Tone Disclosure and Financial Performance: Evidence from Egypt

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Abstract

This paper examines to what extent financial performance (FP) represents one of the main determinants for tone disclosure (TD) in Egyptian annual reports. We also measure the bidirectional relationship between TD and FP. We use the manual content analysis to measure levels of TD in annual reports for a sample of 105 firms listed on the Egyptian stock market. Our sample covers a three-year period (2011–2013). Our descriptive analysis shows that Egyptian firms disclose more good news than bad news. Therefore, the net news disclosure, or net variances, between good/bad is positive. The empirical analysis shows a positive association between the narrative disclosure of good/bad news and FP based on return on assets (ROA). We also find a highly significant association between the auditor, profitability, leverage, firm growth and financial reporting of good/bad news information. Finally, the results of the ordinary least squares (OLS) regression show that the causality between the two endogenous variables runs from FP to TD . Thus, TD is determined by FP. We offer a novel contribution to disclosure studies by being the first study to examine tone disclosure in one of the developing countries.

1. Introduction

The goal of our paper is to examine the impact of financial performance (FP) on tone disclosure (TD). We also examine the impact of TD on FP. Although the association between disclosure and firm performance has received major interests in accounting research, the findings are always mixed (e.g. Baek et al. 2004). In addition, none of prior research has examined the bidirectional relationship between TD and FP in developing countries, particularly in Egypt.

We are motivated to focus on the Egyptian context for several reasons. One reason is the rapid growth of Egypt as an emerging economy with noteworthy foreign investment potential (Elsayed and Hoque, 2010). Egypt has a diverse financial reporting environment that might affect initial disclosure requirements differently. According to Gray's (1988) model, accounting measures and disclosures in Egypt will tend to be more conservative and less transparent. There is a need for Egypt to raise capital and promote confidence as well as take stakeholders into consideration . The Egyptian environment has been dynamic, growing through different economic and political systems that arguably affected accounting disclosure practices. Egypt is one of the countries that was affected by the Arab Spring based on the 25 January revolution. Hence, Egypt provides an opportunity for empirical research to gain insights into the impacts of political crisis regarding the extent of disclosure. Moreover, Egypt is used as an example of a major developing economy in the Middle East and North Africa regions, which is generally overlooked in prior research (Ebrahim and Abdel Fattah, 2015).

Whereas prior research has extensively analysed the impact of TD on FP and stock price (e.g. Hutton et al., 2003), this paper provides evidence of the same association and the reverse relationship: FP affects TD. Using a sample of 105 Egyptian listed firms during the period 2011–2013, we found evidence that good news disclosure is positively associated with firms' FP, suggesting that Egyptian firms that report more positive news achieve a higher FP. Our result supports the argument TD contains value relevant information.

The paper is structured as follows: Section **2** reviews the theoretical and empirical literature and develops the research hypotheses; Section **3** presents the research design; Section **4** presents the empirical results. Section **6** concludes.

2. Disclosure Theories, Literature Review and Research Hypotheses

The impact of FP on TD

Agency theory proposes that managers of profitable firms disclose more information to magnify their success and to increase investors' confidence in the management of firms. Managers might wish to encourage positive impressions using management impression techniques to attract many parties, such as potential lenders and investors. It also suggests that managers of profitable firms disclose more information to boost their compensation (Abd-Elsalam, 1999). However, management might disclose less information because of loss or lower profitability, as managers want to be vague about such poor FP results (Wang et al., 2008). Moreover, signalling theory recommends that profitable firms have an incentive to disclose more information, to signal the firm's FP to investors to support continuation of management's positions (Oyeler et al. 2003). Clatworthy and Jones (2006) argued that extreme changes in FP can affect the thematic content of the narrative disclosure, such as the chairman's statement. Clatworthy and Jones (2001) found that profitable firms are more inclined to discuss their results and acquisitions and disposals, while unprofitable firms include more discussion of board changes. Clarke (1997: p. 36) found that "firms with negative results do divert attention away from themselves by referring to the environment, target markets and emotive words rather than firms' actions and performance indicators". Clatworthy and Jones (2003) found that good FP presents more good news than bad news, as measured by overall words and keywords, and bad FP does not dwell on bad news. Prior research identifies that the writing style adopted by firms in the chairman's statement is contingent on FP. For instance, Sydserff and Weetman (2002) found that the narratives of firms experiencing poor FP are written in a style which detaches the reader from the message.

Profitability is central to the discussion of corporate disclosure. More profitable firms will be able to support the cost of information production and dissemination and, therefore, will be in a position to disclose more information. Inchausti (1997) revealed that profitability is capable of influencing the extent to which firms disclose information in their annual reports. Ismail and Chandler (2005) found a positive association between disclosure and FP. It should be noted that empirical results do not always confirm a positive relationship (García-Ayuso and Larrinaga, 2003). In the context of the agency and political cost theories, Ng and Koh (1994) pointed out the fact that profitable firms are more exposed to political pressure and public scrutiny, and use more self-regulating mechanisms to avoid regulation. Singhvi and Desai (1971) claimed that, when a firm's FP is high, managers are motivated to disclose detailed information to support their positions. This positive correlation between a firm's FP and corporate disclosure is also implied by the theoretical model of voluntary disclosure in the face of adverse selection. The firm is likely to disclose more frequently when it is experiencing favourable earnings results and earnings forecasts are associated with positive returns. Chiu and Wang (2015) examined determinants of corporate reporting by using a sample of 246 listed firms in Taiwan. They demonstrated that measures of stakeholder power, strategic posture, economic resources, firm size and media visibility are related to corporate disclosure. Cho et al. (2010) found that firms that are more profitable tend to use more positive language in their disclosures or decisive language. The literature's research results on profitability as a determinant of disclosure appear inconclusive (Street and Gray, 2002). Aras et al. (2010) did not find any association between FP and disclosure. Oeyono et al. (2011) found a positive association between both variables. Further, a few studies have asserted that there is a negative association between disclosures and FP (Rahman et al., 2011). Management appears to elaborate on positive FP in the narrative sections, such as the chairman's statement, but prefers to communicate poor FP more concisely. Nevertheless, this paper argues that good FP is a good incentive for more disclosure, particularly good news, as profitable firms have better stories to tell

and are more able to afford the cost of disclosure. We proxy FP with ROA and anticipate a statistically positive relationship between the proxy and TD. Therefore, we hypothesise that

H1. There is a relationship between TD and FP.

The impact of TD on FP

Empirical results on disclosure are commonly consistent with finance-theory predictions that more public information improves a firm's value by decreasing the firm's cost of capital (Hassan et al., 2009). Lambert et al. (2007) argued that increased disclosure may affect a firm's value by increasing the actual cash flows stockholders accrue as a result of lessening agency problems. Theoretical models of disclosure assume that managers maximise their firm's stock price and conclude that when a higher price can be obtained by withholding the news, managers will abstain from disclosure (Verrecchia, 1983). Ayers et al. (2011) showed that, following good news, shares outperform immediately after the announcement. Skinner (1994) found that bad news disclosures generate larger stock price reactions than good news. Athanasakou and Hussainey (2014) showed that narrative reduces market uncertainty about future earnings and increases the credibility of financial statements. Managers pursuing stockholder wealth maximisation will only disclose news likely to increase share prices. Lev and Penman (1990) provided evidence that US firms are more likely to disclose good news than bad with respect to earnings disclosures. They supported the 'good news hypothesis', that good news firms make more disclosures than bad news firms to achieve benefits, such as a reduction in information asymmetry and a lower cost of capital. Dedman and Lin (2002) found that only half of their sample of CEO departures were announced to the regulatory news service, even though this was proved by the share price reactions to the release of this information by the financial press. Miller (2002) documented a positive association between share price/earnings performance and disclosure. Good/bad news is also associated with abnormal returns at the time of an earnings announcement (Francis et al., 2002). These researchers stated that firms with higher disclosure scores exhibit higher levels regarding the share-price anticipation of future earnings than firms with lower disclosure scores. Schleicher and Walker (2010) found that loss-making firms provide a more positive tone, while firms with an earnings decline provide a more negative tone. Hassan et al. (2009) stated that disclosure is a mechanism to mitigate agency costs arising from the possibility that managers may not act in the best interest of shareholders. The investors' business comprehension increases with disclosure and thus enhances the firms' value. Mechanisms of disclosure allowing investors to upsurge their ability in firm monitoring then increase FP. Clarkson et al. (2008) documented a positive association between disclosure and firm's value. Consistent with signalling theory, management, when in possession of 'good news' due to better FP, is more likely to disclose more detailed information to the stock market than that provided by 'bad news' firms, to avoid the undervaluation of their shares. Empirical research offer mixed outcomes. For instance, Francis et al. (1994) found no evidence of announcement-day market returns being associated with the tone of press coverage in the year prior to the adverse announcement. In contrast, Davis et al. (2012) found that narrative disclosure is associated with abnormal returns. Smith and Taffler (2000) showed that narrative disclosures based on the content of the chairman's statement are associated with FP. Thus, we expect a positive effect of TD on FP.

H2. The relationship between TD and FP is bidirectional.

3. Research Design

Sample selection

Our sample is a balanced panel data of 105 firms listed on the Egyptian stock market during the three-year period 2011–2013. Our final data set comprises 315 firm-year observations. Given the existence of both cross-sectional and time-series information, we were able to use panel-data analysis. The explanatory and control variables data are collected from OSIRIS and Datastream. The Egyptian Stock Exchange website also provided relevant data, such as: industry classifications and fundamental information for all listed firms. Annual reports were purchased from the Egyptian stock market. The annual reports were in Arabic, so counting the sentences of good news and bad news was carried out manually. For consistency and reliability, a sample of the annual reports was given to an Egyptian colleague to read and count the sentences of good and bad news, to ensure the results we obtained were accurate.

Research variables and model

Dependent variable (TD)

We count the number of good news statements and bad news statements, and then we calculate net news based on the variances between good and bad news information. To test the validity of our disclosure measure, we gave a sample of the annual reports to an Egyptian professional to read and count the sentences of good and bad news, to make sure that our score is valid.

Measurement of independent and control variables

We use Return on Assets (ROA) as a measure for firm performance. We consider seven control variables: firm size (Hackston and Milne, 1996); audit quality (Francis, 2004); industry sector (Dye and Sridhar, 1995; Haniffa and Cooke, 2005); leverage (Jensen and Meckling, 1976); firm age (Muttakin and Khan, 2014); liquidity (Wallace and Naser, 1995); firm growth (Khurana et al., 2006).

Empirical model

For first stage of this study, which focused on the impacts of ROA on TD; we specify three models: in the first model we use good news as a dependent, in the second model we use bad news as a dependent and in the third model we use net news. Following preceding narrative disclosure studies (e.g. Ressas and Hussainey, 2014), we use the following OLS regression models:

$$\mathbf{GND_{it}} = \beta0 + \mathbf{\beta1\ ROA_{it}} + \beta2\ LIQ_{it} + \beta3\ LEV_{it} + \beta4\ F.GROW_{it} + \beta5\ SIZE_{it} + \beta6\ SECT_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \tag{1}$$

$$\mathbf{BND_{it}} = \beta0 + \mathbf{\beta1\ ROA_{it}} + \beta2\ LIQ_{it} + \beta3\ LEV_{it} + \beta4\ F.GROW_{it} + \beta5\ SIZE_{it} + \beta6\ SECT_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \tag{2}$$

$$\boldsymbol{NND_{it}} = \beta0 + \boldsymbol{\beta1\ ROA_{it}} + \beta2\ LIQ_{it} + \beta3\ LEV_{it} + \beta4\ F.GROW_{it} + \beta5\ SIZE_{it} + \beta6\ SECTOR_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \tag{3}$$

Where GND = good news disclosure; BND = bad news disclosure; NND = net news disclosure; ROA: return on assets; AUDIT: dummy code 1 if the firm is audited by one of the four big auditor offices or 0 otherwise; SIZE: natural logarithm of total assets; LIQ: liquidity (current assets to current liabilities); LEV:

leverage (total debts to total assets); F.GROW: firm growth (assets growth); AGE: age of the firm; SECT: category of each sector.

For the second stage of this study, which focused on the value relevance of tone disclosure on a firm's performance, measured by ROA, we specify three additional models, as follows:

$$ROA_{it} = \beta0 + \boldsymbol{\beta1\ GND_{it}} + \beta2\ SIZE_{it} + \beta3\ LIQ_{it} + \beta4\ LEV_{it} + \beta5\ F.GROW_{it} + \beta6\ SECTOR_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \qquad (4)$$

$$ROA_{it} = \beta0 + \boldsymbol{\beta1\ BND_{it}} + \beta2\ SIZE_{it} + \beta3\ LIQ_{it} + \beta4\ LEV_{it} + \beta5\ F.GROW_{it} + \beta6\ SECTOR_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \qquad (5)$$

$$ROA_{it} = \beta0 + \boldsymbol{\beta1\ NND_{it}} + \beta2\ SIZE_{it} + \beta3\ LIQ_{it} + \beta4\ LEV_{it} + \beta5\ F.GROW_{it} + \beta6\ SECTOR_{it} + \beta7\ AGE + \beta8\ AUDIT_{it} + \varepsilon_{it} \qquad (6)$$

Where GND = good news disclosure; BND = bad news disclosure; NND = net news disclosure; ROA: return on assets; AUDIT: dummy code 1 if the firm is audited by one of the four big auditor offices or 0 otherwise; SIZE: natural logarithm of total assets; LIQ: liquidity (current assets to current liabilities); LEV: leverage (total debts to total assets); F.GROW: firm growth (assets growth); AGE: age of the firm; SECT: category of each sector.

4. Empirical Results

Table **1** shows that the average narrative disclosure for good news, bad news and net news is 3.6; 1.6 and 1.9, respectively. The profitability ratio varies between firms, with a minimum level of -0.77 and a maximum level of 0.37. The average ROA for our selected firms is 0.05. Thirty-two per cent of the listed Egyptian firms are audited by one of the big four audit firms. The average age of our selected firms is 34.6 years. The mean liquidity during the three years is 5.39, while the average leverage is 40%. On average, the firm size (SIZE) is 8.273 million, with a minimum of 4.65 million and a maximum of 10.34 million. Our sample is drawn from a diverse range of industries, including telecommunications, manufacture and exports/imports. The average growth rate is -53.75, with a maximum value of 1.

Table 2 shows net news disclosure is positively correlated with ROA and size. However, the net news disclosure score is negatively correlated with leverage. Observations in the correlation matrix show that all of the correlation coefficients are below 80%. This indicates that there is no evidence of multicollinearity problems (Hair et al., 2010). Tables 3 and 4 show that VIF does not exceed more than two. Therefore, there is no multicollinearity problem between independent variables.

(Insert Tables **1&2** here)

Table **3** shows the impact of FP on TD. For model 1, where the good news serves as the dependent variable, the coefficient of good news is positive and also statistically significant, with the ROA at 5%. For model 2, where the bad news serves as the dependent variable, the coefficient is negative and also statistically significant, with the ROA at 10%. For model 3, where the net news serves as the dependent variable, the coefficient is positive and statistically significant, with the ROA at 1%. Therefore, as predicted in hypothesis H1, a firm's likelihood of disclosing its good news is positively associated with its FP, as reported in model 1. Thus, hypothesis H1 is accepted. The positive effect of FP on disclosure is consistent with signalling theory, which proposes that managers of profitable firms are more likely to disclose more information in their annual reports to justify their remunerations and to signal their superior performance to the market (Wallace et al. 1994). This means that profitable firms provide more positive good news than loss-making

firms. In other words, profitable firms disclose good news information in their narratives to send a positive signal to all stakeholders. Our findings are also consistent with Clatworthy and Jones (2003) and Schleicher and Walker (2010).

With regard to the control variables, our results support the suggestions that leverage is negatively significant with disclosure, as reported in models 1 and 3. We also find a negative association between liquidity as well as firm growth and good news, at the 10% level. Regarding the role of the external auditor, we find a negative association between auditors and bad news, at the 10% level. For other variables, we could not find any significant association between size, sector and firm age towards narrative disclosure in the three models.

(Insert Table **3** here)

Table **4** shows the impact of TD on FP. For model 4, where we measure the impacts of good news on the FP, the result is both positive and significant, at the 10% level. This means that, when a firm discloses good news about its activities, ROA is growing. The reverse association approved in model 5 identifies that the disclosure of bad news has a negative impact on the firm's performance, or ROA, at the 10% level. For model 6, we find that net news has a positive impact on ROA, at the 1% level. Thus, we conclude that tone disclosure has an impact on FP. Also, models 4, 5 and 6 investigate hypothesis H2, that is, whether the narrative good and bad news disclosure of a firm has a favourable influence on the FP. Hypothesis H2 is accepted, as shown in our three models. This result conforms to the traditional view that more information adds value to firms. Our results are consistent with signalling theory and relevant literature (i..e. Drobetz et al., 2004), who determined that firms with better disclosure practices are associated with a higher FP. The effect is not only statistically significant, but its magnitude is also considerable from an economic point of view.

The positive effect of TD on FP shows that disclosing more good information leads to a higher FP. This indicates that increasing good news information reduce information asymmetry and results in a reduction in both monitoring and capital costs (Cheung et al., 2010). Moreover, an higher level of disclosure improves management accountability and hence the firm value. Investors are more likely to evaluate the performance of these firms more highly, and this increases investment interest and a firm's performance. On the other hand, the analytical accounting models challenge the traditional sight of disclosure effects. Wagenhofer (2004) argued that the effects of disclosure depend on uncertainty, multi-person settings with conflicts of interest and information asymmetry. Thus, it is possible to expect a negative relationship between increased TD and FP. For instance, more public disclosure might reduce the acquisition of information by market participants, and thus decrease the total amount of information available in the capital market. More public information might also have negative net benefits if the information places a firm at a competitive disadvantage relative to its rivals. These results emphasise that the association between FP and disclosure is complex and depends on the interaction of a number of factors, such as category of disclosure and the context in which this association is examined.

(Insert Table **4** here)

To conclude, our findings support our hypotheses that there is an association between FP and TD. Consequently, this suggests that the narrative disclosure is determined by their FP. This proposes that the causality between the two endogenous variables runs from FP to TD and from TD to FP. Our findings are consistent with recent research by Farag et al. (2014), who provided evidence about the positive direction between disclosure and FP. Our findings show that high-profitable firms report more good news and less bad news in the narrative sections of annual reports. The

study found that variances between good and bad news were positive during the three years, which reflects that Egyptian firms between 2011 and 2013 disclose good news more than bad news. However, Beekes et al. (2015) argued that firms generally have increased their disclosure frequency and demonstrated an improvement in the timeliness of bad news relative to good news, indicating a levelling of disclosure practices and greater transparency. Our result may be explained by the political situation after the 25 January revolution, which enhanced the market situation and attracted investors. This justification supports the argument about the effect of crisis on financial reporting. Our findings are consistent with Keusch et al. (2012:623), who found that "a crisis situation leads to more extensive use of self-serving bias as adverse external economic conditions are used by managers to present themselves in the best possible light". However, our findings are inconsistent with Ressas and Hussainey (2014), who provided evidence that, in a crisis period, firms report more bad news and less good news information. This might indicate that managers offer credible information at a time of crisis. Clatworthy and Jones (2003) showed that firms prefer to use bad news disclosure to blame the external environment rather than an economic or political crisis. Moreover, the evidence about the positive variances of good/bad news by Egyptian firms is consistent with the idea that managers face an asymmetric loss function in choosing their voluntary disclosure policies. Managers behave as if they bear large costs when investors are surprised by large negative earnings news, but not when other earnings news is announced.

5. Conclusion

We offer evidence on the the bidirectional association between TD and FP We add to the scarce evidence on TD in developing countries. We extend prior research, which mainly focus on one direction, to measuring the bidirection between FP and discloaure.

We provide evidence that Egyptian firms tend to benefit from greater good news disclosure. Our results may help regulators to adopt an appropriate balance of legislation, regulatory reform and enforcement to make improvements in the good and bad disclosure practices as well as the enhancement of organisational legitimacy. While previous research showed that analysts and investors rely on annual report narratives for decision making, these statements remain largely unregulated and unaudited. The study will be of value to academic researchers in the field of impression management and to users of annual reports who may rely on narrative sections, such as the chairman's statement, for decision making.

We focus only on annual reports. Future research may consider other financial communication channels. We focus only on Egyptian firms. However, we believe that the same hypotheses are worth testing outside Egypt, and that it is reasonable to expect a higher level of tone management disclosure in other countries with better investor protection and with more developed capital markets. While this study used ROA as an accounting measure for performance, further research may use Tobin's Q or other market-based measure of performance. Future research may also examine the impact of the Arab Spring on the association between TD and FP. Finally, it might be interesting to test the association between TD and FP before and after political crises such as the Arab Spring.

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Table 1: *Descriptive analysis*

	N	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
G.N	313	0.00	22.00	3.600	4.75256	1.677	2.346
B.N	313	0.00	24.00	1.648	2.91731	3.210	15.064
NET.N	315	-15.00	20.00	1.939	4.79844	0.739	2.413
ROA	390	-0.77	0.37	0.053	0.10679	-2.099	17.587
AUDIT	314	0.00	1.00	0.324	0.46906	0.752	-1.444
SIZE	390	4.65	10.34	8.273	1.21619	-1.072	0.818
LIQ	390	0.11	304.53	5.39	20.842	9.819	12.514
LEV	390	0.00	1.95	0.40	0.258	1.345	5.422
F.GROW	383	-424.58	1.00	-53.75	367.80	-9.275	94.813
SECT	379	1.00	16.00	5.910	4.283	1.123	-0.032
AGE	322	1.00	123.00	34.66	20.92	1.667	4.017

Variable definition: **G.N:** *Good news;* **B.N:** *Bad news;* **NET.N:** *(Net news) The difference between good and bad news;* **ROA:** *return on assets;* **AUDIT:** *dummy code 1 if the firm audited by one of the four big auditor office or 0 otherwise;* **SIZE:** *natural logarithm of total assets;* **LIQ:** *liquidity (current assets to current liabilities);* **LEV:** *Leverage (total debts to total assets);* **F.GROW:** *firm growth (assets growth);* **AGE:** *age of the firm;* **SECT:** *category of each sector (e.g., construction; chemicals and telecommunication)*

Table 2: *Pearson and Spearman rank correlation coefficients for the continuous independent variables*

	NET.N	ROA	AUDIT	SIZE	LIQ	LEV	F.GROW	SECT	AGE

NET.N	1	0.354**	0.055	0.127*	-0.027	-0.206**	-0.087	-0.024	-0.096
ROA	0.311**	1	0.024	.245**	-0.020	-.483**	-0.013	-0.029	-.120*
AUDIT	0.109	0.057	1	.389**	-.118*	.141*	-0.003	-.238**	.154*
SIZE	0.140*	0.142**	0.416**	1	-0.070	-.151**	-.125*	0.005	-0.101
LIQ	0.208**	0.341**	-.194**	-.177**	1	-.287**	-0.003	.105*	-.183**
LEV	-0.162**	-.285**	0.194**	0.072	-.730**	1	0.020	-.177**	.180**
F.GROW	-0.006	0.015	-0.037	-.332**	0.090	-0.085	1	-0.020	-0.062
SECT	-0.034	-0.100	-.319**	-.125*	.107*	-.127*	-0.040	1	-0.044
AGE	-0.149*	0.027	0.148*	-.114*	-.131*	0.086	0.067	-0.092	1

*Variable definition: **NET.N:** (net news) The difference between good and bad news; **ROA**: return on assets; Auditor: dummy code 1 if the firm audited by one of the four big auditor office or 0 otherwise; **SIZE**: natural logarithm of total assets; **LIQ**: liquidity (current assets to current liabilities); **LEV**: Leverage (total debts to total assets); **F.GROW**: firm growth (assets growth); **AGE**: age of the firm; **SECT**: category of each sector (e.g., construction; chemicals and telecommunication); **(*)** Statistical significance at 10% level; **(**)** Statistical significance at 5% level; **(***)** Statistical significance at 1% level*

Table 3: *Impact of financial performance on disclosure quality*

	Model (1)	*Model (2)*	*Model (3)*

	Good news		Bad news		Net news		VIF[1]
	Coef.	*t. Stat*	*Coef.*	*t. Stat*	*Coef.*	*t. Stat*	
Constant		*1.959*		*2.544*		*0.362*	
ROA	**0.208**	**3.074****	**-0.113**	**-1.915***	**0.273**	**4.086*****	*1.199*
LIQ	*-0.113*	*-1.657**	*-0.084*	*-1.587*	*-0.049*	*-0.732*	*1.219*
LEV	*-0.163*	*-2.274**	*-0.002*	*-0.040*	*-0.123*	*-1.731**	*1.351*
F.GROW	*-0.114*	*-1.839**	*-0.026*	*-0.522*	*-0.091*	*-1.484*	*1.018*
SIZE	*-0.012*	*-0.173*	*-0.061*	*-1.092*	*0.050*	*0.742*	*1.202*
SECT	*0.069*	*1.071*	*0.066*	*1.271*	*0.023*	*0.357*	*1.099*
AGE	*-0.060*	*-0.920*	*0.029*	*0.564*	*-0.076*	*-1.186*	*1.114*
AUDIT	*-0.019*	*-0.271*	*-0.102*	*-1.852**	*0.027*	*0.390*	*1.250*
YEAR dummy	*Included*		*Included*		*Included*		
Model Summary							
R Square	*0.122*		*0.217*		*0.143*		
F value	*4.007*		*2.399*		*4.804*		
P value	*0.000*		*0.016*		*0.000*		

Variable definition: **G.N:** *Good news;* **B.N:** *Bad news;* **NET.N:** *(Net news), The difference between good and bad news;* **AUDIT**: *dummy code 1 if the firm audited by one of the four big auditor office or 0 otherwise;* **SIZE**: *natural logarithm of total assets;* **LIQ**: *liquidity (current assets to current liabilities);* **LEV**: *Leverage (total debts to total assets);* **F.GROW**: *firm growth (assets growth);* **ROA**: *return on assets;* **ROE**: *return on equity;* **AGE**: *age of the company;* **SECT**: *category of each sector (e.g., construction; chemicals and telecommunication);* **(*)** *Statistical significance at 10% level;* **(**)** *Statistical significance at 5% level;* **(***)** *Statistical significance at 1% level*

Table 4: *Impact of disclosure quality on financial performance*

	Model (4)	Model (5)	Model (6)

	Good news		Bad news		Net news		VIF
	Coef.	*t. Stat*	*Coef.*	*t. Stat*	*Coef.*	*t. Stat*	
Constant		0.809		1.484		0.979	
G.N	**0.134**	**3.141****					1.040
B.N			**-0.083**	**-1.915***			1.039
NET.N					**0.185**	**4.346*****	1.057
LIQ	-0.134	-2.994	-0.155	-3.462	-0.136	-3.081	1.132
LEV	-0.494	-10.696	-0.511	-11.096	-0.479	-10.449	1.209
F.GROW	0.024	0.575	0.013	0.292	0.025	0.592	1.029
SIZE	0.160	3.420	0.154	3.250	0.151	3.263	1.246
SECT	-0.105	-2.411	-0.097	-2.208	-0.096	-2.231	1.073
AGE	-0.016	-0.374	-0.020	-0.458	-0.010	-0.236	1.061
AUDIT	-0.007	-0.147	-0.017	-0.347	-0.018	-0.386	1.254
YEAR dummy	Included		Included		Included		
Model Summary							
R Square	0.313		0.302		0.328		
F value	22.234		21.133		23.836		
P value	0.000		0.000		0.000		

Variable definition: **G.N:** *Good news;* **B.N:** *Bad news;* **NET.N:** *(net news), The difference between good and bad news;* **AUDIT**: *dummy code 1 if the firm audited by one of the four big auditor office or 0 otherwise;* **SIZE**: *natural logarithm of total assets;* **LIQ**: *liquidity (current assets to current liabilities);* **LEV**: *Leverage (total debts to total assets);* **F.GROW**: *firm growth (assets growth);* **ROA**: *return on assets;* **AGE**: *age of the company;* **SECT**: *category of each sector (e.g., construction; chemicals and telecommunication);* **(*)** *Statistical significance at 10% level;* **(**)** *Statistical significance at 5% level;* **(***)** *Statistical significance at 1% level*