655	0.32	7.47	2.5360	1.11776
EPS	655	-1.27	4.09	0.3446	0.43186
SIZE	655	18.27	25.65	21.4848	1.13012
LEV	655	0.02	1.74	0.4673	0.20213
RISK	655	0.31380	1.55910	1.0335493E0	.16673106
Valid N	655				

Correlations between INFO and dependent variables are presented in Table3. There is a high negative correlation between INFO and stock turnover rate, indicating that good INFO could help companies lower investors' speculative behavior which is conducive to stock's stability in capital market. Hypothesis 1 can be confirmed. There is a high positive correlation between INFO and EPS, indicating that good INFO could help companies increase companies' performance, and hypothesis 2 can be confirmed.

Table 3 Correlations

		TURNOVER	EPS
INFO	Pearson Correlation	-.283***	.332***
	Sig. (2-tailed)	.000	.000
	N	655	655

Note: ***, ** denote significance at 0.01 and 0.05 level (2-tailed), respectively.

3.2 Regression analysis

Table4 shows the result of regression models. After controlling companies' size, leverage and risk, there is a high negative correlation between INFO and stock turnover rate ($p < 0.001$), and there is a high positive correlation between INFO and EPS ($p < 0.001$). According to the regression result, good INFO could help the company lower investors' speculative behavior; it is regarded that effective disclosure could lower information asymmetry. One hand, investors could make the rational judgment by enough information. On the other hand, it could help investors build the confidence to the companies due to investors prefer to hold the stocks in long term. All of these are conducive to the companies' stable and good development, which could reduce the company's agency cost and enhance the company's performance eventually.

Table 4 Regressions Results

Variables	Model 1				Model 2			
	Coefficient	Std. Dev.	t-Statistic	p-value	Std. Dev.	Variables	t-Statistic	p-value
(Constant)	9.713***	.781	12.443	.000	-1.511***	.308	-4.909	.000
INFO	-.253***	.064	-3.933	.000	.160***	.025	6.326	.000
SIZE	-.430***	.039	-11.115	.000	.116***	.015	7.595	.000
LEV	1.267***	.209	6.060	.000	-.314***	.082	-3.805	.000
RISK	1.890***	.223	8.458	.000	-.771***	.088	-8.750	.000
R2	.287				.257			
Adj- R2	.283				.253			
F	65.454				56.258			
Pr>F	<0.0001				<0.0001			

Note: ***, ** denote significance at 0.01 and 0.05 level (2-tailed), respectively.

4 Conclusions

In this paper, we develop models to study the affection of information disclosure quality to stock flowing and companies' performance. It finds that in China, the good information disclosure could help companies lower investors' speculative behavior which is conducive to stock's stability in capital market, and good information disclosure could help companies increase companies' performance.

With the development of capital market, companies pay much more attention to the investors' attitudes and decision-making results. And information disclosure has become the important communication channel between them. Through such channel, investors get the related information and make the decision. So, real, comprehensive, timely and adequate information disclosure is essential for investors. According to the study, information disclosure of listed companies has bigger load on the influence of stock liquidity, company performance. Obviously, the high quality information helps to weaken uncertainty in the short term, reduce information asymmetry, and helps investors make the rational decisions. In this way, Chinese stock liquid can be lowered down, and the capital market in China can develop stably. With the gap reduction of information disclosure between investors and companies, it's easier for companies to gain investors' trust, which makes investors prefer to hold companies' stock long-term and also is easier to attract potential investors. And it can reduce the companies' capital cost, and realize the improvement of companies' performance.

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