



The impact of financial reporting quality on interaction between agency costs and speed of adjustment of stock price

Younes Badavar Nahandi^{1*}, Asgar Pakmaram², Ghodrat Ghaderi³

1- Associate Professor of Accounting, Tabriz branch, Islamic Azad University, Tabriz, Iran.

2- Associate Professor of Accounting, Bonab branch, Islamic Azad University, Bonab, Iran.

3- Ph.D. Student of Accounting, Bonab branch, Islamic Azad University, Bonab, Iran.

| ARTICLE INF | ABSTRACT |
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| <p><i>Article history:</i> Received: 19-10-2018 Accepted: 6-01-2019</p> | <p>The main purpose of the present experimental study is to examine the effect of financial reporting quality on the relationship between agency costs and the speed of adjustment of the stock price. Eight of Pantzalis and Park's indicators (2013) were used to measure agency costs. Also, the variable of the speed of adjustment stock prices measured by Hao and Muscovites method (2005). The variable of the quality of the financial reporting is measured by the two indicators of profit management, McNichols and Stoben (2008) and financial information transparency score. The statistical population of this study encompasses the companies listed on the Tehran Stock Exchange. The statistical sample of this study consists of 1089 firms listed on the Tehran Stock Exchange during 2009-2017. The research method is correlational and postoperative causality and the hypothesis testing method is correlation and regression test. The results of this study showed that agency costs provide a negative and significant effect on the speed of adjustment of the stock price. However, no evidence was found to indicate the role of financial reporting quality adjustment in the interaction between agency costs and stock price adjustment speed.</p> |
| <p>* Corresponding author: Younes Badavar Nahandi Associate Professor of Accounting, Tabriz branch, Islamic Azad University, Tabriz, Iran badavarnahandi@iaut.ac.ir Email: Behroozaracc@yahoo.com</p> | |

1- Introduction

The influence of information on prices is at the core of the market. This means that, as soon as new information is released, the instantaneous and real-time reaction is created, changing prices in this way. In the financial literature, it is believed that low quality of information is economically costly and delays the stock price adjustment process. Delay in price adjustment is risky for the buyer and seller, and this risk is due to the lack of full reflection on the price

information. Full and immediate reflection of the information may have a negative or positive effect on the stock price (Kalen & et al. 2012). The aim of this study is to examine the effect of financial reporting quality on the interaction between agency costs and the speed of adjustment of the stock price.

2- Hypotheses

The agency costs of eight indicators of Pantzalys & Park (2013), and the speed of adjustment of stock price by the Hue & Muskwitzen (2005) method was used. Thus, research hypotheses developed as follows:

H1: *Agency costs have an impact on the speed of adjustment of the stock price.*

H2: *Financial reporting quality has an impact on the interaction between agency costs and the speed of adjustment of the stock price.*

3- Methods

The population of this study is all listed companies in Tehran Stock Exchange. 122 companies and the period extending from 2009 to 2017 were selected to test the hypotheses. The method of research is correlation and causal. The test method hypotheses are correlation tests and regression.

4- Results

The results of this study showed that the agency costs have a negative and significant effect on the speed of adjustment of the stock price, and there is no evidence of the moderating role of financial reporting quality in the interaction between the agency costs and the speed of adjustment of the stock price.

5- Discussion and Conclusion

It can be deduced that companies that have the phenomenon of information asymmetry and hence higher agency costs have less speed of adjustment of the stock price. The results of the research indicate that the financial reporting quality of companies does not weaken the relationship between the agency costs and the speed of adjustment of the stock price. Therefore, theoretical foundations are not consistent with the results of this hypothesis. According to the results of this hypothesis, in the Iranian capital market, financial reporting quality does not modify the relationship between agency costs and the speed of adjustment of the stock price.

Keywords: Agency Costs, Speed of Adjustment of Stock Price, Financial Reporting Quality