



THE LINK BETWEEN FINANCIAL TRANSPARENCY AND KEY FINANCIAL RATIOS: A CASE FROM TURKEY

DOI: 10.17261/Pressacademia.2018.872

PAP- V.7-2018(25)-p.155-158

Burcu Adiloglu¹, Nevzat Gungor², Goksel Yucel³

¹Istanbul University, Avclar Campus, Faculty of Business Administration, Accounting Department, Istanbul, Turkey.

adiloglu@istanbul.edu.tr, ORCID: 0000-0001-9680-1408

²Istanbul University, Avclar Campus, Faculty of Business Administration, Accounting Department, Istanbul, Turkey.

nevzat.gungor@istanbul.edu.tr, ORCID: 0000-0001-9883-1985

³Istanbul University, Avclar Campus, Faculty of Business Administration, Accounting Department, Istanbul, Turkey.

gokselyucel@istanbul.edu.tr, ORCID: 0000-0003-1940-8789

To cite this document

Adiloglu, B., Gungor, N., Yucel, G. (2018). The link between financial transparency and key financial ratios: a case from Turkey. PressAcademia Procedia (PAP), V.7, p.155-158.

Permenant link to this document: <http://doi.org/10.17261/Pressacademia.2018.872>

Copyright: Published by PressAcademia and limited licenced re-use rights only.

ABSTRACT

Purpose- Since globalization movements in the capital markets change the information requirements expected from the financial statements to a great extent today, companies tend to provide more reliable, transparent and quality financial and non-financial information within the framework of corporate transparency. These trends also affect the financial reporting processes especially financial disclosures. The purpose of this study is to evaluate disclosures that are essential to an investor's understanding and analysis of the economics underlying the information in financial reports.

Methodology- It focuses on relationship between financial transparency and key financial ratios. In order to reach this aim financial transparency and disclosure checklist is established and companies are classified according to their transparency levels. Using a sample of publicly traded companies from BIST 100 (excluding finance sector) for the year 2016, Standard & Poor's (S&P) methodology is applied for assessment of financial transparency and disclosure (T&D) levels based on their annual reports and websites.

Findings- The results reveal that transparency level has statistical differences among the group means of some key financial ratios. High quality disclosure also means more accountable and transparent companies for investors.

Conclusion- The study also evaluates the relationship between the firm-specific T&D scores and financial performance of BIST 100 firms. This paper sufficiently contributes towards literature on financial disclosures. High quality disclosure has significant influence on investors and lenders who must assess risks and returns and decide where to place their money best, strengthen the efficiency of capital allocation as well as offer the benefit of reducing the costs of capital.

Keywords: Financial statements, financial ratios, financial transparency, disclosure, Borsa Istanbul (BIST) 100.

JEL Codes: M41, M40, G30

1. INTRODUCTION

After many financial scandals of European and American companies in 2000's (Enron, Tyco, Parmalat and etc.) the issue of voluntarily disclosure and transparency in a financial reporting process led a deep interest from the view of investors. After these scandals many regulations and voluntarily disclosures took a part in today's financial reporting. Today financial reporting is a deep concept beyond the disclosure of financial statements. Attention of investors has turned to not only the effectiveness of corporate governance practices but also to transparency and disclosure of information.

Standard & Poor's has a study that examines the transparency and disclosure (T&D) practices of major public companies around the globe. Since T&D are fundamental components of corporate governance greater transparency and better disclosure keep corporate stakeholders better informed about the way a company is being managed. In addition, studies suggest that better disclosure has a positive impact on the efficient functioning of capital markets.

In this study in order to examine the relationship between the transparency level and the financial performance indicators of Turkish companies a transparency checklist is established by using Standard & Poor's study. The rest of the paper is organized as follows: Section 2 provides a detailed survey of past studies. Section 3 explains the data (variables employed) and methodology while the results are presented in Section 4. Finally, Section 5 gives the conclusion.

2. LITARATURE REVIEW

Sandeep et al. (2002) use a dataset to examine Transparency & Disclosure scores (T&D score) in 19 emerging markets for 354 firms representing 70% of S&P/IFCI Index market capitalization over the 3 years ending in 2000. For 3 years, the differences between countries, economic sectors and trends were analyzed. The study found that emerging markets in Asia and South Africa had significantly greater transparency and clarity compared to emerging markets in Latin America, Eastern Europe and the Middle East. For the 6 markets except Korea, correlation between cross-holdings and T&D scores is negative. For the 6 markets except South Africa, correlation between price-to-book ratios and T&D scores is positive.

Aksu & Kosedag (2006) evaluate the T&D practices of the 52 largest and most liquid firms in the Istanbul Stock Exchange (ISE), based on their English and local language annual reports and websites. Standard & Poor's (S&P) scoring methodology is used which is customised version of the 98 desirable T&D attributes they used in several other countries. The results of the paper provide considerable support for prior findings in developed markets, they also shed light on how specific agency problems faced by ISE firms impact their T&D scores.

Madhani (2007), discusses the role of voluntary disclosure and transparency in Financial Reporting and highlights risks and costs associated with voluntary disclosure. The study claims that, voluntary disclosure practices increase investor awareness and trust, reducing the uncertainty of the returns to the capital suppliers which, again, is expected to reduce the firm's cost of external capital to increase its value. Disclosure practices mitigate the political costs of non-compliance and reduce the risk of higher taxes, litigation and too much regulation.

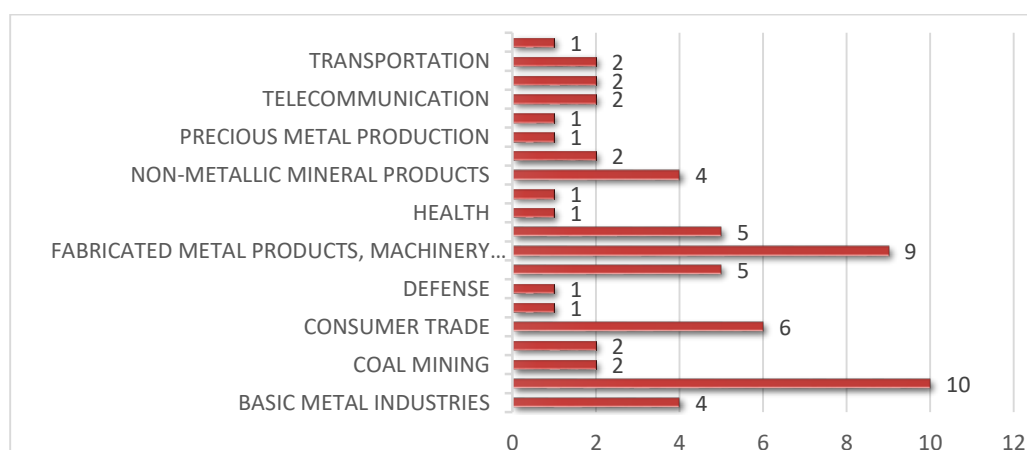
Adiloglu & Vuran (2012) investigate the transparency levels of financial information disclosures in corporate governance reports and annual reports are calculated by establishing a transparency checklist for the year 2010. Manova analysis is employed to investigate the relationship between the transparency levels and financial ratios. The results reveal that transparency level has statistical differences among the group means of return on asset, total debt / total assets, longterm debt / total assets and corporate governance index variables.

Zulfikar, May, Suhardjanto & Agustiniingsih (2017) aimed to examine an independent commissioner against mandatory disclosure of financial performance as a moderating variable. The sample in this research includes 117 banking companies listed in Bank Indonesia during the years of 2013-2015. The statistical method used was Moderated Regression Analysis (MRA) with multiple linear analysis. Based on the statistical test, the results indicate that the independent commissioner negatively affects mandatory disclosure. The financial performance of independent commissioners strengthens such relationship.

3. DATA AND METHODOLOGY

This study investigates relationship between the financial performance indicators and the transparency level of companies operating in manufacturing sector. Sample of this study comprise of the 64 largest manufacturing companies which are listed in BIST 100 index during the year 2016. Distribution of companies by sectors are shown in Figure 1.

Figure 1: Distrubution of Companies by Sectors



It focuses on sources of information that are most readily accessible by local and international investors which are the latest available English language and local language company annual reports and the English and Turkish web sites. In this context, the transparency levels of financial information disclosures in annual reports are calculated by creating a transparency checklist. In the transparency checklist, 17 criteria obtained from Standard & Poor's scoring methodology.

If the relevant information in the annual report is found, "1" is given to the company. On the contrary, the company gets "0" point. The points for each company are totalized and the transparency score is calculated by dividing total score to 17. After calculating this transparency level score of 64 companies, these companies are divided into 3 categories as shown in Table 1. MANOVA Analysis is conducted to investigate if there is a significant difference between means of at least one financial ratio of at least two groups of transparency categories.

Table 1: Category Diversification of Firms

Category	Name of the Category	Transparency Level	# of Companies
1	Least Transparent	48%-below	26
2	Transparent	49%-87%	35
3	Most Transparent	88%-100%	3

Financial performance indicators are calculated in order to analyze relationship between financial performance and transparency level of disclosure. The financial statements are gathered from the annual reports of selected companies. 8 financial performance indicators and 2 dummy variable (Corporate Governance Index, Sustainability Index), totally 10 dependent variables are shown in Table 2:

Table 2: Financial Performance Indicators Used in the Paper

Financial Ratios	Financial Ratios
Current Ratio	Return on Asset
Acid-test Ratio	Debt to Equity
Net Profit Margin	CFOA to Net Income
Operating Margin	Sustainability Index
Return on Equity	Corporate Governance Index

MANOVA (Multivariate Analysis of Variance) is employed by SPSS 21 to evaluate group differences across the financial ratios simultaneously. MANOVA is a dependence technique that tests the differences for two or more metric dependent variables based on a set of nonmetric variables acting as independent variables. Manova analysis is applied in four steps: (1) multivariate tests: to test the basic assumption of Manova, (2) Levene's Test of Equality of Error Variances: to test for equality of error variances across dependent variables, (3) Test of Between-Subjects Effect: to investigate if the independent variable differ on all of the dependent measures, (4) Post hoc tests: to test the significance of differences in levels of an independent factor in comparison to a dependent variable.

4. FINDINGS

Manova analysis involves the most commonly used multivariate tests (Pillai's Trace, Wilk's Lambda, Hotelling's Trace and Roy's Largest Root). The basic hypothesis of Manova (the population means on the multiple dependent variables are equal across groups) is tested by the multivariate tests. According to results, the significance level of all tests are smaller than 5 %. Since the significance level of all tests are smaller than 5 %, each of the four measures indicate that there is a significant difference between the means of at least one dependent variable (financial ratio) of at least two groups of independent variable (transparency levels of firms).

Subsequent to significant results are obtained by multivariate tests, for further investigation The Test of Between-Subjects effect is employed in relation to each of the dependent variables. The Test of Between- Subjects Effects investigates if there is a significant difference between the means of at least one financial ratio of at least two groups of the transparency levels or not. The results confirm that the type of transparency levels reveal the differences across the financial ratios namely Current ratio, Net profit margin, Operating Margin, CFOA, Debt to Equity, Sustainability Index and Corporate Governance index for 5% significance level.

After analyzing the results of The Test of Between- Subjects Effects, the next step is to evaluate the results of the Levene Test. According to Levene Test, while the error variance of CFOA and Debt to Equity are equal, the rest of theirs are not. Therefore Tukey Test is considered for CFOA and Debt to Equity and Tamhane Test is considered for the others. After applying Tukey Test, for CFOA, There is a significant difference between third and first, third and second categories for 5% significance level and for Debt to Equity, there is a significant difference between first and second, first and third categories for 5% significance level. After results are obtained from Tamhane Test, for Sustainability Index and Corporate Governance Index there is a significant difference between third and first category and third and second category for 5 % significance level. For the others, there is no significant difference between each category for 5% significance level.

5. CONCLUSION

The purpose of this paper is to examine the relationship between the transparency level and the financial performance indicators of 64 manufacturing companies which are listed in BIST-100 index during the year 2016. Initially, the transparency levels of financial information disclosures in annual reports are calculated by establishing a transparency checklist for the year 2016. After calculating this transparency level scores of 64 companies, these companies are divided into 3 categories which are previously mentioned in this study.

MANOVA analysis is used to test the relationship between the transparency level and the financial performance indicators. The results indicated that transparency level has statistically significant effect between the group means of four variables. These are CFOA to Net Income, Debt to Equity, Sustainability Index and Corporate Governance Index.

- For Debt to Equity ratio variable; there is a significant difference between first and second category and first and third category for 5 % significance level. The mean of the first group is smaller than the second and third one.
- For CFOA/Net Income ratio variable; there is a significant difference between third and first category and third and second category for 5 % significance level. The mean of the third group is greater than the first and second one.
- For Sustainability Index and CG Index there is a significant difference between third and first category and third and second category for 5 % significance level. The mean of the third group is greater than the first and second one.

For further researches, financial performance indicators and criterias in transparency disclosure checklist can be developed. In this study, only transparency of the financial information disclosure is examined. It can be also generalized for all Transparency and Disclosure issues. To attain more financial information disclosure for Turkish market, all companies listed in BIST can be added to sample of the study.

REFERENCES

Adiloglu, B., Vuran, B. (2012). The relationship between the financial ratios and transparency levels of financial information disclosures within the scope of corporate governance: evidence from Turkey. *The Journal of Applied Business Research*, vol. 28, no. 4, p. 543-554.

Aksu, M., Köseadağ, A. (2006), Transparency and disclosure scores and their determinants in the Istanbul Stock Exchange. *Corporate Governance: An International Review*, vol.14, no. 4, p. 277-296.

Madhani, P. M. (2007). Role of voluntary disclosure and transparency in financial reporting. *The Accounting World*, vol. 7, no. 6, p. 63-66

Patel, S., Dallas, G. (2002). Transparency and disclosure: overview of methodology and study results-United States. Working paper, Standard and Poor's and SSRN.

Zulfikar, R., May, N., Suhardjanto, D., Agustini Sih, S.W. (2017). Independent commissioner against mandatory disclosure of financial performance as a moderating variable. *Review of Integrative Business Economics Research*, vol. 6, no. 3, p.205-216.