



Research about the influence of transparency of accounting information on corporate investment efficiency

Jin du

Zhoukou Normal University, Zhoukou, Henan, China

ABSTRACT

With the rapid growth of Chinese economy and the gradually expansion of financial industry, many people pay close attention to the transparency of accounting information about some big enterprises. This thesis focused on researching the influence of transparency of accounting information on corporate investment efficiency. In the light of investigating the total output value about some listed companies from 2008 to 2012, people could find that the transparency of accounting information greatly avoids over-capitalization and under-capitalization, as well as promoting the increase of corporate investment efficiency. When there is a large amount of circulating fund, the negative correlation between transparency of accounting information and overcapitalization is especially obviously. When there is too many external finance, the negative correlation between transparency of accounting information and under-capitalization is especially obviously. Therefore, increasing the transparency of accounting information could effectively promote the positive development of resource optimization.

Key words: transparency of accounting information; investment efficiency; scientific analysis; research methodology

INTRODUCTION

1 RESEARCH BACKGROUND AND TARGET

In recent years, Chinese economy has an unprecedented development and enterprise's quality of accounting information cause the general attention of our society, including external investors and enterprise's administrative staff. Some research has shown that investment efficiency of listed companies are quite low in recent years and has serious under-capitalization. So how to increase the corporate investment efficiency has become the most important problem in the development of China's listed companies. In order to solve this problem quickly, enterprises should increase the supervision of the quality of accounting information. This will enormously decrease the financing cost and strengthen the distinguishing ability of investment income and make more benefits for the enterprise.

With the growth of financial securities and the increase of listed companies' number, Chinese attaches more and more attention to the transparency of accounting information. So how to create high transparency of accounting information has caused the whole nation's attention.

As for the corporate investment efficiency, when the market is in the period of great prosperity, namely there is no moral task and restriction in the enterprise's growth; the listed company will change their investment to some net present value's project. This is called effective investment. Comparing with the effective investment, there are two kinds of non-effective investments. One is the under-capitalization caused by reversing choice of cancelling to invest the positive net present value project. The other is the over-investment caused by investing the negative net present value project. During the investment, we should increase investing the positive net present value project and decrease investing the negative net present value project. At the same time, in order to avoid the single stock holder, enterprise should specify their supervising of internal function, so as to prevent shareholders do harm to the

company. Recently, some related person have started to research China's corporate investment efficiency from the influence of enterprise's investment. While the relationship between transparencies of accounting information and corporate investment efficiency will also be the researching importance.

2 MEANING OF THE RESEARCH

Listed companies have made an important decision, namely raising the proposal of the transparency of accounting information. The higher transparency of accounting information they have, the less inconsistency existing between listed companies and investors. Meanwhile, it greatly increased the confirming efficiency of stock prices and financial analysts' predicting accuracy about enterprise's profit, so as to make positive effect on the financial market. These series of conclusion have been approved by some senior foreign scholars. But a few experts care about the function of transparency of accounting information in enterprise entity's economic activities.

Actually, enterprises' financial reports play an important role in administrative staff's identification about the task of investment. The higher accuracy financial reports have, the more valuable information administrative staff will have, so as to choose the most profitable project. High transparency of accounting information could decrease the inconsistency of information in enterprises and increase the benefit of external finance, as well as reducing the supervising cost of shareholders which greatly avoid the over-capitalization and under-capitalization.

There is little effective researching achievement in the current market. Our capital market is still at the starting level and transparency of accounting information need to be improved. If transparency of accounting information has a tremendous effect on investment efficiency, enterprise's financial affairs should not only affect the capital market but also the corporate investment efficiency, weakening the existing value of listed companies. As we all known, high effective investment of enterprise could make more economic benefits for the society. Therefore, exploring the development of transparency of accounting information's influence on corporate investment efficiency will be helpful and meaningful for supervisor's better control about the market.

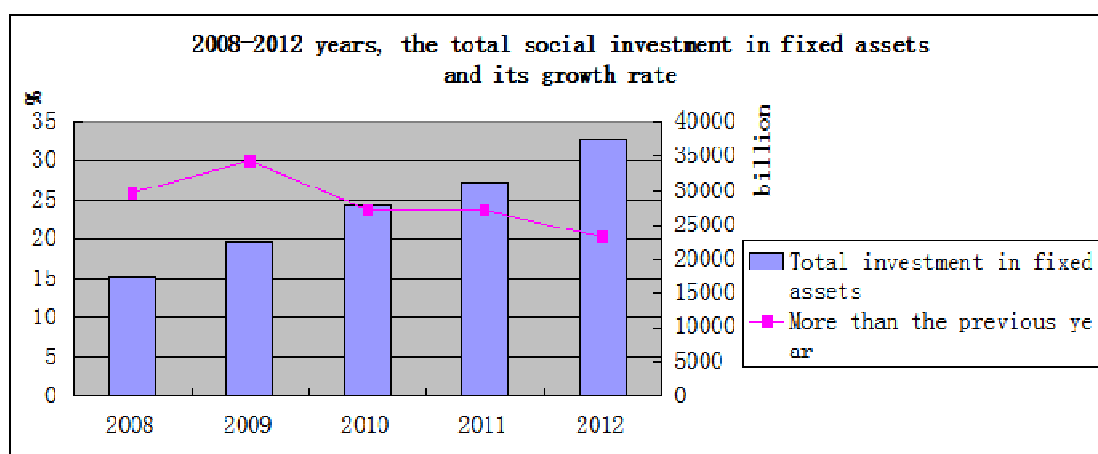
3 SCIENTIFIC ANALYSES

From the reform and opening up, China's total investment in fixed assets has increased from 17282.8 trillion in 2008 to 37467.6 trillion in 2012 which have increased by 216%. The increasing rate from 2008 to 2012 is 25.9%, 30.0%, 23.8%, 23.8% and 20.3% and the average rate is 24.76%. From the increasing rate, we could see China's investment in fixed assets keeps a fast growth and the best development is in 2009. Just as the following table shows

Table1.1 Fixed asset investment in China

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|--------|---------|---------|---------|---------|
| Total investment in fixed assets (billion yuan) | 1728.8 | 22459.9 | 27812.2 | 31148.5 | 37467.6 |
| The growth rate of investment in fixed assets (%) | 25.9 | 30.0 | 23.8 | 23.8 | 20.3 |

Table1.2 2008-2012 years, the total social investment in fixed assets and its growth rate



Seen from the above tables, we can find that the exploration of transparency of accounting information could make us have a clear understanding about one enterprise and even the development of China's overall economy. The higher transparency of accounting information we have, the lower inconsistency will exist between investors and administrative staff. The contradiction between investors and enterprises could also be decreased. Radically increasing investors' trust to enterprises, making them acquire funds more quickly and

reducing the insufficient turnover of capital.

The high transparency of accounting information can effectively reduce the excessive funding. The increase of transparency of accounting information will also make shareholders and people have a better supervision about enterprises, letting shareholders completely understand the internal condition of enterprises and realize the investments of projects, so as to protect the essential benefits of shareholders and investors. Just as the following table shows:

Table1.3 Fixed investment 2012 years industry (excluding rural households) and its growth rate

| Fixed investment 2012 years industry (excluding rural households) and its growth rate | | |
|---|------------|--------------------------------|
| Unit: Billion Yuan | | |
| Industry | Investment | More than the previous year(%) |
| Total | 36483.5 | 20.6 |
| Agricultural, forest, animal husbandry, fishery | 900.4 | 32.2 |
| The mining industry | 1312.9 | 11.8 |
| Manufacturing industry | 12497.1 | 22.0 |
| Electricity, heat, gas and water production and supply industry | 1653.6 | 12.8 |
| The construction industry | 403.6 | 24.6 |
| Wholesale and retail trade | 981.6 | 33.0 |
| Transportation, storage and postal industry | 3029.6 | 9.1 |
| Accommodation and catering industry | 510.2 | 30.2 |
| The transmission of information, software and information technology services | 283.4 | 30.6 |
| Finance | 932.0 | 46.2 |
| Estate | 9235.7 | 22.1 |
| Leasing and business services | 464.5 | 37.4 |
| The scientific research and technical services | 217.6 | 27.8 |
| Water conservancy, environment and public facilities management | 2929.6 | 19.5 |
| Residents service, repair and other services | 171.8 | 26.0 |
| Education | 467.9 | 20.3 |
| Health and social services | 264.5 | 23.0 |
| Culture, sports and entertainment | 429.9 | 36.2 |
| Public management, social security and social organization | 636.3 | 9.2 |

Through high transparency of accounting information, investors can fully seize the actual development of enterprise, effectively reducing the over investment and moral issues of administrative staff. The higher transparency of accounting information they have, the financial reports will be more truly. So investors could accurately evaluate the task of project and the benefit this project brings to the company.

When enterprises have many circulating funds, the range of activities that enterprise managers can join will be wide. According to the agent hypothesis of money flow, when the management and ownership are held by different people, those people who owns the management of enterprise will put circulating funds into the beneficial projects, making enterprise's profit and circulating funds decreased. Then the over investment happens. Therefore, as for the enterprise who has abundant circulating funds, high transparency of accounting information plays an important role in supervising and restricting the over investment of enterprise managers.

Our country is in the transition from planning to marketing economy. Constantly adjusting the project target. First developing by experiment, then by promotion. China is in the starting level of transition, it has no complete marketing economic system and its financial structure develops slowly. Financial issues exist in our economy. When enterprise is lack of circulating funds, they have to reduce their investment and remove the funds which causing the under-capitalization. The function of transparency of accounting information is especially important for those enterprises who are difficult to turnover their money. It can make enterprise avoid the venture investment, attracting foreign funds and decrease the cost of external finance. So as for the enterprise that is lack of circulating funds, transparency of accounting information has obvious negative correlation with under-capitalization.

4 DESIGN RELEVANT RESEARCH METHODOLOGIES

4.1 Measurement standards of transparency of accounting information and corporate investment efficiency

Here people refer to some elder scholars' measurements of investment efficiency. First they return to the related equation of predicting enterprise's investing level, then using the residual to measuring investment efficiency(positive number means over investment and negative number means under-capitalization. $INV_{i,t}$ means the new investing funds. It is equal to build invisible capital, long-term capital and fixed assets minus

managing invisible capital, long-term capital and fixed assets, dividing the total amount of capital. $Q_{i,t-1}$ means Tobin Q, namely the marketing value of non-circulating stock plus the book value of circulating stock and the book value of liability, dividing the total amount of capital. $LEV_{i,t-1}$ means debt rate. It is equal to the total liability divide total capital. $CASH_{i,t-1}$ is equal to the company's cash plus the final overage of cash equivalent, dividing the final total amount. $RET_{i,t-1}$ means the annual profit rate of stock which is expressed by stock profit rate from the 5th month of t-1 year to the 4th month of t year. $AGE_{i,t-1}$ means the company's age which is equal to the year number from IPO year to the year of figuring investment outcome. $SIZE_{i,t-1}$ means the scale of a company which is equal to the natural logarithm of total capital. $INDUSTRY_j$ means the mute variable of industry. It is used to control the industrial factor's influence on investment. The following is the regressing equation of investment efficiency.

$$\begin{aligned}
 INV_{i,t} = & \alpha_0 + \alpha_1 Q_{i,t-1} + \alpha_2 LEV_{i,t-1} + \\
 & \alpha_3 CASH_{i,t-1} + \alpha_4 RET_{i,t-1} + \alpha_5 AGE_{i,t-1} + \\
 & \alpha_6 SIZE_{i,t-1} + \alpha_7 INV_{i,t-1} + \sum_{j=8}^{18} a_j \times \\
 & INDUSTRY_j + \varepsilon_{i,t} \cdot
 \end{aligned} \tag{1}$$

The investing residual in company's level $INVRES_{i,t}$, namely the regressing residual of equation 1. $\varepsilon_{i,t}$ means the actual investment rate minus predicting investment rate $ExpINV_{i,t}$. Greater than zero means over investment, smaller than zero means under-capitalization. Over-capitalization and under-capitalization are all regarded as invalid investment. In order to help people's discussion, $UI_{i,t}$ multiplies -1, the large value $OI_{i,t}$ and $UI_{i,t}$ has, the less investment efficiency company has.

5 VERIFICATION AND ENLIGHTMENT

Through the regressing analysis, we got the measuring number of over-capitalization and under-capitalization. From the 613 listed companies, 391 of them have the under-capitalization and 222 companies have over investment. Under-capitalization takes 63.78% of the total amount. Under-capitalization is most serious in listed companies. When $UI_{i,t}$ is 0.33 and the annual number of $OI_{i,t}$ is 0.059, the loss of over investment is larger than under-capitalization.

According to the research, accounting information becomes the main source of enterprise's development. People could explain the positive guiding function of transparency of accounting information to corporate investment efficiency and it is helpful for increasing it. It can effectively reduce the mistake of company's management in listed companies. Our listed companies have low quality of accounting information which cause the enterprise has no idea to make the best investment program. But strengthening the transparency of accounting information could make people get high quality's accounting information which decrease the under-capitalization and over-capitalization of enterprise. Therefore, security market should strengthen the examination of accounting information and improve the transparency of accounting information, so as to increase the corporate investment efficiency.

Acknowledgement

This paper belongs to the project of the soft science by Henan provincial department of technology (No. 132400410915); The fiscal policy support pegged to the evaluating of financial management capacity of enterprises".

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