IMPACT OF FINANCIAL REPORTING QUALITY ON INVESTMENT EFFECIENCY (A CASE STUDY OF CEMENT SECTOR OF PAKISTAN)

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Thesis Title: Impact Of Financial Reporting Quality On Investment Effeciency (A Case Study Of Cement Sector Of Pakistan)

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Candidate of Master of Science in Business Administration at the National University of Modern languages do hereby declare that the thesis Impact of Financial Reporting Quality on Investment Effeciency (A Case Study of Cement Sector of Pakistan) submitted by me in partial fulfillment of MS degree, is my original work, and has not been submitted or published earlier. I also solemnly declare that it shall not, in future, be submitted by me for obtaining any other degree from this or any other university or institution.

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IMPACT OF FINANCIAL REPORTING QUALITY ON INVESTMENT EFFECIENCY (A CASE STUDY OF CEMENT SECTOR OF PAKISTAN)

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This thesis has been read by me and has been found to be satisfactory regarding content, English usage, format, citations, bibliographic style, and consistency, and thus fulfils the qualitative requirements of this study. It is ready for submission to the Faculty of Advanced Integrated Studies and Research for internal and external evaluation.

Supervisor: Mr, Muhammad Irfan ______________________________

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DEDICATION

I, dedicate these theses to my respected parents and especially to my beloved mother, who is a real source of inspiration to me, because of his learner ship, conduct, honesty, dedication towards his profession, way of living and norms of customs.

No doubt due to special blessings of **ALLAH** and prayers of my parents today

I am able to complete the study in a prestigious manner and splendid way.

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ABSTRACT

Title: Effect of Financial Reporting Quality on Investment Efficiency: A case study of cement sector of Pakistan.

This study examines the effect of financial reporting quality on investment efficiency on the Cement sector firms in Pakistan. The Cement sector companies listed at Pakistan Stock Exchange were taken as population of the study. Since the total number of companies of Cement Sector is 22, therefore, the population of data has been taken as the sample for this research. Investment efficiency was taken as dependent variable whereas financial reporting quality used as independent variable and return on assets, annual cash holding and assets tangibility taken as control variables. Panel data were used to examine the relationship of financial reporting quality with investment efficiency. The findings of this study indicated: 1) Investigations reveal that there is positive significant relationship between financial reporting quality and investment efficiency 2) Financial reporting quality can enhance investment efficiency with regard to two ways: reducing asymmetry of information between the investors and company, and therefore, reducing the financing costs, and reducing asymmetries of information between managers and investors, and therefore, reducing the monitoring costs and enhancing project selection.

Keywords: Financial Reporting Quality, Investment Efficiency, Return on Assets, Cash Holding, Assets Tangibility.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

During the 21st Century the technology has been changed incredibly, due to which investors inside and outside the companies are being facilitated a lot. With the passage of time this innovation in technology has put an outstanding effect in changing the socio-economic temperament of customers and entrepreneurs.

The irregularities between company and financiers associated with high quality of financial reporting and the efficiency of investment which helps in removing it. It helps in enhancing the capability of investor to control the decision related to investments. Therefore, it can be expected that a good quality financial report decreases unnecessary and waste of investments (Biddle et al. 2009).

Furthermore as (Laudon and Laudon, 1998) stated, FRQ includes, changing behaviors to manage the organization competitions. Hence, organization's management has to be dynamic, because the globe now emphases on a knowledge-based economy that relies on dependency information, knowledge and wisdom. So, the information is very important to get a quick and accurate result in information systems.

Another important factor is the Accounting Information Systems (AIS) of the organizations. It plays an important role in circulation of activity. AIS is responsible for the collection of data. It is also responsible for the management of data in fiscal environment. Many decisions are taken on the basis of collected information obtained from the AIS. This system helps in the allocation of capital and transfer of information to people who are outside of the organization in credible and timely manner (Noravesh, H., 2009). Investment can only be done in a comprehensive manner when proper context is available. The state is responsible for providing the access to the information. The system also helps in analyzing the data and making it easily available for general public. The Financial statements of a company are the core of financial reporting. It contains information about the financial position of the company. The second purpose of the statements is the financial performance of the company. It also provides information to a wide range of users, which contains investors, creditors and government officials. The information included in financial statements is the basis of most logical decisions. Therefore, the users should evaluate its quality in decision process before applying it in the financial reporting (Bozorgasl, 2000, p 9).

On the other hand, a low quality of financial statements will lead to increase in transaction costs and market failure. The failure will lead to improper allocation of resources. It enhances the quality of financial reporting. The information provided by the manager is a part of the requirements in today's modern businesses and professions (Rahmani and Amini, 2011, pp. 97-96).

The development of information systems must understand the structure and relationships of various subsystems. This will help with the planning and designed information system. The organizations want to use information to solve problems and help manager for effective decisions. Therefore, collection of appropriate data, complete and update information makes it easy to solve the problems of organization better and managers may make decisions more effectively to achieve organization's goals (Nicolaou, 2000; Choe, 2004). So, it has been observed that the AIS have played a very important role in the organization greatly. It may not be out of context that if any components are effective for accounting information these components can create a competitive strategy over competitors in the same industry (Kearns and Lederer, 2004).

The Financial Reporting Quality has been treated, analyzed and reviewed by researchers a lot in developed countries however it hasn't been looked into in the developing states like Pakistan. The Financial Reporting Quality has been considered a very important financial performance factor and gauge by the developed countries which helps in their competitive advantage. Several research studies have been carried out on FRQ, showing dissimilarity and discrepancy in results (La Porta et al. 1999).

The Financial Report has been a main and vital instrument of the system for accounting. This system examines the provision of required data for user to take important decisions related to economic affairs, in order to find out profitability of a firm. Estimating and supply information frame make it practicable to find out the past activities and operations efficiently. Moreover, it also forecasts the feasible forthcoming profitability and prearranges activities (Bolo, 2007).

The financial reporting of a firm reflects the readiness of given information which elucidates the business organization activities. The investors and stakeholders are interested in cash flow information of a company. An imperative indication of Financial Reporting Quality with respect to the view of the originator of the Standards of Accounting is concern and hence arranges useful information for the owner to take decision (Hassas, 2006).

It further to mention that as mentioned in the preceding Para that the change and variation in technology has played an important part in changing the financial disposition of stakeholders and investors. It effects in changing the behavior in managing the organization opponents. Therefore the management of organization has to be versatile enough because the globe now concentrates into the knowledge based economy. This analyzed and reviewed data becomes very unusual to be unexpected and free from errors. The information system has a very important effect when the results are generated through it. Therefore it will certainly be easy to understood and be available to be used effectively for the long run activities of the company. (Laudon and Laudon, 1998).

These days the Accounting Information Systems (AIS) in any company has a vital role in regular operations, because of it responsible for the delegation of authority and conduction of responsibility of country. For too means decision taken relies on information regarding the system and are operated by foundations for decision. These decisions are helpful in implementation of capital. The key effect of financial information is efficient convey of information to public outside of the business organizations Noravesh, H (2009). The documents of investment shows that it can be done in the well evaluated fashion when sustainable background prevents. The state allows the perpetual entry to the data. It is also evaluated comprehensively by all or some of investors. These statements as the root cause of financial reporting. It encompasses information regarding the financial status and evaluation of the business organizations. It is granted in correlation to implement a extensive range of catalogue, such as government, and other interested persons. So, the data comprised in financial statements is the foundation of most authentic and crucial decisions. Hence, operators would analyze assets quality in the decision process for applying it in the reporting (Bozorgasl, 2000).

The quality of statements related to finance breeds tide in economic activity costs. The market disorder assigns a core assets. The quality of reporting and information provided by the experts and professionals is a continuous process to improve. As it is a part of business and experts of modern era (Rahmani and Amini, 2011).

While designing information systems ought to an evaluation of the scheme and relationships of the salient subsystems, which will add to the planning and intended information system. The business firms wish to implement information to cope-up dilemma and facilitate manager for efficient and healthy decisions. Hence, gathering of structured data, full and final and need based information makes it be error-free, concrete and it can be implemented to solve the problems of the business firms efficiently and managers can use that information to make decisions more correctly and concisely to reap organization objectives, Nicolaou (2000); Choe, (2004). So, it is evaluated that the accounting information system is a model affecting the organization widely. It can be assumed that if any syllables are crucial for accounting information these parts can lead to a comprehensive strategy over competitors in the same scenario (Kearns and Lederer, 2004).

Noravesh and Choe (1998) have also conducted the study on financial reporting which shows there is a significant relationship between the firm’s investment and reporting quality. They documented that the purpose of financial reporting is to assist the huge amount or fund in the economy. The theme of his study was to modify the company decisions related to investment. So the most important aspect of his study is that; financial reporting role improve the firm decision related to investment. Therefore the study of this theory also suggests some basic improved transparency which shows the more investment and less investment results and difficulties.

Hassan & Bello (2013) confined that a firm‘s management is accountable to provide financial reporting information which is utilized by decisions maker to forecast the outputs of current activities or correct their confluences. There are several circumstances perceived in the world to enter bogus financial reporting information or handle information to conceal financial losses by under or overestimating the assets value. In the initial years of twenty first 21st century have bundle of obstacles regarding accounting and financial scandals. The mainly eminent slanders of financial reporting of misappropriation includes such as Enron, Health South, Beekes to AIG, Bernie Mandoff, Lehman Bros and Satyam, (great accounting and finance scandal, 2015). They further documented that it is compulsory for allfirms to arrange a quality report of financial information. Financial Reporting (FRQ) is regarded the main suitable factor in financial progress. Usually, it is perceived that several factors of the business organization have an effect on the high-level of disclosed reporting. They explained that, there are many peculiarities which regarded the impact of high level quality of Reporting are varying company to company. The past researchers had proven that business organizations involving in activity of earnings management are frequently with less share dispersion, small firm size, and small audit firm size, low leverage, less liquidity, less board composition and lower performance.

Lobo and Zhou, (2006) confined that in last decades several prevailing trend of corporate slanders are noted by low quality of Reporting. On the other hand, shareholder demand was high quality of financial reports. Currently the researchers demonstrated that the firms or companies follow eminent quality internal and external tools of governance and also appropriate elevated auditor quality to enhance high quality of financial reporting for shareholders. But the governance mechanisms of the corporations differ from country to country, considering changes in the business and legal environment.

Khalifa and Othman (2016) asserted that all firms‘managers utilized for the provision of various information for which they adopting different accounting policies which plays a role of remarkable instrument regarding the expected and current firm‘s prospectus. For decision making of investment the investors rely on for support on this printed information and utilize this for decision making of investment. If uncertainty or risk is greater, as investors claim greater rate of return, that result enhances in the cost of capital. Similarly, that financial information must encounter definite amount of credibility and reliability to lessen uncertainty for the objective of reducing cost of capital and since escape the outcomes to assault the value of firm position downward.

McNichols and Stubben (2008) documented that decision regarding firm investment is enhanced by convenient reporting of financial information. Since this enhancement in financial information determines the problems of high investment and low investment in different plans of the firms.

Financial information performs vital role in making of decision regarding the efficiency of the investment of a specific firm. The Financial cost and expenses related to monitoring have impact on firm‘s investment efficiency. Similarly, the credibility of that financial information lessen, tendency of execution measurement on behalf of which managers are punished or rewarded based on unfavorable or favorable results of pick out projects for respectively investment decision. High quality information disclosure reduces asymmetry of information that weak, both cost of financing and inefficiency of the market to facilitate or finance the long term in projects which gives huge profit (Levine, 1997).

Some other studies conducted in various parts of the world, provide break in the context of Pakistan, in term of replication, variables and data set. Gomariz and Ballesta (2013), conducted study to analyze the relationship among Financial Reporting Quality and Investment Efficiency. Their findings suggested that FRQ has positive and significant impact on the firm‘s Investment. Such kind of studies can be found rare in the context of Pakistan. So, the gap exists for using such combination of variables and techniques. In this context of Pakistan as financial reporting quality has not been tested, while correlating to efficiency related to investment.

1.2 Research problem

Since the stakeholders have a keen interest in the financial reports of a company, in order to take decision for association with it. Therefore, the quality of those reports may have an impact on the efficiency of investment. After going through several studies every researcher has different results on the subject. Moreover in Pakistan this subject hasn't been given enough consideration, therefore to fill the research gap and find out the results for the subject matter in Pakistan capital market it is warranted to dig out the relationship between FRQ and Investment Efficiency. During this research it has been intended to find out the relationship between financial reporting quality and investment efficiency of companies (cement sector)listed in Pakistan stock exchange. Moreover, the effect of financial and non-financial variables which is ROA. The level of holdings in cash and tangible assets and there effect on the investment efficiency would be figured out.

1.3 Research Question:

The aim of the study is to explain the relationship between Financial Reporting Quality and Investment Efficiency. The study is conducted in context of

Pakistani stock exchange. It will investigate the function of Assets Tangibility, cash holding and Return on Assets. Thus on the basis of the variable discussed above this research will endeavor to answerer the following research questions:

Q 1. What is the impact of Financial Reporting Quality on Investment Efficiency?
Q 2. What is the relationship of Return on Assets (ROA) with the Investment Efficiency (IE)?
Q 3. What is the relationship of Assets Tangibility with Investment Efficiency (IE)?
Q 4. What is the relationship of corporate cash holding with Investment Efficiency (IE)?

1.4 Objectives of the Study

To examine the association between Financial Reporting Quality and Investment Efficiency is the main objective of this study. Further, this study has some sub objectives which will help us to reach the major objective of the study, the sub objectives are listed below:

1. **To scrutinize the impact of quality financial reporting on the financial performance of the companies (in cement sector).**
2. **To investigate the impact of quality financial reporting on company's performance.**
3. **To apprehend the relationship between quality financial reporting and investment efficiency.**

1.5 Scope of the Study

The extent of the research is restricted to the companies in Cement sector which are listed in Pakistan Stock Exchange. The Cement Sector in Pakistan is among the highest revenue generating sector after Cement sector. There have been studies in this area in different sectors but Cement sector was not completely covered in the previous studies. So the main scope of the study is to cover the entire cement sector. All these cares listed on Pakistan Stock Exchange (PSX).

1.6 Significance of the study

1. Since this research is to be conducted in Pakistani perspective so it will add quality literature in the area of Financial Information Quality and investment efficiency.
2. This research will help the companies to give due consideration to their financial reporting quality.
3. This research will help the stakeholders to take decision for association with the companies.
4. This study would be a source of reference for researchers and may help them to fill the research gap.

1.7 Limitation

The collected data was for 32 cement sector firms. Due to different reason some the data was not available. The non-available data like tangible assets and intangible assets in the annual reports of these firms. Due to this, research study has certain limitations.

CHAPTER 2

LITERATURE REVIEW

2.1 Financial Reporting Quality System Universally Established

2.1 Financial Reporting Quality

FINANCIAL REPORTING QUALITY

In the field of economics, each and every financial statement is of utmost importance because in this field the coherence in the thoughts of business making parties is considered to be the top priority. Financial reporting quality, thus, is one such business statement that enfolds in itself the whole image of any business organization.

Feng et al (2011) investigated the companies in registered in the US stock exchange. Their outcomes display, financial reporting quality (FRQ) is emphatically identified with investment efficiency. They inspect the job of FRQ in private firms from developing markets. a setting where surviving exploration proposes that FRQ would be less helpful for the moderation of speculation wasteful aspects. Earlier assessments show that private firms have lower FRQ. Probably on account of minor marketplace interest for open data. Earlier research likewise demonstrates that FRQ is lower in nations with low speculator insurance, bank-arranged money related frameworks, and more grounded congruity among duty and budgetary detailing rules. Utilizing firm-level information from the World Bank, our observational proof proposes that FRQ emphatically influences venture productivity. We further find that the connection among FRQ and venture proficiency is expanding in bank financing and diminishing in motivations to limit profit for duty purposes. Such an association between duty minimization motivations and the educational job of profit has frequently been affirmed in the writing. We give express proof in such manner

Benlemlih and Bitar (2018) Used a sample of 21,030 US firms. Their perceptions speak to in excess of 3000 individual firms. The time period was from 1998–2012. They investigated the relationship between Corporate Social Responsibility (CSR) and investment efficiency. They give solid and powerful proof that high CSR inclusion diminishes speculation wastefulness and subsequently expands venture productivity. This outcome is reliable with our desires that high CSR firms appreciate uninformed irregularity and high partner unity (partner hypothesis). In addition, our discoveries propose that CSR segments that are straightforwardly identified with firms' essential partners (for example worker relations, item qualities, condition, and decent variety) are increasingly significant in lessening venture wastefulness contrasted with those related with auxiliary partners (for example human rights and network association). At long last, extra outcomes demonstrate that the impact of CSR on venture productivity is progressively articulated during the emergency. Occupied collected, our outcomes feature the significant job that CSR plays in molding firms' speculation conduct and productivity.

Hassas Yegane (2006) has asserted in this regard that the Financial Reporting Quality mirrors the exactness of given information to the operations of a company. Resultantly, the provision of the information of any company on its cash flow is a source of attraction for the investors. It is not only Yegane who has proposed so but also the Accounting Standards Board that brings into limelight this very fact that the financial reporting focuses on informing the potential investors to keep in account the credibility of any business organization so that they reap benefits on high level. This financial reporting quality doesn’t stand on a barren land that can provide nothing to the investors, in fact, it grants the standards of relevance and reliability to its potential investors that act as its ultra-indicators. These indicators provide a degree of choice and attraction for those who commit money in order to earn a financial return whose preference varies according to their own interest, and capability in terms of business. Similarly, financial reporting isn't objective less as it sets a goal for the investors to think of improvement in investment decisions, grant financial transparency, nurture productive allocation of capital and is effected by many factors. This research thus focuses on investigating the link between the financial reporting quality and financial and non-financial variables of companies so that it showcases the relationship between investment efficiency and financial reporting quality.

Many studies and researches are being done in this regard and they have showcased that the investment efficiency is directly proportional to financial reporting quality. Furthermore, the researchers showed that the size of the companies and its growth were directly connected whereas there was no co relation between cash holdings and tangibility of assets with investment efficiency.

Sajjadi et al (2009) the significance of monetary data quality increments hundredfold in case of some specific money related and non-budgetary occasions. Members in these occasions require straightforward and top notch data on the monetary exhibition and position of the organization with the goal that data asymmetry is limited thereof. Noravesh, 1998.

2.2 FINNACIAL REPORTING QUALITY AND INVESTMENT EFFICIENCY.

Many scholars have ventured to find out the relationship between financial reporting quality and investment efficiency. For example, Biddle, Bushan Smith, Sajjadi, Noravesh, Khodayi and Yahyayi and Van Beest .

Among these Bushman and Smith (2001) examined the relationship between the aforementioned and faced that boost in the financial reporting quality led effect on investment efficiency.

Similarly, Jenson (1986) had an investigation that the characteristics like financial leverage and structures, auditing qualities and investment of companies or business organizations is being effected by financial reporting quality.

Furthermore, Noravesh contended in one of his research based on relationship between financial reporting quality and the number of well capable bookkeepers in companies of Tehran Stock Exchange. he made out the result that those companies that hired the more competent candidates, its financial reporting quality was different than other companies who didn't hire such accountants.

Bidel et al (2009) was of the opinion in his research findings that a higher superiority of financial reporting rises Investment efficiency in principal objects. It is just because of the decrease of information irregularities, such as indecorous choice and resultantly can result in low investment.

Bolo 2007 too documented that financial reporting quality is one of the most significant products of accounting system. After it he related to the investment efficiency of a company that provides useful information for the investors to make economic decisions. The decision on the evaluation of enterprises enactments. This information on the cash flow of any company proves to be a source of attraction for the investors because the investors are really interested in what the company or business organization offers.

Hassas Yegane (2006) has asserted in this regard that the Financial Reporting Quality mirrors the exactness of given information to the operations of a company. Resultantly, the provision of the information of any company on its cash flow is a source of attraction for the investors. It is not only Yegane who has proposed so but also the Accounting Standards Board that brings into limelight this very fact that the financial reporting focuses on informing the potential investors to keep in account the credibility of any business organization so that they reap benefits on high level. This financial reporting quality doesn't stand on a barren land that can provide nothing to the investors, in fact, it grants the standards of relevance and reliability to its potential investors that act as its ultra-indicators. These indicators provide a degree of choice and attraction for those who commit money in order to earn a financial return whose preference varies according to their own interest, and capability in terms of business. Similarly, financial reporting isn't objective less as it sets a goal for the investors to think of improvement in investment decisions, grant financial transparency, nurture productive allocation of capital and is affected by many factors. This research thus focuses on investigating the link between the financial reporting quality and financial and non-financial variables of companies so that it showcases the relationship between investment efficiency and financial reporting quality.

In a nut shell according to FASB 199, IASB, 2008 monetary the essential target of budgetary revealing is to give great money related announcing data concerning financial elements, basically money related in nature, valuable for financial dynamic. While speculation productivity is a component of the hazard; return and absolute expense of a venture of an administration structure, subject to the guardian and different imperatives inside which financial specialists must work, institutional speculators actualize their speculation strategies through speculation the executives structures. Google.

2.2 RELATIONSHIP BETWEEEN FINANCIAL REPORTING QUALITY AND INVESTMENT EFFICIENCY.

Biddle et al 2009 also searched the study basing his investigation on a large publically traded firm of United States of America which provides the evidence that has been limited to bigger business firms. They explained that determining the registered superior learning in different surroundings isn't clear. Resultantly they asserted that financial reporting quality has significant impact on firm's investment efficiency.

Healy and Palepu 2001 stresses on this very fact in their researches that the FRQ dispalys the right information which aims to present the best picture of the activities of a business firms because the investors have their main focus on the information on the cash flow that makes them to take a fruitful decision.

Similarly, Berger and Udell 1998 have noted that many studies sustain the existence of the relationship between FRQ and investment efficiency. They believe that the financial reporting information when has a higher quality it adds to the capability of investing in that particular market. Thus, the higher the FRQ, the higher the efficiency of investment.

On the other side, In relation to the connectivity between Financial reporting quality and investment efficiency, Diamon (1991) too conducted study and resulted in proposing that the accurate financial information can lead to a lesser biased measurement of execution on behalf of the decisions of investing managers that will help them take better decisions instead of bad.

Moreover, Myers in 2008 conducted a study in the same. He used a sample of about 2220 business firm year's observation from the year 2003 to 2007 in China. The findings showcased that those business firms that had higher financial reporting quality, they were associated with more effective investment.

Not only the above researchers struggled for years in order to find an empirical answer to the relationship that exists between FRQ and investment efficiency. There were many others like Leuy, Bhattacharya, Barclay and Smith, Saghafu and Yazdi, Bharath, Hassan, Chow and Boren, Lang and Lunndholm, Cooke, Husain and Adams, Buzby, and many more. All of them contended this very fact that the FRQ has a significant impact on the business of any firm. It acts a tool of attraction for the investors and as the level offirms financial reporting increases; it tends to increase the financial performance.

Earlier research shows that money related revealing quality (FRQ) is decidedly identified with venture productivity for enormous U.S. traded on an open market organizations. We inspect the job of FRQ in private firms from developing markets., a setting where surviving exploration recommends that FRQ would be less helpful for the alleviation of speculation wasteful aspects. Prior investigations show that private firms have lower FRQ, apparently due to bring down market interest for open data. Earlier research additionally shows that FRQ is lower in nations with low speculator security, bank-arranged monetary frameworks, and more grounded congruity among charge and budgetary revealing standards. Utilizing firm-level information from the World Bank, our observational proof proposes that FRQ emphatically influences speculation effectiveness. We further find that the connection among FRQ and speculation productivity is expanding in bank financing and diminishing in motivating forces to limit profit for charge purposes. Such an association between charge minimization impetuses and the enlightening job of profit has frequently been stated in the writing. We give express proof in such manner.

2.3 DETERMINENTS OF FINANCIAL REPORTING QUALITY.

A thorough overview of studies that are done previously, have demonstrated that multiple and uncountable studies have been done on the determinants of FRQ all across the DEVELOPED world. These empirical studies contend that the determinants of financial reporting quality can grant financial performance stability and growth to any firm. In this regard Atanasko 2014 conducted a research to analyze such determiners. Some listed companies of MACADONIA were his focus. The major intention of this research of Atanasko was to keenly study the provisions of IFRS that are concerned with fair value. They construct an index of discovery and connect the enactment of index with actual idiosyncrasies of listed firms such as industry, proprietorship, internationalization, concentration, leverage, size and type of auditor and prospects for future progress. These mentioned characteristics are the determinants of financial reporting quality. FRQ disclosure practice has been systematized in disclosure research studies through elucidation given by certain theories like the signaling theory ROSS1977, and the theory of institutional and legitimacy and theory of positive accounting WATTS AND ZIMMERMAN 1978.

Similarly, Gomariz et al (2013) found through his researches that financial reporting quality has positive impact on financial performance of any firm. Gomariz proposed that different firms archive their distinct status over those corporations that are in the competition line, in order to focus on their central monetary standards. He utilized fix and random effect to produce the results of his conclusions. He documented that as business corporations or organizations managed their FRQ prudently it will help them to persist in the market for a long term.

Wallace and Gernon (1991) also made out certain efforts to determine the association among the different measurement of factors of financial reporting quality and found out that all these have progressive and substantial correlation with financial performance proxy of any firm. For the goal of the research design, they focused on taking compute corporate disclosure determinents which are resolute in the researches of Dumontier and Raffournier 1998, Chalmers and Godfrey 2004, Glaum and Street (2003) and many others. These research works also determines the rare distinctiveness of Macedonian business and financial reporting environment. Hence few selected firms were taken as a sample for the research study. Two independent variables were brought in this regard.

According to that research it was examined that huge amount of Macdonian companies have an ownership that is concentrated amid several majority investors. And thus couldn't be publically introduced. In the provisions of the market of audit for listed corporations, majority of the firms aren't put into audit in front of the big 4 auditors which is certainly the situation the capital markets abroad. That is the reason that about 66 percent of the Macedonia firms are audited through International Network Audit Firm INAF and this reality needs to be kept in account and consideration as one of the factor affecting the financial reporting Quality.

They asserted further that on behalf of contended investigation of financial statements which are audited of listed firms for (2010) they got to know mis presentation on a general level and a concern that was oversight for the disclosure of information of fair value and organized the index of revelation for every firm

Taking about Investment as one of the most important economic variable, Rom and Rohde (2007) stated that investment invites wide-ranging discussions. They regard investment as a process in which those who invest determined different methods following advantages acquiring as money, land and machineries that is improved through savings or income expenditures that are less and that is the reason the investor will opt for the choice whose output is in correspondence to the anticipated threat. This choice can vary between actual set like building and machinery and financial assets like shares, security and future contracts. Thus investment can be defined as an origin which is adopted in order to reap some financial outputs or future resources.

In this row of researches on the determinants of FRQ, Zeff (2005) conducted a study in order to find out the effect of determinants of financial reporting quality on any financial performance. The research showcased that both the FRQ and firm performance are directly related and found that financial reporting quality is influenced by the determinants too. It also brought this fact into limelight that the skills of an entrepreneur too matters a lot that renders great benefits to the performance of any firm.

Additionally Weil (2004) marked that any financial reporting quality of any firm has a very fruitful impact on its growth and for this reason they analyzed the data of different firms this study of his utilized correlation and OLS to predict the result. The study expressed that as the financial reporting quality of any firm increased, its financial performance also experienced a boost. The study also unveiled that each and every determinant of the FRQ was important as all of these determinants have a close relation with the increase in investment and v ice vrsa. Weil also stressed on the importance of human capital just the way Zeff did beforehand.

Using the Random Effect Model, Nobes (2006) examined the banking sector firm in order to find out the relationship between the determinants of any financial reporting quality and its effect on monetary performance. Nobes concluded that any firm need to work hard on making its FRQ more effective as it straight away effects the performance of any firm. He suggested that FRQ requires serious attention for boosting the performance of any organization.

Cairns (2001) too asserted that for any firm's success the determinants of financial reporting quality are of utmost importance. He argued that any firm should adopt such strategies that can help it reap higher benefits and achieve high goals of investment on a higher level. Cairns also on account of the findings that he did forced that business organizations need to work on the graph of their financial reporting and its efficiency to gain best results.

Ball (1995) on the other hand focused on the pharmaceutical sector companies and determined that any firm needs a high graph in terms of its financial reporting quality and its efficiency. He also contended that the financial performance of any business organization deeply depends on what it can offer as their FRQ. He believed that any vigilant entrepreneur strives hard to attain the goals of touching high graphs in terms of financial performance and that is the reason that the skills of those who run the firm or organization matters a lot. Thus a better FRQ assures the growth of the corporation.

Watts (1997) to suggested keeping in view his research work that any business corporation needs to have a strong association between the financial reporting quality determinants and its financial performance. He asserted that any firm is in need of investment and in order to attract investing parties towards itself the firm need to develop its financial reporting quality an impressive one. Once the financial reporting quality is catchy and powerful in terms of presentation, the firm will automatically have its desired investment. Similarly then the operationalization of the firm also needs to be a practical one, as when any corporation attracts investors, then the accountants and the workers of the firm need to play their role so that the determiner of the trust level grooms.

Choi and Muelller (1992) confined through their research that those firms that have a strong representation on financial reporting quality level, they outcast all those other firms that are competition with them. Such firms then have a high power in the market as they catch the attention of more investors. That is the reason that financial reporting quality is very essential for the survival of any business organization in a market of competition because it has a positive effect on the financial performance of the firm.

Radebaugh and Gray (1993) focused on the human capital as a determiner of financial reporting quality instead. They believed that human capabilities and skills can be utilized for the growth of financial growth of an business institution. Their research contended that any firm needs to invest in human capital in order to boost their growth and performance on financial level.

Bekaoui (1995) too worked on the same ground like that of Radebaugh and Gray and believed that any business organization needs to invest in human resources and hire efficient people as much as it can. It is cer6tainly obvious that in this entire human existence where there is any organization working, its performance depends on the people who run it. If the runners are efficient the firm will prosper and if they lack capabilities both on mental and physical level, the firm, organization or corporation cannot grow.

Parker (1995) noted in this regard that the experience of the employees is too much important for the improvement of any company on regular basis. He proposed that if any company introduces training and managerial advices sessions and capacity building programs, it will make the future of the firm a bright one because when the whole staff working is well equipped with business knowledge, the overall performance of the firm steps towards growth and its financial health also stabilizes. The study suggested that investing in hiring skillful individuals directly affects the financial performance.

Back in (1988) Gray viewed that the Accounting Information System AIS that is related to the determinants of FRQ can result in the provision of excellent results and cover the utilizing data and execute business in financial and non-financial forums. He believed that the cash flow of any corporation values a lot.

Thornton (1998) worked on the telecom sector firms in order to find out the association amid the FRQ determinants and the efficiency of financial reporting or performance. He determined that financial reporting determinants quality and its efficiency plays a vital role in elevating the financial enactment of a firm. He also highlighted the fact that the skills and technicality of an entrepreneur also affects the overall performance of any corporation. Thus rendering the fact that in order to soar higher and attract any investment any firm needs to improve its human capital.

Additionally, Doupnik and Salter (1995) also qualified that earlier researches have also proved that the efficiency of of financial reporting and the determinants of financial reporting quality have positive connectivity with investment relationship.

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In the recent studies i.e., back in 2012 Pakdelan asserted that the financial reporting quality has a very positive impact on the financial performance of any firm. He argued that as any firm manages its financial reporting quality and its different resources wisely it will provide the firm with the strength to survive in the market for a long time. He also stressed like other researchers that without human capital the firm will not be able to address its goals efficiently and that is the reason that any firm needs to focus on its human resources too.

2.4 DETERMINANTS OF INVESTMENT EFFICIENCY

Bringing the attention towards the determinants of investment efficiency Hubbard explained in 1998 that unlike the financial reporting quality the determiners for investment efficiency are two .First of all he argued that every firm or company requires an increasing capital in the market in order to finance the opportunities of investment. Similarly he was of the opinion that all projects of any firm that are having positive Net Present Value NPV want to be funded therefore , a ample literature in finance has showcased that those companies that face pressure in finance bound the ability of managers to effective projects of finance. The result of this literature is that an organization that faces pressure would pass the NPV projects because of the great expenditures produced in underinvestment.

Berle and Mean (1932) proclaimed that the unevenness of the information could protect investment efficiency due to the dispersed level of information amid mangers and stakeholders. This clash is generally named as conflict of principal agent. Resultantly it directs the managers to increase their benefits on personal level in comparison to the shareholders. The reason behind this uneven investment of the capital of the shareholders by the managers is majorly because of the grounds like conerns, consumption, career and inclination towards quite life.

Similarly the issues and ill concerns of the agency can have an effect on the investment efficiency with regard to improper and bad selection of projects that could increase the cost of funds if those who invest intercept the managers. The above argument thus suggests that the asymmetries amid the investors and the companies as well as among the agent and principle results in investment efficiency.

Bradford and Florin (2003) concluded that the financial reporting quality of any firm has very strong affiliation with investment efficiency.

2.5 FINANCIAL REPORTINGQUALITY SYSTEM ESTABLISHED IN PKISTAN.

The importance of financial reporting quality for any firm cannot be denied. Each and every country in the world follows this system for better performance in the financial arena and that is the reason that Pakistan too follows this stance of financial globalization. Every country has its own requirements of reporting that needs to be accomplished by listed or registered corporate body in concerned stock market. Therefore, hyper globalization has an effect on these differences in reporting and accounting along with assurances and rules. Relentless endeavors have been put into practice to reconcile these needs and requirements on universal level because of cross border trading opportunities and investment. This reconciles financial reporting and accounting availability would hopefully guide to financial information with understandability and above all reliability.

After the introduction to FRQ, Investment Efficiency and their relationship, the remaining research focus on the development of financial reporting quality in Pakistan. This growth of the FRQ in Pakistan is divided into four phases that is from 1947 to 1971, 1971 to 1999, the 3rd era is that of 2000 whereas the remaining is discussed in the fourth portion. The whole system is discussed keeping in view the political conditions of Pakistan.

2.5.1 PHASE 1 ESTABLISHMENT OF PAKISTAN AND FINANCIAL REPORTING

PERIOD OF 1947 TO 1971

After the establishment of Pakistan in 1947, Pakistan was facing many hurdles on financial level. In order to stabilize the country and make it stand on its own feet, different beaurocrates started struggling for introduction and implementation of such policies that can grant the country economic stability.

Together with other steps, financial reporting requirement of companies Act 1913 and Auditor Certificate rules 1932 were administered for corporations in order to form financial reports till 1971. In 1952, the exercising accountants were called listed accountants who set up a private body with the name of Pakistan Institute of Accountants i.e., PIA. According to MAKKI 2012, the main objective behind setting of this body was to supervise over the benefits of exercising auditors and to take up the matters of accountants with the government. The researchers further documented that Pakistan need to carry out work on exchange of accounting technologies. Because being a developing country Pakistan does need to make its financial reporting quality progressive and demanding.

In relation to this, the researcher Perara 1989 had asserted that a lot of underdeveloped countries are greatly influenced by the colonial powers that once ruled them. These countries are influenced on traditional, economical, industrial and also political level as they are effected by the philosophies of the colonial powers. Hence, Pakistan is one such example because it is being ruled by these colonial powers for decades until it got independence in 1947. Pakistan has confluence of what the British had offered while their ruling and resultantly Pakistan follows their laws by making changes to them in order to adapt those laws with their needs.

2.5.1.1 ACCOUNTING TECHNOLOGIES TRANSFERRED FROM BRITISH

IT is very clear that most of the Asian countries like that of Pakistan, India and BANGLADESH Have being highly affected by the financial reporting systems of the British. The British education of accountancy, and the system of financial reporting and their overall style of accounting have greatly affected the system of these Asian countries. While their rule in Asia, the British brought with itself their own methods and policies of ruling. In every sector that is industrial, business, cultural, and economical, the rulers introduced their own patterns that automatically shaped the mindsets of the ruled. And as they left these countries, they left a source of model set for these Asian countries that these countries implemented with some changes for their own selves. Financial reporting and accounting methods and strategies were of those left patterns. Qureshi et al., 2012.

These researchers asserted further that the technology of accounting transfer have distinct kind of dependency on the collaboration between the country that transfers and the state to which it is transferred. According to them there are three kinds of transfers that are, Intermediate transfer, horizontal transfer, and vertical transfer. These transfers show an alternative relationship between all these countries. This sort of situation majorly exists in advanced capitalist countries that transfer the accounting technologies in a identical manner because these counties are similar in their milieu of their economies and development. These countries are also similar in the context of availability of human resources or capital as they consist of well qualified individuals and resultantly these countries depend on each other for the technology of accounting. In comparison to these countries, the situation of Pakistan is quite different as Pakistan is no equal with them on any level as Pakistan was controlled by the British colonial power and it utilized the rules of accounting of the British. It thus describes that Pakistan didn’t get technology of accounting on a horizontal level. qureshi et al (2012)

The model of accounting technology exchange is Vertical Exchange. This model asserts the partial transfer of technology from the side of the country that acts as a transferor. This is contradictory to horizontal transfer. In this case the transferee country has dependency on transferor country even on political and economic level. In this transfer the transferor country transfers all its technology together with development process, design and planning and adjustment to the society of accounting system and distribution to the market. Makki et al (2012)

Wallace (1993) contended that it is crystal clear that Pakistan and British also have similar relationship and when Pakistan was underdeveloped, it got technology vertically. At that time Pakistan had no such need of financial reporting system like That of British. Socially, politically and economically Pakistan was an assorted country but those needs of Pakistan were outlined with reparation of requirements of the British. Every underdeveloped country is varied in terms of culture, political and economic systems, population, literacy and GNP that continuously affects the extent and nature of the system of financial reporting quality.

The researchers suggest that the substantial reasons of these variances found amid underdeveloped and advanced countries may be as follows.

a. Their social systems
b. The institutional and political differences between them
c. Cultural disagreements among them
d. Economic and development differences
e. Technological disagreements between them

The trustworthiness, applicability, scope of adequacy and disclosure of information are also noticeable qualities of accounting exercises prominent in a country. Similarly, if the association between a giving and recipient country is neither subordinate nor a horizontal one, then this sort of association is called negotiation association. Relevant to this transfer the receiving country be aware with related information henceforth it does not follow the utilization of vertical transfer. That is the reason when the accounting technology is being transferred across the border in a selective manner through the receiving state or country this will call immediate transfer. As such, the country that requires immediate transfer, does not follow the system completely but accepts the elements that are satisfactory to receiving country.

In comparison to receiving countries that are underdeveloped, the developed ones reap more benefits. The first advantage that they have is that of control over the underdeveloped nations by shifting their own accounting technology that is called Overseas Development Assistance ODA. They help the countries, grant them economic development and in return acquire the ruling position. Fama and French, (1996).

Commenting about Pakistan s situation in the 70s Kouser et al (2012) suggested that as Pakistan was below practice of the British regulations and rules upto 1971 the British utilized the ODA significantly.

On the other hand, talking about the benefits that an underdeveloped country gets from the same is the availability and provision of a well-recognized and developed system of advanced countries. Similarly, the investment of other countries can be attracted by this shifting. In Pakistan, in earlier times had no foreign investment and it wasn't able to frame professional working bodies , that's why the follow up of such rules by Pakistan for its financial reporting proved to be fruitful for it at that time.

2.5.1.2 General Ayoub Khan Regime

Qureshi (2012) certificated that on revelation of Pakistan in 1947, it taken in a victimized economy build of a predominance of agriculture, irregular transportation system, and large number of immigrant problems, underprivileged legacy of industrial sector, underdeveloped financial and banking system, and disregarded electricity. In light of its unpredictable economic conditions, that country was called to be ‗economic wrek' and darkness and troubles was anticipated for newly constituted state. They further documented that Pakistan did continue in existence at that stage and goes forward for economic development procedure by hard working by its nation. In June (1959), the departments of accountancy were established to deal with skilled occupation of accountancy in commerce ministry in place of section officer. The establishment of Consultative Council was called as ‗Council of Accountancy' according to auditor's certificates rules 1950 as such as this era and proposed the formation of Institute of Chartered Accountants of Pakistan (ICAP) formerly in Pakistan.

They documented that the economic development growth increase with large level rate when new or different government of president Ayoub Khan came into being in 1958 and taking over the administration of the country. The economic progress and industrial development was enhanced during 1958 to 1968. As such Gross National Product (GNP) was Rs: 31439 million in 1959 to 1960 enhanced toRs: 48280 million in 1967 to 1968 years that level of rate of growth was six (06) percent while years of 1965 to 1968. Gross local and domestic savings could also be increased as dimension of Gross National Product (GNP) from 5.6 percent to 10.7 percent while 1960 to 1965.

Makki et al. (2012) certificated that Pakistan struggles towards advanced economy was become very prosperous in impart that Pakistan was comprising in the countries list, which called remarkable formation after second war of the world, hence Ayoub Khan‘s government of 1958 to 1965 was very beneficial for economic reforms and development. Pakistan achieved wonderful economic growth but at the cost of support of the social prospect. Gross National Product (GNP) enhanced but wealth and income become in few hands just, which give result in poor become poorer and rich, became richer. Industrial progress was important but economic capability became intensified in upper class lands. Gross local and domestic savings as appropriation of Gross National Product (GNP) enhanced wonderful but it consists largely of non-divided corporate profits and allowances of depreciation, and fiscal incentives resulting like tar holidays. Payments of dividend to controlling group which was invested again and which known as with small upper class. They further asserted that this scenario appeared interlocking directorates and caters, monopolies, which limited competition, provided in suitable utilization of resources and support in capabilities. The private businesses dispirited small group of investors and gave concern of dispersion of ownership.

The above all discussed scenario provides a result of non-availability of well-established well-furnished system of financial reporting principles and system of accounting. As regard the scenario discussed consist private businesses at that time. If accounting system shifted from them and complete disclosure and information was given to all other efforts or stakeholders to stop this unquestioned prosperity of management by government take place then this undivided wealth and provisions of dividend which were unsatisfactory could be developed. The establishment of

Institute of Chartered Accountants of Pakistan (ICAP) was the first government organizational step toward profession of auditing and accounting, but it takes much time to organize a framework. As we know that utilization of financial reporting and information reported can be determined b7y its examination power and explanation of operating results and outputs of enterprises, so that organizing of financial reportingof this degree company‘s act cooperatively with Institute of Chartered Accountants of Pakistan (ICAP) and exchange of securities rules of 1971 supply standards which gives mandate in making ready of annual financial report. So, annual financial reports express the high degree level of materiality, scope and uniformity in style. (Kouser et al, 2012).

2.5.1.3 Establishment of ICAP

Qureshi et al. (2012) confined that the earlier period discussed the regime of Ayoub Khan and the survey regarding 1958 to 1968, Institute of Chartered Accountants of Pakistan (ICAP) was organized by the ministry of finance of Pakistan in 1961. While the under discussion period (1947 to 1971) the formation of ICAP was a great step in Pakistan‘s history of Accounting profession. This influenced the regulation of corporate sector and financial reporting in too much favorable way. After providing some common attention to the reporting and accounting profession, the government of Pakistan took many stairs for the improvements and developments of reporting system and framework at the organizational level. After the revelation of Pakistan, Pakistan Institute of Accountants (PIA) was the first organization for the providing of financial reporting quality and profession of accounting, which was organized privately through registered accountants. Similarly, this was not a well-organized and formal organization by government of Pakistan, hence time to time the government, because of pressure and need by that professionals formed the Institute of Chartered Accountants of Pakistan (ICAP) in 1961. They further documented that despite the fact that ICAP is the principal body for standards setting of Pakistan but it also operate with cooperation of Securities Exchange Commission of Pakistan (SECP).

SECP is an organization whose basic responsibility is to perform as a regulator of corporate sector and stock exchanges of the country.

2.6 Rules and Regulations of Governing Financial Reporting Quality

Verrecchia (2001**)** documented that **g**enerally, there are two ways through which the financial reporting quality can be connected with investment efficiency. The first one it is generally evidenced that financial reporting aggravate opposed selection cost by decreasing the asymmetry of information between the investor and firms, and among investors. For example Leuz and Verrecchia (2000) found that firm liquidity can be increased due to the allocation to more disclosure decreases. On theother hand, if asymmetry of information can exists among investors and firms, the capital supplier can get the benefit to discount the stock price, due to this the cost of capital is raised, because the investors will deduce that firm enhance capital is of a bad way (Myers and Majluf., 1984). So, if financial reporting quality (FRQ) decreases opposed costs of selection, it can enhance investment efficiency (IE) by decreasing external financing costs, the virtual for financial reporting quality (FRQ) to enhance investment efficiency is largest in firms facing financing coerce.

Lambert (2001) explained that secondly, a wide works in secretarial proposes that economic reportage plays an important character in aggravating agency issues. For example, financial accounting information is generally used as direct input in remuneration contract, and is a vital way of information used by owners to monitor administrators. Furthermore, financial information is a vital cradle of firm definite material, which contributes to the monitoring role of stock markets. So, if financial reporting quality (FRQ) decreases agency issues, it could then increases investment efficiency by enhancing the ability of shareholders to screen managers and so enhance project assortment and decrease costs of financing.

Teruel et al. (2010) investigated that hence high quality rules and regulations regarding financial reporting quality (FRQ) can increase high quality of financial reporting bring the top management more responsible through contribute reform inspect and decreases information asymmetries and consequently false selection and ethical risk, it will lessen extensive or undue investment issues. On the other side, financial reporting quality (FRQ) can enhance investment efficiency through meliorate recognition of the project and contribute to bring reliable accounting figures to inside decision makes.

Nair and Frank (1980) analyzed that the firstly, a vast works in accounting advised. The financial reporting plays a vital role in predicting work harms. For example, financial accounting information is typically operated as direct shove in remuneration agreements and contracts, and is an important source of information utilized by shareholders to control manager. Similarly, financial information is a vital means of firm proper information, which collects to the monitoring career of stock markets. Similarly, if financial reporting quality (FRQ) decline agency problems, it could then enhances investment efficiency by increasing the capability of shareholders to monitor manager and so increased project selection and decline costs of financing.

Cable (1985) asserted analyzed that so high quality regulations and rules about the financial reporting quality (FRQ) can enhance high quality. Financial reporting can bring the upper level of management extensively responsible by give reform inspect and decline information asymmetry. With the passage of time, wrong selection and ethical threat. It will lower undue or extensive or investment problems. On the other hand, financial reporting quality (FRQ) can increased investment efficiency by upgrade identification of the project and give to bring trustworthy and accurate accounting figures to internal decision makes.

Wang (2004) documented that thirdly, a comprehensive literature in accounting suggested. The financial reporting performs a significant role in propagating agency problems. For instance, financial accounting information and reporting is commonly utilized as direct capacity in reward contract, and is a important source of information used by shareholders to assess and screen the managers. Similarly, financial reporting and information is a vital means of business organization proper and specific information, which collects to the monitoring and evaluation role of stock markets. Therefore, if financial reporting quality (FRQ) deduced agency problems, it could then enhance investment efficiency by improving the capability of shareholders and investors to screen top managers and hence increase project choice and deduce costs of financing.

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2.7 Financial Reporting Quality Trends

Chen et al. (2011) certificated that one of the key movement of financial reporting is to contribute financial material that could expedite effective allocation of capital. In making capital expenditures, it requires not only capital allocation but also resources allocation. On the other hand, making the decision about the capital allocation and investment, the class of financial reporting is of the most vital inputs. The financial reporting quality can be defined as the preciseness in which narrated information describes the firm‘s activities to concerned users. Financial AccountingStandards Board (FASB) statement of Financial Accounting Concepts. No: 1 (1978) particularize the one goal of financial reporting is to facilitate the current and virtual investors in framing rational decision for investment. That firm is found as investing effectively, if it making investment in projects with positive net present value. If the firm proceeds on investment occasions that will have positive net present value, then the firm was under-investing. In another words, that firm will have over-investment if the firm invest in investments with negative present value. Over or under investment denote that the firm is not investing effectively. Thus, the raze of firm‘s investment efficiency can be measured from the distraction of over or under investment.

Similarly, Jensen and Meckling (1976) argued that there are two primary deficiencies in agency theory, which are namely moral hazard and adverse selection, occurred by the existence of asymmetry of information and poor quality of financial reporting gives large chance for dysfunctional behavior of managers.

Xia (2004) seen that one of the essential pattern of budgetary data and announcing is to give money related detailed data that could quicken amazing allocation of capital. In doing capital payment, it needs capital allocation as well as assets apportionment. On another side, in doing the choice with respect to the capital appointment and venture, the nature of money related detailing is of the to a great extent significant information. The money related announcing quality could be indicated as the far reaching wherein described data depicts the company's exercises to concerned clients. Monetary Accounting Standards Board (FASB) explanation of Financial Accounting Concepts No: 1 (1977) particularize the one objective of budgetary detailing is to encourage the present and virtual speculators in surrounding sound choice for venture. That firm is found as contributing viably, in the event that it making interest in ventures with positive net present worth.

2.8 Mechanisms of Financial Reporting Quality and Investment Efficiency

Ferreira and Mato (2008) argued and suggest a connection among Financial Reporting Quality (FRQ) and Investment Efficiency (IE) on the bases of hypotheses. Similarly, different mechanisms of governance for FRQ can also be connected with efficiency of investment. They further noted that companies which have larger ownership of institutional have the capital expenditures very low, and high valuation, proposing that ownership of institutional aggravates overinvestment. The larger analyst coverage enhances the elasticity in the financial policy, which might assist to aggravate under investment. The market for corporate control could accommodate as a mechanism of monitoring that aggravates over investment. Proportion with this forecast, the companies with powerful rights of shareholder have higher value of firm, capital expenditures is low and form several corporate acquisitions. The above give practicability‘s the empirical analysis definitely test the stated mechanisms of governance are also connected with over or lower under-investment.

Auh and Mengue (2005) led an investigation and found and assessed the relationship between data awkwardness and propagation in Financial Reporting. In this situation, they assessed 86 organizations recorded in Tehran trade stock enduring for05years period. The consequences of observational test featured and contended that there is certain and noteworthy relationship between data asymmetry and propagation in Financial Reporting. The outcome underscore that there is a blast in data asymmetry in proprietors request to stress propagation in Financial Reporting will in general blast. Along these lines, the imperativeness of conservatism as one of the subjective highlights in fiscal summaries demonstrated huge. The exploration on the effect of blast in profit on the speculation conduct, they concurred that the profit impacts stock exchanging and the criticism of proprietors with respect to profits blast is short run input.

Durnev et al. (2005) noted that companies which have larger ownership of institutional have the capital expenditures very low, and high valuation, proposing that ownership of institutional aggravates overinvestment. The larger analyst coverage enhances the elasticity in the financial policy, which might assist to aggravate under investment. The market for corporate control could accommodate as a mechanism of monitoring that aggravates over investment. Proportion with this forecast, the companies with powerful rights of shareholder have higher value of firm, capital expenditures is low and form several corporate acquisitions. The above give practicability‘s the empirical analysis definitely test the stated mechanisms of governance are also connected with over or lower under-investment.

Lang and Lundholm (1994) broke down an examination to explore the consequences of the instrument of the budgetary announcing quality framework and found and decided the connection between data awkwardness and propagation in Financial Reporting. In this situation, they assessed 86 organizations recorded in Tehran trade stock enduring for05years period. The consequences of exact test featured and contended that there is certain and critical relationship between data asymmetry and propagation in Financial Reporting. The outcome underline that there is a blast in data asymmetry in proprietors request to accentuate propagation in Financial Reporting will in general blast. Along these lines, the imperativeness of conservatism as one of the subjective highlights in fiscal reports demonstrated huge. The examination on the effect of blast in profit on the venture conduct, they concurred that the profit impacts stock exchanging and the input of proprietors in regards to profits blast is short run criticism.

2.9 Financial Reporting Transparency

Barth and Schipper (2008) certificated that the accounting information performs a vital role for its clients especially in the process of decision making. The accounting information in financial reports exhibits the financial impacts of past activities and operations, which can be utilized to help decision making process in future. Furthermore, the information of non-financial also helps decision making process for clients of financial reports. They documented that transparency of Financial Reporting (FR) is incorporated as, on the one side, the disclosure subordinate economically; on the other side, the disclosure of financial information in the financial reports are interpretably comprehendible by external and internal information clients.

Florini (2007) confined and defined transparency as the level of financial information is present to external users, giving them to form decision and to evaluate the decision of internal users. Therefore, transparency is concerned to financial information quality such this financial information required should be comfortably apprehended definitely correct by the purposive hearers and issued in a component that improves appropriation of the pretension attitude.

Yoshikawa (1980) analyzed pharmaceutical firms for knowing the relationship between financial reporting and its transparency. He found that financial reporting is very vital for uplifting the financial performance of a firm.

Hayashi (1982) asserted that financial reporting quality (FRQ), especially transparency can add to the firm development and budgetary execution. He found a solid positive connection between firm transparencies and budgetary execution. He suggested that a firm should have well equipped financial reporting abilities to do well in the market, as the market is very dynamics.

Abel (1983) likewise researched the connection between the various elements of the monetary announcing straightforwardness i.e, salary explanation, and asset report, articulation of income and extensive proclamation and so forth and discovered all these have positive relationship with the money related execution intermediaries of these organizations.

Gordon (1992) documented that as firm shows strength in its financial reporting it start out performing other firms in the market and said that financial reporting (FR) transparency is very vital for the firm existence and to be in the competition. He argued that financial reporting (FR) transparency has positive significant impact on the financial performance of a firm.

Levine (1998) documented that the information of non-financial also helps decision making process for clients of financial reports. They documented that transparency of Financial Reporting (FR) is incorporated as, on the one side, the disclosure subordinate economically; on the other side, the disclosure of financial information in the financial reports are interpretably comprehendible by external and internal information clients.

2.10 Accounting Conservatism and Firm Investment Efficiency

Li Feng (2010) conducted the research study on the banking sector firms for investigating the relationship between Accounting Conservatism (AC) and investment efficiency and financial performance. The study used fixed effect random effect model. The study used annual data to predict the results. He found that as the firm‘s

Accounting Conservatism (AC) level increases than its financial performance enhances. He suggested that firms should maximize its Accounting Conservatism (AC) efficiency level and focus on all facets of Accounting Conservatism (AC) efficiency.

Fengchen et al. (2010) documented that Accounting Conservatism (AC) is very vital for the firm‘s success. He argued that as the firm‘s level of Accounting Conservatism (AC) increases then its firm‘s investment efficiency and financial performance tends to increase. He found that all facets of Accounting Conservatism (AC) have positive impact on the financial performance and investment efficiency. He advised on the basis of the findings that firms should continuously work on the practices of Accounting Conservatism (AC) to faster better results.

Stiglitz (1981) certificated that Accounting Conservatism is a key for the upgraded presentation of the organizations. He analyzed manufacturing sector firms and confirmed the significant positive effect of Accounting Conservatism (AC) on the financial performance of firm. He suggested that firm must work out strategies to enhance the Accounting Conservatism (AC) of the firms. He further elaborated that the efficiency and transparency of financial reporting (FR) is very much important as compared to the other dimensions of financial reporting.

Hughes and Liu (2005) noted the underlying effect of Accounting Conservatism (AC) on the firm investment efficiency and financial performance. The study evidenced that all facets of accounting conservatism i.e, financial reporting (FR) efficiency have direct relationship with firm investment efficiency and firm performance. He used annual data to investigate the relationship. The study found that accounting conservatism along with other dimensions of accounting conservatism has positive effect on the financial performance of firms. The training also directed strong attention on the accounting conservatism practices of the firm to bring improved consequences.

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Stein and Wurgler (2003) asserted that the determining key effect of Accounting Conservatism (AC) on the financial proxies of the firm investment efficiency. The study recycled link and simple OLS to foresee the consequences. The study found that as the level of firm‘s Accounting Conservatism (AC) increases ittends to increase the financial performance. The study further elaborated that each element of Accounting Conservatism (AC) is vital.

Verrechia (2007) conducted the research study and analyzed pharmaceutical firms for knowing the relationship between the Accounting Conservatism (AC) and firm investment efficiency (IE) financial performance. He found that Accounting Conservatism (AC) is very vital for uplifting the financial performance of a firm.

Kaplan and Zingales (1977) documented that Accounting Conservatism (AC) can donate to the firm‘s development and financial performance. He establish a strong affirmative link between the Accounting Conservatism (AC) and firm‘s investment efficiency and financial performance of the firm. He suggested that a firm should have well equipped accounting conservatism and financial reporting abilities to do well in the market, as the market is very dynamics.

Fazzari and Petersen (2000) also confined and examined the bond between the different dimensions of Accounting Conservatism (AC) efficiency and found that all these have positive correlation with financial performance proxies of these firms.

Wysocki (2008) documented that as firm shows strength in its Accounting Conservatism (AC) and financial reporting it start out performing other firms in the marketplace and said that Accounting Conservatism (AC) efficiency is very vital for the firm existence and to be in the competition. He argued that Accounting Conservatism (AC) has positive significant impact on the firm‘s investment efficiency and financial performance of a firm.

Bens and Monahan (2004) noticed that the Accounting Conservatism (AC) is extremely fundamental for the development of the firm. He contended that human aptitudes and capacities can be utilized for the development and elevating of the money related execution of a firm and speculation proficiency. The examination proves that firm ought to put resources into the human funding to empower colossal development.

Fengchen et al. (2010) documented that Accounting Conservatism (AC) is very vital for the firm‘s success. He argued that as the firm‘s level of Accounting Conservatism (AC) increases then its firm‘s investment efficiency and financial performance tends to increase. He found that all facets of Accounting Conservatism (AC) have positive impact on the financial performance and investment efficiency. He advised on the basis of the findings that firms should continuously work on the practices of Accounting Conservatism (AC) to faster better results.

Beatty and Weber (2008) investigated that significance of Accounting Conservatism (AC) and attested that the Accounting Conservatism (AC) of a firm can guarantee smooth working and inspiring of the firm money related execution. They suggests that firm ought to put resources into human capital and recruit competent individuals as much it can.

Berle and Means (1932) stated that the administrative and pioneering experience of the representatives is extremely imperative for the constant accomplishment of the firm. They contended that presenting preparing and limit develop program will support development and improved execution of the firm.

Silanez and Shleifer (1994) argued that the Accounting Conservatism (AC) like managerial tenure, differentiation, specialization and other organizational characteristics can affect the organization performance. Similarly, Bushman and Indjejikian (1993) documented that the Accounting Conservatism (AC) and financial reporting is very vital for the tremendous achievements and growth of the firm. They argued that organizational innovation can affect the financial performance of the firm. They suggested that as many as a firm can increase the Accounting Conservatism (AC) are vital. He further explained that efficiency of accounting conservatism can improve the financial performance. The study evidenced that investing in hiring the skillful individuals for maintaining the better financial reporting directly affecting the financial performance.

Holmstrom and Tirole (1993) documented that the Accounting conservatism and Accounting Information System (AIS) excellent quality results cover utilizing data, execution of the business in non-financial and financial. Kanodia and Lee (1998) defined the accounting conservatism understates assets in long term. Accounting conservatism and financial reporting as the preciseness of financial reporting that presents the performance of firm, especially in anticipated cash flow.

Dasgupta and Hilary (2009) argued that the prior research demonstrated that the accounting conservatism have positive significant relationship with investment efficiency. Moreover, numerous research studies found the association among accounting conservatism and financial reports and performance of firm. In addition, Gompees and Metrick (2003) analyzed and conducted research study on the topic and found that the quality of information confluences on the financial performance of the company.

Givoly and Hayn (2002) asserted that the underlying effect of Accounting Conservatism (AC) on the firm investment efficiency and financial performance. The study evidenced that all facets of accounting conservatism i.e, financial reporting (FR) efficiency have direct relationship with firm investment efficiency and firm performance. He used annual data to investigate the relationship. The study found that accounting conservatism along with other dimensions of accounting conservatism has positive effect on the financial performance of firms. The study also advised intense focus on the accounting conservatism practices of the firm to deliver better results.

2.11 Corporate Governance Mechanism Affect Financial Reporting Quality

Wang (2003) examined that the corporate governance (GC) like managerial tenure, differentiation, specialization and other organizational characteristics can affect the organization performance. Similarly, Durnev et al (2004) explored that the corporate governance (GC) and financial reporting quality is very vital for the tremendous achievements and growth of the firm. They argued that organizational innovation can affect the financial performance of the firm. They suggested that as many as a firm can increase the corporate governance (GC) mechanism are vital. He further argued that the efficiency of corporate governance can improve the financial performance. The study evidenced that investing in hiring the skillful individuals for maintaining the better financial reporting directly affecting the financial performance.

Bergstreser (2006) asserted that the corporate governance and Accounting Information System (AIS) excellent quality results cover utilizing data, execution of the business in non-financial and financial. Dechow et al (2010) defined the corporate governance, a firm management is accountable for arranging the financial reports and information which is utilized by decision makers to forecast the results of current activities or correct their expectations. Corporate governance and financial reporting as the preciseness of financial reporting that presents the performance of firm, especially in anticipated cash flow.

Basu (1997) clarified that the earlier research recorded that the corporate administration have positive critical relationship with budgetary announcing quality (FRQ). Besides, various research examines found the relationship among corporate administration and money related revealing quality and execution of firm. Likewise,

Qiang (2003) assessed and led examine concentrate on the point and found that the nature of data conversions on the monetary exhibition of the organization.

Fama and French (1997) analyzed the hidden impact of corporate administration on the firm money related detailing quality and budgetary execution. The investigation prove that all features of corporate administration i.e, monetary detailing (FR) effectiveness have direct relationship with firm budgetary revealing quality and firm execution. He utilized yearly information to explore the relationship. The examination found that corporate administration alongside different elements of corporate administration has beneficial outcome on the money related execution of firms. The investigation additionally exhorted serious spotlight on the corporate administration practices of the firm to convey better outcomes.

Richardson (2006) clarified that the deciding key impact of corporate administration (CG) on the budgetary intermediaries of the company's money related detailing quality (FRQ). The investigation utilized connection and basic OLS to foresee the outcomes. The investigation found that as the degree of association's corporate administration expands it will in general increment the money related execution. The examination further expounded that every component of corporate administration (CG) is fundamental.

LaFond and Schipper (2004) assessed and directed the examination concentrate on the financial area firms for researching the connection between corporate administration and money related announcing quality (FRQ) and budgetary execution. The examination utilized fixed impact irregular impact model. The investigation utilized yearly information to foresee the outcomes. He found that as the association's corporate administration level increments than its budgetary presentation improves. He proposed that organizations ought to boost its corporate administration instrument level and spotlight on all features of corporate administration systems.

Center and Verdi (2008) contended that corporate administration is exceptionally fundamental for the company's prosperity. He contended that as the company's degree of corporate administration expands then its company's money related announcing quality and monetary execution will in general increment. He found that all aspects of corporate administration (GC) have positive effect on the monetary presentation and budgetary announcing quality (FRQ). He educated on the premise with respect to the discoveries that organizations ought to ceaselessly take a shot at the acts of corporate administration (GC) to quicker better outcomes.

Jones (1991) bound that the corporate administration is a key for the upgraded exhibition of the organizations. He investigated fabricating area firms and affirmed the huge beneficial outcome of corporate administration (GC) on the budgetary presentation of firm. He proposed that firm should work out systems to improve the corporate administration (AC) components of the organizations. He further expounded that the effectiveness and straightforwardness of money related detailing (FR) is a lot of significant when contrasted with different components of monetary announcing.

Blanchard et al. (1994) directed and inspect the exploration study and investigated pharmaceutical firms for knowing the connection between the corporate administration (GC) and firm monetary announcing quality (FRQ) budgetary execution. He found that corporate administration (GC) is extremely indispensable for inspiring the money related execution of a firm.

Opler and Williamson (1999) affirmed that corporate administration (GC) can add to the association's development and money related execution. He found a solid positive connection between the corporate administration and association's budgetary detailing quality (FRQ) and money related execution of the firm. He recommended that a firm ought to have well prepared corporate administration systems and money related detailing capacities to do well in the market, as the market is very elements.

Kottari and Watts (1998) also explore and determined the relationship between the different dimensions of corporate governance (GC) mechanism and found that all these have positive correlation with financial reporting quality proxies of these firms.

Zeng and Lu (2003) argued that as firm shows strength in its corporate governance (GC) and financial reporting quality it start out performing other firms in the market and said that corporate governance (GC) efficiency is very vital for the firm existence and to be in the competition. He explore that corporate governance (GC) has positive significant impact on the firm‘s financial reporting quality and financial performance of a firm.

Center and Verdi (2008) contended that corporate administration is exceptionally fundamental for the company's prosperity. He contended that as the company's degree of corporate administration expands then its company's money related announcing quality and monetary execution will in general increment. He found that all aspects of corporate administration (GC) have positive effect on the monetary presentation and budgetary announcing quality (FRQ). He educated on the premise with respect to the discoveries that organizations ought to ceaselessly take a shot at the acts of corporate administration (GC) to quicker better outcomes.

Levine (1997) clarified that the corporate administration (GC) is imperative for the development of the firm. He contended that human abilities and capacities can be utilized for the development and inspiring of the money related execution of a firm and investment efficiency. The examination confirms that firm ought to put resources into the human funding to energize enormous development.

Shliefer and Wishny (1997) investigated that the significance of corporate administration and attested that the corporate administration component of a firm can guarantee smooth working and inspiring of the firm money related execution. He proposes that firm ought to put resources into human capital and recruit fit individuals as much it can.

Stein (2003) archived that the administrative and enterprising experience of the representatives is extremely essential for the ceaseless accomplishment of the firm. They contended that presenting preparing and limit develop program will support development and improved execution of the firm.

Bens and Monahan (2005) confined that the corporate governance and Accounting Information System (AIS) better and good quality results cover using data, completion of the business in non-financial and financial. Dechow et al. (2010) defined the corporate governance, a firm management is accountable for arranging the financial reports and information which is utilized by decision makers to forecast the results of current activities or correct their expectations. Corporate governance and financial reporting as the preciseness of financial reporting that presents the performance of firm, especially in anticipated cash flow.

2.12 Relationship between Investment Efficiency and Earnings Quality

Modares and Hesarzadeh (2008) documented that Investment Efficiency (IE) is very vital for the firm‘s success. He noted that as the firm‘s level of Investment Efficiency (IE) increases then its financial performance tends to increase. He found that all facets of Investment Efficiency (IE) have positive impact on the earnings quality (EQ) and financial performance. He argued on the basis of the findings that firms should continuously work on the practices of Investment Efficiency (IE) to faster better results.

Linsmeir et al. (1998) certificated that Investment Efficiency (IE) is a key for the enhanced performance of the firm‘s earnings quality. He examined manufacturing sector firms and confirmed the significant positive effect of Investment Efficiency (IE) on the financial performance of firm. He suggested that firm must work outstrategies to enhance the Investment Efficiency (IE) practices of the firms. He further elaborated that the efficiency and transparency of Investment Efficiency (IE) is very much important as compared to the other dimensions of Investment Efficiency (IE) and firm earnings quality and earnings management.

Givoly and Hayn (2001) find the underlying effect of Investment Efficiency (IE) on the on Earnings Quality and money related execution of the firm. The examination confirms that all elements venture proficiency (IE) have direct relationship with profit quality and firm execution. He utilized yearly information to examine and discover the relationship. The examination found that Investment Efficiency (IE) alongside different components of Investment Efficiency (IE) has beneficial outcome on the profit quality and money related execution of firms. The examination additionally exhorted exceptional spotlight on the Investment Efficiency (IE) practices of the firm to convey better outcomes.

Xia (2003) declared and deciding key impact of Investment Efficiency (IE) on the monetary intermediaries of the firm. The examination utilized connection and basic OLS to foresee the outcomes. The investigation found that as the degree of company's Investment Efficiency (IE) expands it will in general increment the income quality and monetary execution of the organization. The examination further explained that every component of Investment Efficiency (IE) is fundamental.

Heidari and Alipour (2007) viewed and analyzed banking sector firms for to find out the relationship between Investment Efficiency (IE) and financial performance and earnings quality (EQ). The study used fixed effect random effect model. The study used annual data to predict the results. He found that as the firm‘s

Investment Efficiency (IE) level increases than its earnings quality and financial performance enhances. He suggested that firms should maximize its Investment Efficiency (IE) level and focus on all facets of Investment Efficiency (IE).

Thornton (2002) examined and determined manufacturing sectors firms for knowing the relationship between the Investment Efficiency (IE) and firm earnings quality and financial performance. He found that Investment Efficiency (IE) is very vital for uplifting the financial performance and earnings quality of a firm.

Pakdelan (2012) confined that Investment Efficiency (IE) can contribute to the firm‘s growth and earnings quality and financial performance. He found a strong positive relationship between the Investment Efficiency (IE) and earnings quality and financial performance of the firm. He argued that a firm should have well equipped Investment Efficiency (IE) capabilities to do well in the market, so as to compete in the market, as the market is very dynamics.

Saghafi and Yazdi (2010) also analyzed the relationship between the different dimensions of Investment Efficiency (IE) and found that all these have positive correlation with earnings quality (EQ) financial performance proxies of these firms.

Holthausen (2009) documented that as firm shows strength in its Investment Efficiency (IE) it start out performing other firms in the market and said that Investment Efficiency (IE) is very vital for the firm existence and to be in the competition. He suggested that Investment Efficiency (IE) has positive significant impact on the earnings quality (EQ) financial performance of a firm.

Kashanipour et al. (2010) viewed that Investment Efficiency (IE) is very vital for the growth of the firm. He suggested that human skills and abilities can be used for the growth opportunities and uplifting of the financial performance of a firm and earnings quality. The study evidenced that firm should invest in the human capital to encourage tremendous growth.

Heidari and Alipour (2007) viewed and analyzed banking sector firms for to find out the relationship between Investment Efficiency (IE) and financial performance and earnings quality (EQ). The study used fixed effect random effect model. The study used annual data to predict the results. He found that as the firm‘s Investment Efficiency (IE) level increases than its earnings quality and financial performance enhances. He suggested that firms should maximize its Investment Efficiency (IE) level and focus on all facets of Investment Efficiency (IE).

Jensen (1986) explored that importance of Investment Efficiency (IE) and documented that Investment Efficiency (IE) of a firm can guarantee smooth working and inspiring of the firm monetary exhibition. He contended that firm ought to contribute in human capital and hire capable people as much it can.

Mello and Miranda (2009) noticed that administrative and innovative experience of the workers is extremely imperative for the consistent achievement of the firm. They proposed that presenting preparing and limit develop program will support development and improved execution of the firm.

Rajan (1993) examined that the Investment Efficiency (IE) like managerial tenure, differentiation, specialization and other organizational characteristics can affect the organization performance. Similarly, Mahmoudabadi and Mahtari (2011) argued that the Investment Efficiency (IE) is very vital for the tremendous achievements and growth of the earnings quality of the firm. They suggested that organizational innovation can affect the financial performance of the firm. They argued that as many as a firm can increase the Investment Efficiency (IE) are vital.

2.13 Financial Reporting Efficiency

Myers and Majluf (1984) investigated the underlying effect of financial reporting on the financial performance. The study evidenced that all factors financial reporting i.e, financial reporting (FR) efficiency have direct relationship with firm performance. He used annual data to investigate the relationship. The study found that financial reporting along with other dimensions of financial reporting has beneficial outcome on the budgetary exhibition of firms. The investigation likewise prompted extraordinary spotlight on the budgetary revealing acts of the firm to convey better outcomes.

Hope and Thomas (2008) confined the determining key impact of money related giving an account of the monetary intermediaries of the firm. The investigation utilized relationship and straightforward OLS to anticipate the outcomes. The investigation found that as the degree of association's money related revealing builds it will in general increment the monetary presentation. The investigation further expounded that every component of monetary detailing is essential.

Stiglitz and Weiss (1981) analyzed banking sector firms for investigating the relationship between financial reporting efficiency and financial performance. The study used fixed effect random effect model. The study used annual data to predict the results. He found that as the firm‘s financial reporting efficiency level increases than its financial performance enhances. He suggested that firms should maximize its financial reporting efficiency level and focus on all facets of financial reporting efficiency.

Lambert et al. (2007) declared that financial reporting efficiency is very vital for the firm‘s success. He argued that as the firm‘s smooth of financial reporting efficiency increases then its financial performance tends to increase. He found that all facets of FR efficiency have positive impact on the financial performance. He advised on the basis of the findings that firms should continuously work on the practices of financial reporting efficiency to faster better results.

Francis et al. (2004) documented that financial reporting efficiency is a crucial for the enhanced performance of the firms. He analyzed manufacturing sector firms and confirmed the significant positive effect of financial reporting efficiency on the financial performance of firm. He suggested that firm must work out strategies to enhance the financial reporting performs of the firms. He further elaborated that the efficiency and transparency of financial reporting (FR) is very much important as compared to the other dimensions of financial reporting.

Lara et al. (2010) analyzed pharmaceutical firms for knowing the affiliation among the efficiency of financial reporting and firm financial performance. He found that financial reporting efficiency is very vital for uplifting the financial performance of a firm.

Ball and Shivakumar (2005) asserted that financial reporting efficiency can contribute to the firm‘s growth and financial performance. He found a strong positive relationship between the efficiency of financial reporting and financial performance of the firm. He suggested that a firm should have well equipped financial reporting abilities to do well in the market, as the market is very dynamics.

Burgstahler et al. (2006) also investigated the association amid the different magnitudes of financial reporting efficiency. They found that all these have positive correlation with financial performance proxies of these firms.

Holthausen (2009) certificated that as firm shows strength in its financial reporting efficiency it start out performing other firms in the market and said that financial reporting efficiency is very vital for the firm existence and to be in the competition. He argued that financial reporting has positive significant impact on the financial performance of a firm.

La Porta et al. (1998) affirmed that money related detailing is extremely essential for the development of the firm. He contended that human abilities and capacities can be utilized for the development and inspiring of the money related execution of a firm. The examination proves that firm ought to put resources into the human cash-flow to energize enormous development.

Jensen (1986) clarified that significance of money related revealing and recorded that budgetary detailing of a firm can guarantee smooth working and inspiring of the firm monetary presentation. He recommends that firm ought to put resources into human capital and recruit able individuals as much it can.

Kothari and Watts (2000) fought that administrative and pioneering experience of the representatives is exceptionally crucial for the consistent achievement of the firm. They contended that presenting preparing and limit develop program will support development and improved execution of the firm.

Shliefer and Vishny (1998) investigated that the efficiency of financial reporting like managerial tenure, differentiation, specialization and other organizational characteristics can affect the organization performance. Similarly, Ortiz Molina and Penas (2008) explained that the efficiency and transparency of financial reporting is very dynamic for the tremendous achievements and development of the firm. They argued that organizational innovation can affect the financial performance of the firm. They suggested that as many as a firm can increase the financial reporting efficiency are vital. He further noted that efficiency of financial reporting can improve the financial performance. The study evidenced that investing in hiring the skillful individuals for maintaining the better financial reporting directly affecting the financial performance.

Neely and Cook (2011) asserted that the Accounting Information System (AIS) excellent quality results cover utilizing data, execution of the business in non-financial and financial. Verdi (2009) defined the efficiency of financial reporting as the preciseness of financial reporting that presents the performance of firm, especially in anticipated cash flow.

Lambert (2007) documented that prior research demonstrated that the efficiency of financial reporting have positive significant relationship with investment efficiency. Moreover, numerous research studies found the association among Accounting Information System (AIS) and financial reports and performance of firm. In addition, Delone and Mclean (2003) conducted research study on the topic and found that the quality of information confluences on the financial performance of the company. Therefore, for this purpose the hypothesis are suggested as follows.

Hypothesis; the higher efficiency of financial reporting is the greater degree likely that company will gain greater achievements of their goals.

2.14 Obstacles to Global Financial Reporting Quality System

Zeff (2007) carried out the research study over the listed companies in the Europe. The main theme of this study is to compare the obstacles and challenges to financial reporting quality (FRQ) across the globe. They further explain obstacles in different terms in the context of European Union and other countries of the world. Comparability means putting things in similar group and on the other hand, putting things in different groups as per the International Financial Reporting Standards (IFRS). According to this study, they elaborate ‗comparability‘under the umbrella of accounting cultures in different countries. Every country has its own accounting culture but keeping the views of International Financial Reporting Standards (IFRS). These are the different accounting cultures in different countries, the financial and business culture.

They further documented that there are some differences in the culture of financial and business due to various kinds of income tax laws and others transactions of business. One main issue is private and public ownership of enterprise. For instance, in USA Boing Producing Airbuses without Govt. involvement but in Germany and France Govt. have involved in the process of production this culture may create tricky problems for the auditor during auditing of the company. In addition fair value of an asset on the balance sheet may raise a prominent problem for the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) to measuring impairment loss on plant, machinery, property and equipment. In such case various countries used National Accounting Standards (NAS) to eliminate the conflict of business and finance culture and sort out the basic problems related to accounting standards (Trueblood., 1996. P. 189).

2.14.1 Accounting Culture:

Nobes, (2006) documented that income tax system plays an important role in the accounting culture of several countries especially in European countries. For example, in Germany the assets impairment loss is tax deductible but in the UK it is not. In such cases many companies wants to reduce taxable income for the income tax purpose but it may create conventional and controversial result in the accounting practice of those countries. So management and executive of companies think that this is not the best way to do so. They want to follow international standards (IS) inorder to bring best quality in the financial statement of company. With the passage of time, there is increased complication in the matters of financial reporting. Earlier 2005, in Europe the financial statement of various companies were contained less detail in the form of disclosure. Now they bring international standards to easily compare financial statements across the globe.

2.14.2 Auditing Culture:

Weil (2004) explained that one other obstacle for financial reporting is auditing culture because auditing and assurance standards are being developed in USA by a single authority. But in numerous European countries violate such standard with the National Standards of Auditing (NSA) that may create serious problems for audit authority. For example, back in 1990 the external auditor did not found that the firm was not followed the international auditing standards but they failed to publish the qualified opinion report in the financial statements to the shareholders of the companies. So this concept reflects that definitely financial statements loose trust of investors during effective decision of investor. International firms trying to bring quality in the financial reporting will follow International Auditing Standards (IAS). They further documented that the method of accounting cannot able you to fully compare two firms of same nature. So an individual tells that which one is best way for counting material or supplies.

2.14.3 Regulatory Culture:

Cairn (2001) confined that the last obstacles is regulator culture for both private and public sector to regulate financial report for financial market and shareholders. The different countries have different regulation for financial institution as well as corporation. The countries where the strong force of regulation may have less willing to follow International Financial Reporting Standards (IFRS). In the USA, the security and exchange commission impose new regulation with the passage of time to bring standardized financial reports across the globe. In the UK, private as well as public sector is being controlled by statutory authority. Some firm's financial reports may not give ‗true and fair'view then they modify their opinion in financialstatement. They further noted that numerous countries in the world company's financial statement are not implementing the regulation and can create hurdles and may become obstacle for financial reporting qualities (FRQ).

2.15 Reasons for International Differences in Financial Reporting QualitySystem:

Saudagaran (1990) certificated that there are main seventeen reasons previously elaborated. Some experts suggested a cultural factor that brings differences in financial reporting. A DS provide not a general theory but mix theories. The study of this literature raised other terminological issues, too. Accounting system is one of the main problems for reason of difference. In some area the rule of accounting practice is similar but in some time companies may use different rules in local context that may bring difference in financial reporting. Other problem is ‗system'for accounting.

Nair and Merk (1980) suggested that regulatory agency should be followed while other suggested accounting practice should be concentrated. It can be possible that a country have two types of accounting system one for securities while other one is dealing at small level like private company, so both company might followed different accounting practice. The can be one reason of differences is financing system. The financial reporting purpose is to determining the financing system of a country. For example financing system is divided into three separate categories.

Zysman (1983) asserted that in a credit based system, Govt. controls the resources. (b) In a credit based system (financial institution), in this system financial institutions play dominant role. (c) Capital market based system, in this system prices are sets on competitive market based.

Kanodia and Lee (1999) asserted that there are basic sixteen issues previously discussed. Few experts argued that a cultural factor that brought differentiation in financial reporting. As Digital System give not a common idea but mix theories. The study of this literature raised other terminological issues, too. Accounting system is one of the main problems for reason of difference. In some area the rule ofaccounting practice is similar but in some time companies may use different rules in local context that may bring difference in financial reporting. Other problem is ‗system‘for accounting.

2.16 International Financial Reporting Standards

Ray and Ball (2006) asserted that International Financial Reporting Standards (IFRS) are the standards issued by the International Accounting Standard Board (IASB), it is the international independent organization which is based in London. They developed and design accounting standards and practices for the financial reporting of a company throughout the world. International Accounting Standards Committee (IASC) a professional body were established in 1973 in various countries like Japan, Netherland, UK, Ireland, Australia, United States, Canada, Mexico and Germany. In addition, since April 2001, International Accounting Standard Board (IASB) designed accounting rules under the new name International Financial Reporting Standards (IFRS). IASB is the predecessor name of the IFRS. The IASB elaborates the rules and regulations according to the newly sign of International Financial Reporting Standards, despite it continues to identify the earlier regulations and rules (IAS) presented through the ancient setting of standards (IASC).

Zimmerman (1986) confined that it is the need of time to admit considerable ignorance on the advantageousness of uniform mandating accounting, and to notice that as an outcome said to be speculative. IFRS standards are mandatory for all public companies in the world. Consequently, in the accounting literature teachers must follow accounting standards. There are some pros and cons of European Union mandating of IFRS. The fundamental function of accounting standards is to lend agreements in the fields of business and transactions. For instance, there are some conditions that in the capital of a company debts should not be exceed 60 percent of tangible assets. This condition provides trust to shareholders of those companies. Similarly, accounting procedures is the integral parts of agreement amongst debtors, managers, customers, suppliers and shareholders of a company, (Ball, 1988). Unspecific accounting methods can create problems and uncertainty for both parties (debtors and shareholders) of all companies. In this regard companies are developedand designed accounting agreements in advance to completely minimize uncertainty and risk.

Nobes and Parker (1995) asserted that the alternative way of accounting practices is required to meet the future demands of an agreement. The function of independent institutions is to provide relevant and precious financial information to the end users of the companies. Famous independent institutions arbitrators, auditors and law courts. The financial managers are required to follow the accounting standards and procedures during preparing financial statements to the stakeholders of a company in order to bring transparency in the day to day transactions. There some advantages of uniform standards. The foremost advantage of uniform standards is to bring similarity in the financial contracts of any corporations. The second advantage of these standards is to protect the rights and interest of auditors against the financial managers of firms. External auditors should require following rules and regulations during the process of auditing in the financial statements of a company. They further documented that the last but not least advantage of uniform standards, is to eliminate the dissimilarities and to bring standardization amongst the financial reporting throughout the worlds.

McKinnon (1986) viewed that the term convergence refers to bring differences in the international financial reporting standards (IFRS) and the national standards of a specific country. It may create problems for external auditors during auditing process while comparing national and international standards in the financial reporting. Some countries in the world do not follow international standards of accounting may follow national standards on some condition which is acceptable to international standards. Convergence has some advantages to the domestic firms whichever cause for attaining the local standards. It is a transform adoption version.

2.18 Hypotheses of the study

H_1: There is a relationship between financial reporting quality and investment efficiency in the companies (cement sector).

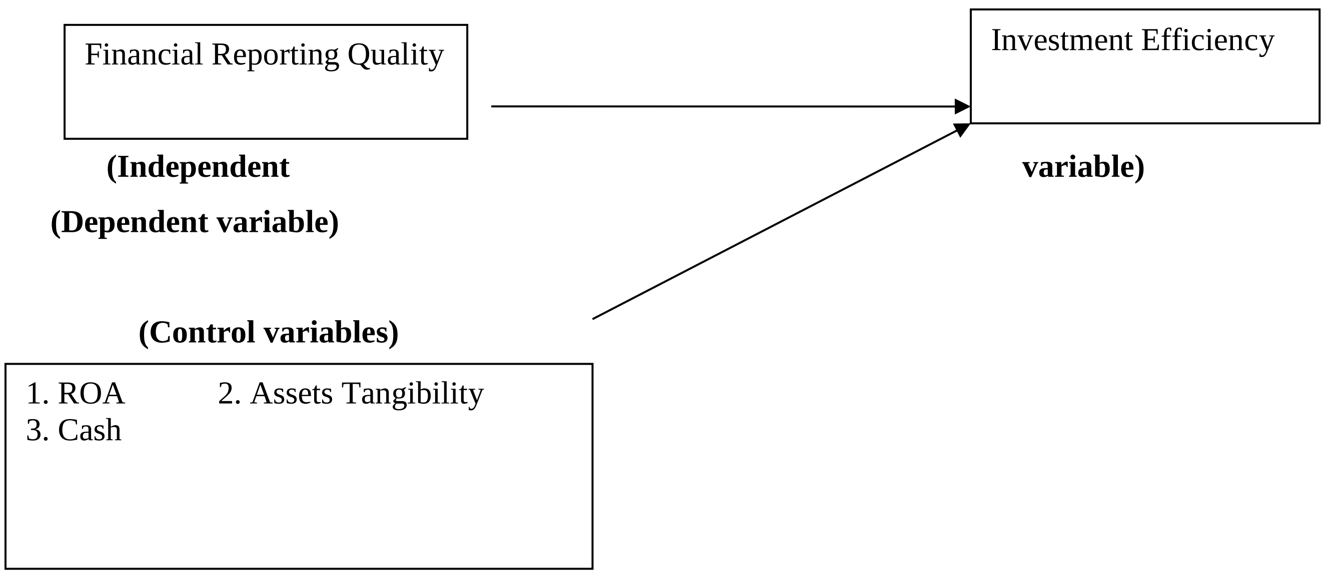
H_2: There is a relationship between return on assets (ROA) of a company and its investment efficiency.

H_3: There is a relationship between tangibility of company's assets and its investments efficiency.

H_4: There is relationship between corporate cash holdings of a company and its investment efficiency.

Theoretical framework of the study

After the review of relevant literature, the following theoretical framework has been developed. The investment efficiency is dependent variable and financial reporting quality is independent variable, whereas company characteristics have been shown as the, assets tangibility, return of assets, and cash.



CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

Research can be define as an arranged endeavor and well design draft of the researcher for the objectives of integrating of a problem aspect, establishing of hypothesis for the segregated problems, secondary or primary data collection, interpreting and examining of the composed data and reaching or getting of the problem situation conclusion (Sekaran., 2003). Research is contribution and addition in the operative literature or knowledge through various ways of education or various modes of education such as watching, understanding, literature and trying etc.

In simple word research is a procedure which are findings the answer to a facing problem which an organization or institution is quality and through this procedure a complete and detail study of the issue and analysis of the different factors concerning to that problem is produce in order to solve the problem.

Methodology of research is very vital in all king of research. In methodology of research the researcher provides in detail the research gape, data collection methods utilized in that research, the research sample, and the population of the research or sample frame, the instrument of the research, and at the end the detail of the design of the research is provided.

3.2 Activities of the Study

This chapter consists on research methodology, research design, and population and sampling techniques, statistical tools, which are used for the study. The chapter of research methodology is also including on all methodology and technique which is selected for this study. This chapter also briefly discussed in detail independent and dependent variable. In this also explained about collection of data techniques, statistical tools and sample size.

In this part of methodology of research chapter different important activities of research like the design of the research for this thesis, and how collection of data is made for this research, which strategy and sampling procedure been followed and at the end which technique of sampling are used or involved for this study. The topicswhich are mentioned above are explained in detail in the following lines which are as follows:

3.3 Research Design

Firstly, it is very significant to define the research design for the current study before to discuss research design. Research design has defined by many authors in various ways but the Business Dictionary define the research design for any kind of research is a particularized design in it is evident mentioned that how a business study will conduct in order to furnish resolution for any problem the organization which is facing. Admasu (2012) explained that research design is the appropriate and well design draft of everything which is important to understand for the researcher while bringing any type of research. John A.H (2007) defined research design as completing the research points and give answering the research questions on a blueprint is called research design. Bryman and Bell explained that research design is composed on regarding data analysis, data collection, techniques and tools which are taken for the study. The author also supplemented that research design is composed on complete story of the research study, and research design is the long-range plan of the concerned study. Saunders et al. (2009) restricted that the better procedure to comprehend the relationship of different variables in each other, for this purpose the explanatory research study is suitable.

The current research design is explanatory research design.

Table 3.1 Research design Steps

1	Purpose of Research	Testing of hypothesis
2	Nature of Research	Quantitative Research
3	Type of the study or investigation	Descriptive, Correlation and Causal study
4	Study setting	Contrived
5	Sampling	Simple Random Sampling (SRS)
6	Instrument and Measurement	Pre-used variables
7	Data Collection	Secondary
8	Data Analysis	Descriptive, Correlation and Regression

9	Findings and Conclusion	Results after testing hypothesis

3.4 Type of Research

This research is mutually correctional and causal in nature and reductions in the area of everyday research. Furthermore, it is quantitative research. Quantitative research includes the group of data so that evidence can be quantified and subjected to statistical analysis in order to support or confute different way claims‖ (Creswell, 2003, p.153). Creswell (2002) explains that quantitative research initiated in the physical sciences, especially in Physics and Chemistry. The research will use statistical models as a methodology of data analysis. Three historic diverge relating to quantitative study consists statistical analysis, research design, and measurement and testing processes. Quantitative study includes collection of data that is typically numeric data and the researcher serve to use arithmetical models as a methodology of analyzing data.

Furthermore, the investigator uses inquiry ways to assure grouping with statistical collection of data methodology. This research is explanatory and correlational study. The impact and correlation of the autonomous variables and the effect of interaction between the term on dependent variables is analyzed in this research study.

This is a mathematical research study. The data for the analysis is quantitatively analyzed. Keeping in view the association in independent and dependent variable it is correlational study, as to examining the association between

Economic Reporting Quality (FRQ) and Asset Efficiency (IE) in Cement sector firms in Pakistan.

3.5 Population of the Current Study

This research aimed to examine the effects of Financial Reporting Quality (FRQ) on Investment Efficiency (IE) in listed Cement sector companies of Pakistan. There are 155 firms available on Pakistan Stock Exchange. The Cement sector was selected for the population of this study.

3.6 Research Sample Size and Techniques

Precedent to discuss the test sample size and techniques for this research study, it is critical to argue the definition of the techniques and the test sample size. The sample volume is small portion of a small portion from the whole population, Uma Sekaran (2003). In another key words sample size is the chosen objects from the population as a whole according to the choice of the researcher. The technique of sampling can be defined in the phrases, when the investigator follows appropriate planning for assembling the data of sampling from a specific population for any scientific studies. According to Sekaran (2003) there are two basic sampling methods one is non-probability sampling method and the other is probability sampling method. In the non-probability sampling method is a king of method in which all members do not have any probability or chance to be chosen into a sample size. The various kinds of non-probability sampling techniques are as; purposive sampling, judgment sampling and convenience sampling methods are the most important techniques. On the other hand, in the probability every element or component or portion in the population has equal chance of being chosen in the sample size. The probability sampling techniques are as; quota sampling, simple random sampling, systematic sampling technique, cluster sampling, stratified sampling, area sampling, sequential sampling and multi-stage sampling. These are the highest degree used techniques of probability sampling, which are utilized in highest in number of researches by the researchers. In the current research study probability sampling method simple random sampling (SRS) is used. In this research a sample size containing 100 firms out (155 firms available on PSX) from Cement sector of Pakistan which are listed on Pakistan Stock Exchange for the period w.e.f from the year 2009 to 2016 has selected for analyzing the effect of Financial Reporting Quality (FRQ) on Investment Efficiency (IE). The sample size has been calculated based on the of (Yamane‗s 1967) formula. The number of opinions of the study of financial reporting quality, investment efficiency, corporate cash holdings, return on assets and assets tangibility from the Cement companies in the sector of Pakistan that has been chosen on the basis of Simple Random Sampling (SRS) Method. In simple random sampling (SRS) technique each individual unit of the population included in the sample size has equal probability of inclusion in the sample size. The simple random sampling (SRS) technique gives the unbiased and rectifies estimates of the parameter if the population is homogeneous. In choosing the sampling data, eight years consecutive financial data of the companies available on the information sources used.

3.7 Data Collection

In a business research data plays a significant role. The whole study depends upon data and its collection, and due to this the data is regarded as the backbone during the process of study. Usually there are two methods of compendium of data one is referred to as a secondary source of data collection and the other is called a major source of data collection. Secondary data on the one side is that kind of the information which is utilized in a variety of researches and many researchers has used it before for their researches, the illustrations of this kind of data; the data in internet sources, previous researches, newspapers and magazines. In the current research study secondary data has used. Secondary data have been collected from various concerned journals, studies, internet sources, library, newspapers and website of State Bank of Pakistan etc.

For the investigation of this study the data has been collected from the Pakistan Stock Exchange website and Cement sector firms' annual reports for the period 2009 to 2016.

3.8 Statistical Techniques, Models and Tools for Data Analysis

As verifiable and measurable data has been gotten for current research study. For data analysis the Stata has been used for this current research study. Descriptive Statistics, Regression and Correlation have been used in the current study to get the results which are desired and then test the hypothesis.

3.8.1 Descriptive Statistics

It is used to explain the variables used in the study and to check the nature of the data, in terms variation and average among the cross-section. It includes median, mean, maximum, minimum and standard deviation for all variables.

3.8.2 Correlation Analysis

In this study the correlation is used for data analysis, correlation between independent variable i.e, Financial Reporting Quality (FRQ), dependent variable Investment Efficiency (IE). Pearson product moment correlation coefficient (referred sometimes as Pearson‘s r or PCC) is a measure of this linear correlation (Dependence) two variables Y and X, giving a value among +1 and -1 inclusive, where 1 is total positive correlation, 0 is no correlation, and -1 is total negative correlation. It is largely used as a measure in the field of sciences of the degree of linear dependence among the variables (Manzoor et al, 2012). When Pearson correlation coefficient applied to a population is frequently illustrated by the Greek letter p (rho) and can be referred to as the population Pearson correlation factor or population correlation coefficient.

3.8.3 Panel Regression Analysis

Panel regression analysis is utilized to decide the significant relationship between independent and dependent variables. It is attempted by utilizing the random effect model and fixed effect model. The purpose of this analysis was to product remonstration regarding the dependent variable on the basis of relationships with all the related independent variables.

3.9 Model Specification/Regression Model

The current study used the data from Cement sector firms listed in Pakistan that include financial statement from 2009 to 2016. The nature of data authorizes the researcher to use panel data model, which is considered to have benefits over cross sectional methodology. The study tested the two most important techniques of panel data, Random Effect Model and Fixed Effect Model. This model comprehends dependent and independent variable. The dependent variable Investment Efficiency (IE) is measured by Biddle et al (2009) model and Poorzamani, Z., & Keivanfar, M. (2015) model. The independent variable is Financial Reporting Quality (FRQ) and Control variables are cash holdings, Return on Assets (ROA) and Assets Tangibility (Assets Tang).

3.9.0 Two-stage least squares (2SLS)

This process calculates the two-stage least squares (2SLS) estimate. This technique is used to fit models that include instrumental variables. 2SLS comprises four types of variable(s): dependent, exogenous, endogenous, and instrument. These are defined as follows:

Dependent Variable: This is the response (or Y) variable that is to be regressed on the exogenous and endogenous (but not the instrument) variables.

Exogenous Variables: These independent (Xex) variables is included in both the first and second phase regression models. They are not associated with the random error values during the second phase regression.

Endogenous Variables: Each endogenous (or Ven) variable turns into the dependent variable in the first phase regression equation. Every Single One is regressed on all exogenous and instrument variables. The expected values from these regressions replace the initial values of the endogenous variables in the second phase regression model.

Instrument Variables: Each endogenous variable is becoming the dependent variable in the first phase regression equation. Each is regressed on all exogenous and instrument (Xiv) variables. The expected values from these regressions are replacing the original values of the endogenous variables in the second phase regression model.

3.9.1 Fixed Effect Model

The fixed effect model is used in statistical tools where the researcher finds that observe the impact of these variables which alter their value as time goes on. Sometimes inside the individual variable its personal peculiarities can prejudice, or confluence explores variables. Fixed effect control bias or impact in the direction of dependent variable. The fixed effect model ejects the non-random impacts from the predictor variable.

3.9.2 Random Effect Model

As compared to the fixed effect model, the random effect model includes all independent random and non-correlated variables in the research study where the researcher observed that change within independent variables might has some confluence on predictive variables. The random effect model consist of time constant variables for relationships among independent and dependent variable. It is commonly appropriate for the research study when bias does not be found there.

3.9.3 Panel Regression Model

Main regression model is explained as follows to answer the research questions.

$\text{Investeff}_{it=}$ $\beta_0 + \beta_1$ $\text{FRQ}_{i\,t}$+ β_2 Cash_{it} + β_3 ROA_{it} + β_4 Tang_{it} + $\boldsymbol{\mu}$

Corporate disclosure

3.10 Operational Definitions and Measurement

3.10.1 Dependent Variable

3.10.1.1 Investment Efficiency

In this study Investment Efficiency is calculated as the growth in the firms tangible and intangible assets divided by the overall assets of the firm. Essentially investment efficiency occurred when a firm does not follow unusual pattern of growth in sale etc. Biddle et al. (2009), also measure investment efficiency similarly. Here in this study investment efficiency is constructed as; Inv = $B_0 + B_1$SG + μ.

In which

Inv = It is the sum of total investment and tangible assets increase over the period of time.

SG = It is the change in sales growth.

3.11 Independent Variable

3.11.1 Financial Reporting Quality

Financial reporting quality in this study is defined as the necessary information and assistance for the success story of companies, the information to evaluate and reflect the precision of a situation that could be used to support better decision making than the participants (Satiya and Phapruke., 2016).

Equally Financial Reporting Quality in this study is independent variable. The financial reporting quality (FRQ) can be measured through Profit management calculation model proposed by McNichols and Stubben (2008) is used for calculating financial reporting quality as follows:

$\Delta AR_{i,t} = \beta_0 + \beta_1 \Delta Sales_{i,t} + \epsilon_{i,t}$

Where:

ΔAR: annual change in company's accounts receivable

ΔSales: annual change in sales revenue.

All the variables are divided by total assets of the beginning of year. Residual of this equation represents change in accounts receivable, which cannot be described by change in sale. Thus, in order to calculate financial reporting quality, an absolute amount of this figure multiplied by -1 is used. Hence, the larger is this value; financial reporting quality would be higher.

3.12 Control Variable

In this study control variables are used in the research model are as follows:

1: **ROA:** In this study Return of assets, will measure as using a percentage of net profit to overall assets.

2: **Cash:** The cash here in this study is calculated as the ratio of cash to overall assets.

3: **Asset Tangibility:** The Tangibility of assets here in this study is measured and computed as the ratio of fixed assets to overall assets.

CHAPTER 4

RESULTS AND DISCUSSION

In this chapter the results are described along with the research study and its outcomes comprising of the diagnostic test, i.e. the Model Specification test, Hausman test, descriptive statistics, correlation and analysis and regression analysis in length.

Table4.1

Descriptive statistics

Variable	*Mean*	*Std. Dev.*	*Min*	*Max*
Investment~y	0.6588258	4.688039	-0.9997779	52.57438
FRQ	0.045207	0.031008	-0.8789669	0.03129
Cash	0.1300926	0.6030363	0.0001702	8.06109
ROA	0.3847599	0.9883851	-0.990213	4.853507

AssetsTang~y	0.7224236	0.3067183	0.0006278	3.639228

Table 4.1 shows the descriptive and summary statistics of the study. According to the results shown in the above table dependent variable Investment Efficiency (IE), have a mean value of 0.658825 and standard deviation of 4.688039, which indicates that during the period of this study the cement sector firms of Pakistan, have normal sales growth. And the maximum and minimum value of 52.57438 and -0.999779 indicates that the cement sector firms have maximum Investment Efficiency (IE) is 52.57438 and minimum Investment Efficiency is -0.999779.

Financial Reporting Quality (FRQ) has a minimum and maximum value i.e. -.8789669 and 0.03129 respectively. And the standard deviation is 0.031008 with mean value of 0.045207.

Annual Cash holdings mean value is 0.130092, maximum and minimum values of cement sector companies are 8.06109 and 0.0001702 respectively. Standard deviation is 0.6030363 presents the average spread from the mean value of cement sector companies.

The mean value of Return on assets 0.3847599 and 0.9883851 is the Standard deviation whereas, the minimum and maximum values of ROA are -0.990213 and 4.853507 respectively.

Assets Tangibility means value is 0.7224236 and standard deviation value is 0.3067183 and on the other hand minimum and maximum values are 0.0006278 and 3.639228.

Correlation is statistical measure which shows the direction and strength of the association between two variables. The measure of strength between two variables is determines by coefficient of determination which is represented by r. The correlation values usually lie between 1 and -1. The r-value near 1 or -1 is considered strong correlation.

Table 4.2.

Pearson correlation Analysis

Variables	*Invest Eff*	*FRQ*	*Annual Cash*	*ROA*	*Assets Tang*
Invest Eff	1.000				
FRQ	0.13	1.000			
Annual Cash	0.03	0.00	1.000		
ROA	0.10	0.02	0.02	1.000	
Assets Tang	-0.16	0.01	0.26	-0.16	1.000

Table 4.2 shows the correlation between dependent variable and independent variable of the study.

The results show that there is significant and positive correlation between Investment Efficiency (IE) and Financial Reporting Quality (FRQ). As Cohen (1988) stated that significance correlation level starts from 0.1 and there are three slabs of significance level of correlation, i.e, 0.1 to 0.29, 0.3 to 0.49 and 0.5 to 1.00.

So, as per the criteria provided by the correlation between Financial Reporting Quality (FRQ) and Investment Efficiency is significant and positive. Similarly, the result indicates positive significant correlation between Financial Reporting Quality (FRQ) and Investment Efficiency (IE), as per Cohen (1988) the correlation between FRQ and IE is termed as weak moderate positive significant correlation.

It determines that as the value of this ratio increases there is an increase in the investment efficiency.

The result also shows positive insignificant correlation between Investment Efficiency and Annual Cash is r = 0.039 which is weak insignificant correlation between Investment Efficiency (IE) and Annual Cash as per Cohen (1988) criteria.

The results also show positive significant correlation between Investment Efficiency (IE) and Return on Assets (ROA) is r = 0.107, which is weak significant positive correlation between Investment Efficiency and Return on Assets, as per Cohen (1988) criteria.

The result indicates negative significant correlation between Investment Efficiency and Assets Tangibility is r = -0.16, which is weak significant and negative correlation between Investment and Assets Tangibility as per Cohen (1988) criteria.

4.1 Estimation of OLS model through 2SLS

Parameters of the model represent common effect with respect to time period as well as cross sectional units and error term follows all assumptions of CNLRM, it is called common effect model. We can also estimate this model through ordinary least square method but according to theory we know that economic growth and institutions have causal relationship. In growth model's common problem with institutional indicator variable is, they are endogenous in nature.

Table *4.3*

Results of OLS Model

Coefficients	*Estimate*	*Std. Error*	*P>|z|*
Intercept	2.791101	1.401766	0.046
Frq	4.61e-09	6.64e-10	0.000
Roa	-0.233388	0.196288	0.905
Asset tang	-3.12325	0.635122	0.000
Cash	-33.44535	87.343	0.702

Goodness of Fit and Diagnostic test

R square	0.051
Prob > chi2	0.0000
F test	0.108

One unit change in ROA causes -0.23338 unit increases in investment efficiency value added with standard error 0.196268 and shows negatively insignificant effect of dependent variable while one unit change in assets tangibility causes -3.12359 unit decreases in investment efficiency value added with standard error 0.63512 and shows negatively significant effect on dependent variable. One unit change in Frq causes 4.64e-09 unit increase in investment efficiency value added with standard error 6.64e-10 and shows significant effect of dependent variable, moreover one unit change in cash causes -33.45335 unit decrease in investment efficiency value added with standard error 87.3437 and shows negatively insignificant effect on dependent variable. R-square shows that 5% independent variables have effect on the investment efficiency.

4.2 Estimation of Fixed effect model though 2SLS

At least one parameter of the model varies w. r. t time periods or w. r. t cross sectional units then such a model is called fixed effect model. Fixed effect (LSDV) model allocate intercept value to all its candidate entities for allowing heterogeneity. We can apply “OLS estimation techniques” for the estimation of “fixed effect model”

Table.4.4

Estimation results of Fixed effect model

Coefficients	*Estimate*	*Std. Error*	*P>|z|*
Intercept	2.62749	1.833386	0.052
Frq	3.67e-09	1.22e-09	0.003
Roa	-0.182075	0.469455	0.698
Asset tang	-3.31342	0.947211	0.000

Cash	-5.620431	116.83338	0.152

Goodness of Fit and Diagnostic test

R square	0.052
Prob > chi2	0.0025
F test	0.27

One unit change in ROA causes -0.18207 unit decrease in investment efficiency value added with standard error 0.46945 and shows negatively insignificant effect of dependent variable while one unit change in assets tangibility causes -3.3143 unit decreases in investment efficiency value added with standard error 0.94721 and shows negatively significant effect on dependent variable. One unit change in Frq causes 3.67e-09 unit increase in investment efficiency value added with standard error 1.22e-09 and shows significant effect of dependent variable, moreover one unit change in cash causes -5.620431 unit decreases in investment efficiency value added with standard error 116.83338 and shows insignificant effect on dependent variable. R-square shows that 5% independent variables have effect on the investment efficiency, Whereas F test indicates 0.27.

4.3 Estimation of Random effect model through 2SLS

We can define the REM as if parameters of the model are supposed to vary randomly w.r.t units or time periods and hence that random variations of the parameters may be considered by the introduction of random error term. Such a panel data model is called random effect. Such a panel data model is called random effect model. The composite error term of REM consists of two components, “the cross sectional or individual specific error component and the combined time series and cross-sectional error component”.

Table 4.5:

Estimation results of Random effect model

Coefficients	*Estimate*	*Std. Error*	*P>|z|*
Intercept	2.32676	1.354842	0.023
Frq	2.76e-09	6.17e-10	0.000
Roa	0.044100	.18691	0.816
Asset tang	-21.71043	0.612304	0.000
Cash	2.3266765	1.354842	0.797

Goodness of Fit and Diagnostic test

R-square	0.14
Prob > chi2	0.0000
Wald chi2	30.55

One unit change in Frq causes 2.76e-09 unit increase in investment efficiency value added with standard error 6.17e-10 and shows significant effect of dependent variable, while one unit change in ROA causes 0.0441 unit increases in investment efficiency value added with standard error 0.18963 and shows insignificant effect of dependent variable. One-unit change in assets tangibility causes -21.7104-unit decreases in investment efficiency value added with standard error 0.612304 and shows negatively significant effect on dependent variable. Moreover, one-unit change in cash causes 2.3266 unit increases in investment efficiency value added with standard error 1.354842 and shows insignificant effect on dependent variable. R-square shows that 14% independent variables have effect on the investment efficiency.

4.4 Hausman Test

Hausman test is indicating that, that which model is the best b/w fixed and random. If the hausman test p-value is less than 0.05 it means that fixed effect model is appropriate model and if p-value is greater than 0.05 than random effect model is appropriate model.

Table4.6

Estimation results of Hausman Test

	(b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	—— Coefficients ——			
frq	3.67e-09	2.76e-09	9.07e-10	1.06e-09
roa	-.1820755	.0441008	-.2261764	.4294253
assetstang~y	-3.313432	-2.61991	-.6935218	.722698
cash	-5.620431	-21.71043	16.09	80.82371

```
                  b = consistent under Ho and Ha; obtained from xtivreg
     B = inconsistent under Ha, efficient under Ho; obtained from xtivreg

Test:  Ho:  difference in coefficients not systematic

              chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                      =        1.87
            Prob>chi2 =      0.6004
```

Null: random effect model is appropriate

Alternative: fixed effect model is appropriate

In the above results p value is more than 0.05 so we do not reject the null hypothesis and we cannot say fixed effect model is an appropriate model but we have to accept the null in favor of alternative hypothesis and we conclude that random effect model is appropriate in this case. If we do not reject the null hypothesis, we must use random effect model otherwise fixed effect model is an appropriate model.

Table 4.7

Comparisons between the models

Models	*OLS model*	*Fixed effect model*	*Random effect model*
Coefficients	Estimates [std. Error] (P-value)	Estimates [std. Error] (P-value)	Estimates [std. Error] (P-value)
Intercept	2.791101 1.401766 0.046	2.62749 1.833386 0.05	2.326765 1.354842 0.023
Frq	4.61e-09 6.64e-10 0.000	3.67e-09 1.22e-09 0.003	2.76e-09 6.17e-10 0.000
ROA	-0.23338 0.196268 0.905	-0.1820755 0.4694558 0.698	0.0441008 0.18961 0.816
Assets tangibility	-3.12325 0.631227 0.000	-3.313432 0.9472115 0.000	-21.71043 0.612304 0.000
Cash	-33.45335 87.3437 0.702	-5.620431 116.83338 0.152	2.3266765 1.354842 0.797

R-square	0.05	0.05	0.14
Prob-chi2	0.0000	0.0025	0.0000
F test	0.108	0.27	------
Hausman test			0.6004

The above table showed the results of 3 panel data models which are OLS regression, fixed effect and Random effect models. In the above table F test is used for the comparison between fixed effect and OLS regression. So, if any model has low F test value that cloud be consider the best models between the two models. F test results indicate that Fixed model is the best, because fixed have low F test value is compare to OLS regression.

Hausman test is used between fixed effect and Random effect. If Hausman test P-value is less than 0.05 than we can say that fixed model is appropriate model, otherwise random effect. Hausman test result is more than 0.05 so we don’t reject our Ho and we must have to say that Random effect model is the best and appropriate model.

Overall, based on standard errors we decided that Random effect model is the best model between all the 3 models. The interpretation of random effect model as under.

One unit change in Frq causes 2.76e-09 unit increase in investment efficiency value added with standard error 6.17e-10 and shows significant effect of dependent variable, while one unit change in ROA causes 0.0441 unit increases in investment efficiency value added with standard error 0.18963 and shows insignificant effect of dependent variable. One-unit change in assets tangibility causes -21.7104-unit decreases in investment efficiency value added with standard error 0.612304 and shows negatively significant effect on dependent variable. Moreover, one-unit change in cash causes 2.3266 unit increases in investment efficiency value added with standard error 1.354842 and shows insignificant effect on dependent variable. R-square shows that 14% independent variables have effect on the investment efficiency.

CHAPTER 5

FINDINGS, CONCLUSION & DIRECTION FOR THE FUTURE

In this chapter we will discuss findings of the research study along with the outcomes of this research findings, i.e. the different effects of variables and at last the conclusion of the study as well as the future direction comprehensively. Financial reporting quality has positive significant effect on investment efficiency of Cement sector firms. The financial performance proxy return on assets has positive insignificant effect on the investment efficiency of Cement sector firms. Tangibility of firm‛s assets has positive significant effect on investment efficiency of Cement sector firms. The corporate cash holdings have negative insignificant effect on investment efficiency of the Cement sectors firms.

5.1 Conclusion

The FRQ has an important role to increase the IE therefore may be given due consideration and not to ignore the Assets tangibility, whereas, the results of Cash and ROA may also be helpful to manage these variables for increase of IE.

FRQ has +ve significant impact on IE

ROA has +ve insignificant impact on IE

Asset Tang has +ve significant impact on IE

Cash has –ve significant impact on IE

The objective of this study is to investigate the association between financial reporting quality and investment efficiency. The current study used the financial data from Cement sector firms listed in Pakistan Stock Exchange that include financial statements started from 2009 to 2016. Multi-variate regression model and fixed effects model were used to explain these relationships. Several control variables including cash holdings, assets tangibility and return on assets were used in this regression model. Investigations reveal that there is positive significant relationship between financial reporting quality and investment efficiency. In order to measure and calculate financial reporting quality and investment efficiency, models proposed by McNichols and Stubben (2008) and Biddle et al. (2009) were respectively used. In order to elaborate direct relationship between financial reporting quality and investment efficiency, Verdi's argument (2009) can be used. Verdi (2009) documented that financial reporting quality can enhance investment efficiency with regard to two ways: reducing asymmetry of information between the investors and company, and therefore, reducing the financing costs, and reducing asymmetries of information between managers and investors, and therefore, reducing the monitoring costs and enhancing project selection.

Findings from recent research study are consistent with the findings by Biddle et al. (2009) and (Gomariz and Ballesta., 2013).

The earlier research studies argued that higher financial reporting quality can enhance investment efficiency by declining asymmetries of information that deliver to frictions like moral hazard and opposed selection. I lengthen this research by providing with documentary evidences the channels through which quality of financial reporting relates to investment efficiency. Particularly, I test the hypotheses which higher financial reporting quality can be connected or associated with either below under or over-investment.

5.2 Recommendations for Future Research

Similar studies can be conducted in future to use Structural Equation Modeling (SEM) in the relationship of these variables. Moreover, similar studies can use financial performance (FP) as a mediator and moderator in the relationship of Financial Reporting Quality (FRQ) and Investment Efficiency (IE). Same studies can comprehensively analyze financial and non-financial firms for the relationship of the same variables.

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