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Investigating the Mediating Role of Agency Costs on the Relationship between Earning Quality, Discretionary Disclosure and Cost of Capital[1]

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Research Paper

INTRODUCTION

Makin decisions related to investment and attracting capital play a significant role in the continuation and development of 'companies activities, which is important from two aspects, realizing the expected return and bearing the cost of capital due to its attraction by the company. One of the important sources of gnikam-noisiced is earnings. Earnings management can affect the quality of earnings. The more earnings management is applied, the quality of earnings decreases, and investors demand higher returns. The quality of earnings can affect the supply and voluntary disclosure of information based on the managerial invention. By increasing the level of voluntary disclosure of information, it is expected that agency costs will decrease and by reducing the risk of uncertainty and attracting 'investors trust, the cost of capital will decrease.

Since, the cost of capital is one of the most important and effective financial tools in making many management and investment decisions that are affected by several factors. The purpose of this study is to investigate

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the effect of two key factors of earning quality and voluntary disclosure on the cost of capital by considering the mediating role of agency costs using structural equation modeling.

Therefore, examining the direct and indirect effect of earnings quality and voluntary disclosure of information on the cost of capital by considering the intermediary role of agency costs using structural equation modeling is an innovation of the present research, which is important from two perspectives. First, it provides a new platform for future research in this field. Second, with the help of those results, managers and investors and all market participants can be helped in making correct and logical investment decisions.

MATERIALS AND METHODS

A statistical sample from the community of companies listed on the Tehran Stock Exchange 174 companies during the period 2015-2020 has been selected based on the method of systematic elimination. Due to the normality of the collected data, the asymptotic free distribution (ADF) method has been used to estimate the model which makes it possible to investigate the direct and indirect relationships among the variables. The effect of indirect happens when the effect of independent variables on the dependent variable is passed on by the intermediator variable. In such a way that the mediating variable affects the independent variables and affects the dependent variable. In the present study, the agency fee is placed as an intermediary levariab (earnings quality and voluntary disclosure) and dependent variable (cost of capital) and it causes an indirect relationship between them.

RESULTS AND DISCUSSION

The table below shows the direct, indirect, and general effects of the fitted model. As can be seen, the effect of agency cost on capital cost is positive and significant. This means that the agency costs variable explains the changes in the capital cost variable in the same direction. The results show that there is no direct and significant relationship between earnings quality and cost of capital .this means that the earnings quality does not have a direct and significant effect on the cost of capital. Also, it can be seen in the results of the test that voluntary disclosure does not have a direct and significant effect on the cost of capital. To complete the tests, the relationship between voluntary disclosure and earnings quality with the mediating variable of agency cost was also tested. The result of the test shows that the direct effect of these two factors on agency costs is negative and significant. The earnings quality has a negative and significant effect on the cost of capital through agency costs. It also shows that the quality of disclosure has a negative and significant effect on the cost of capital through the mediating effect of agency cost. What is important is the calculation of the total effect of the test, which is obtained from the sum of direct and indirect effects. The final effect of earnings quality on the cost of capital is negative and significant due to the agency costs variable. Therefore, the final effect of disclosure quality through agency costs as an intermediary variable on the cost of capital is negative and significant.

Standardized effects of the fitted model

Total		indirect		Direct		effect
Capital cost	Agency costs	Capital cost	Agency costs	Capital cost	Agency costs	variable
-2.688 (0.043)	-97.217 (0.025)	-1.916 (0.049)		-0.772 (0.685)	-97.217 (0.025)	Earnings quality
-1.334 (0.010)	-0.514 (0.010)	-0.026 (0.040)		-0.009 (0.703)	-1.334 (0.010)	Voluntary disclosure
0.020 (0.039)				0.020 (0.039)		Agency costs

CONCLUSION

According to the statistical results, the best indicator for measuring agency costs is the ratio of asset turnover and the ratio of operating costs to sales. This means that the higher the ratio of asset turnover and the lower the ratio of operating costs to sales, the lower the number of agency costs, which reduces the cost of capital. According to this result, it can be claimed that in the member companies of the Tehran Stock Exchange, the changes in the cost of capital are subject to the changes in the agency cost.

The results show that the direct effect of earnings quality on capital cost is not significant, but the indirect effect of earnings quality on the cost of capital is negative due to agency costs. The simultaneous effect of the direct and indirect path, which is defined as the total effect, is negative and significant. The best factor for measuring the earnings quality is the variable of accruals an approach based on cash and the volatility of earnings as stated, and with the increase in the quality of earnings and the reduction of agency costs, the cost of capital is reduced.

The direct voluntary information disclosure on the cost of capital is not significant. The indirect effect of discretionary disclosure on the cost of capital. The indirect effect of discretionary disclosure on the cost of capital through agency costs is negative and significant. The best measure of voluntary information disclosure is the prediction accuracy variable. The higher the prediction accuracy, the lower the agency costs and cost of capital.

Keywords: Agency Cost, Cost of Capital, Earning Quality, Structural Equation, Voluntary Disclosure.

JEL Classification: M41, G32, G34.