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Extended Abstract

Examining the Impact of Intellectual Capital on Improving Financial Reporting Quality of the Companies Listed in Tehran Stock Exchange

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Introduction

The changing trends from traditional economy (land, labor and financial) to knowledge-intensive economy during the last two centuries, have made service based industries take the major share in the value creation process especially in developed societies. On the other hand, one of the most significant resources, which the users use to make decisions, is the group of reports called financial reports. In recent years, following the bankruptcy of some large companies in the world, researchers and financial analysts, in addition to considering the earnings quantity, note earnings quality as well.

Accounting researches have demonstrated empirically that poor quality of earnings leads to an increase in cost of equity. Parallel to this debate, accounting researchers have argued that reduction in non-recognition of intellectual capital increases the gap between market and

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book value, and consequently, diminishes the value relevance of earnings. In the present study, the following question is raised: “Is there a significant relationship between firms’ TSE intellectual capital and their financial reporting quality?” Hence, the main objective of this study is to investigate the impact of intellectual capital on improving financial reporting quality of companies listed in Tehran Stock Exchange (TSE).

**Research Hypotheses**

Based on the theoretical literature and the conducted studies, research hypotheses were developed as follows. The present study has one primary hypothesis and three secondary hypotheses. Main hypothesis: “There is a significant relationship between the components of intellectual capital and the financial reporting quality”. Secondary hypotheses:

- **H1**: There is a significant relationship between capital employed efficiency and the financial reporting quality.
- **H2**: There is a significant relationship between human capital efficiency and the financial reporting quality.
- **H3**: There is a significant relationship between structural capital efficiency and the financial reporting quality.

**Methods**

The research methodology is a quantitative research that uses the scientific method and empirical evidence, and based on hypotheses and research designs is done. This category research is used when criteria for measurement data quantitative and statistical techniques are used to derive the results. In this research, data of 76 companies are analyzed for the period of 2003-2009. The related data was collected through observation of Iranian database of Tehran Stock Exchange (Tadbir Pardaz) annual data files and the accompanying notes as found on www.rdis.com. For statistical analysis and to test hypotheses, descriptive statistics (i.e., mean, maximum, minimum and standard deviation) and inferential statistics (i.e., correlation-test and enter multiple linear regression) are used. The collected data was calculated using the Excel
software and was analyzed using SPSS 19.

To measure intellectual capital of companies, the Pulik's (2000) model has been used. Also, the Francis et al. (2005) and Dechow and Dichev (2002) models have been used as a proxy for financial reporting quality.

**Results**

The results of this research show that at a confidence level of 95%, there is a significant positive relationship between structural capital coefficient, human Capital Coefficient, and financial reporting quality. But, there is no significant relationship between capital employed efficiency and financial reporting quality. In addition, the results of research concerning control variables show that there is a negative relationship between firm size and financial reporting quality, but there is a positive relationship between debt ratio and financial reporting quality.

**Discussion and Conclusion**

The goal of this research is to study the effects of intellectual capital on the financial reporting quality of listed companies in Tehran Stock Exchange. In general, based on the results of the present study and according to the positively significant effect of the components of intellectual capital as one intangible asset on the financial reporting quality, and since the main objective of financial reporting that financial reporting quality is one of its components, provide useful data to help actual and potential investors in their logical decision makings, disclosure of intellectual capital in financial statements will lead to the usefulness of decision makings for users and thus the significance of proper disclosure of intellectual capital in financial reports of firms is more evident in order to contribute to their accomplishment of goals.

**Keywords:** Financial Reporting Quality, Intellectual Capital, Accruals, Structural Capital Coefficient.