



**Investigating the Ability of Financial Figures to Summarize
Stock Price Information based on "Tunneling View" Using the
Moderator Role of Good Governance¹**

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INTRODUCTION

The relevance and usefulness of the information can be measured by the relationship between financial information, types of returns, and market value. This forms the basis of activities carried out in the field of evaluating value relationships. The concept of value communication refers to the ability of financial figures to summarize information within stock prices. However, aggressive financial reporting motives can diminish value communication. One contributing factor to opportunistic actions by executives and audacious financial reporting is tunneling. Tunneling involves collusion between major shareholders and management, conducted through management transactions with affiliated entities. Identifying and eliminating tunneling can enhance the relevance and usefulness of financial statements and financial information. Therefore, selecting the most effective criteria for corporate governance mechanisms can serve as the strongest deterrent against tunneling. Consequently, the objective of this study was to examine the capacity of financial figures to summarize stock price information based on the tunneling approach, with the moderating role of good governance.

MATERIALS AND METHODS

The statistical population of the study comprised all the listed companies on the Tehran Stock Exchange from 2009 to 2017. The sample size was determined using a systematic elimination method, resulting in the selection of 158 companies. The

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research methodology employed a combination of data sources and multiple regression analysis.

RESULTS AND DISCUSSION

Research evidence suggests that tunneling has a detrimental impact on the level of financial information relevance. Furthermore, the study reveals that good governance does not have a mitigating effect on tunneling. Additionally, good governance fails to counteract the adverse effect of tunneling on value relationships. These findings highlight the importance of implementing good governance practices within companies and the necessity of addressing the issue of tunneling.

CONCLUSION

Companies that engage in unnatural transactions with related parties to manipulate their earnings tend to exhibit lower price, earnings, and book value per share compared to other companies. The lower earnings figures may indicate that companies involved in tunneling have weaker performance. Furthermore, the lower share prices suggest that the market interprets these related party transactions as a form of earnings management.

Keywords: Tunneling, Good Governance, Value Relevance, Related-Party Transactions.

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