

## CHAPTER V

### CONCLUSION AND RECOMMENDATION

The purpose of this is to investigate the impacts of firm characteristics on the incremental information content of cash flows beyond earnings. The cash flows examined in this study comprise cash flows from operating activities (CFO), cash flows from investing activities (CFI), and cash flows from financing activities (CFF), which are reported by the quarterly cash flows statements. The firm's characteristics involved in this study are transitory of earnings, types of stock, and the CFI/CFF ratio. The present study also scrutinizes the joint impacts of these factors. The sample consists of companies listed on the Stock Exchange of Thailand excluding financial and insurance companies due to the unique of these businesses and their special regulation. The firms' quarterly financial statements are examined covering the first period of 1999 to the second period of 2001 (excluding firms with non-December fiscal year end). This study applies the event study methodology that examines the abnormal stock returns of three days surrounding an announcement of the firms' quarterly financial statements.

This chapter consists of conclusion of the results, limitations of this study as well as directions and recommendations for future research.

## 5.1 Conclusion of Results

The regression results of the association between cumulative abnormal returns (CARs) and unexpected earnings and unexpected cash flows reveal that CFO have incremental information content beyond earnings as well as CFF. The market strongly reacts to CFO as well as CFF in a positive sign. There is no evidence of additional information content of CFI over earnings. The results indicate that earnings have low information content when its transitory is high; however, the incremental information content of cash flows over earnings is not increase.

The evidence suggest that stock types have no impact on information content of earnings and on incremental information content of cash flows beyond earnings.

The results support that CFI/CFF ratio has impact on the incremental information content of CFO beyond earnings. The market is more likely react positive (Negative) to CFO (Earnings) of the firms with  $CFF > CFI$ .

Further, there is no evidence of the joint impact of earnings transitory and stock types as well as the joint impact of transitory of earnings and the CFI/CFF ratio on the informativeness of earnings and cash flows.

The informativeness of earnings as well as all cash flows is affected by the joint impact of stock types and CFI/CFF ratio. The market is more likely to react positively to earnings as well as new investments of the growth firms with CFI/CFF ratio in excess of 1 relative to other firms whilst react opposite direction to CFO and CFF.

In addition, the results indicate to the joint impact of three factors on the informativeness of earnings and all cash flows. The market reaction of earnings is more likely positive for the growth firms with a CFI/CFF ratio in excess of 1 even earnings are high transitory. When earnings are high transitory, the incremental information content of all cash flows of the growth firms with a CFI/CFF ratio in excess of 1 are increase.

Moreover, the evidence is consistent with the existent of industry impacts on the incremental information content of cash flows beyond earnings. The incremental information content of cash flows beyond earnings is increased for companies in the Building and Furnishing Materials Industry, the Property Development Industry, as well as the Agribusiness industry.

## **5.2 Limitations of this study and directions for future research**

There are some limitations of this study. The first is due to the time period involved in the study, which is rather short; only 10 quarters of data. The second limitation belongs to the expectation model of earnings and cash flows. This study uses a simple random walk expectation model due to the unavailability of information used in other models, which maybe superior, for example the information relating of analysts forecasts, or the historical information of quarterly reported cash flows.

The present study leaves room for future research. The future research might extend the study by examining financial and insurance companies and might involve a longer time period. The future research may apply the other expectation models of earnings and cash

flows. Further, this study does not cover the components of each cash flows that might have specific influence on the informativeness of each cash flows as suggest by previous study (Livnat and Zarowin, 1990). So, the future research might take this into a further investigation.

### **5.3 Implication and Recommendations**

The implication of the present study focuses on the academic research. The findings of this study indicate that the reported cash flows are useful information in setting stock prices. However, there might be some intervening factors affecting to the using of cash flows data relative to earnings data in setting stock prices that should be the challenge for future research.

The findings of the present study also have implication to the using of financial statements information to set the stock prices in the SET that the data from the quarterly statements of cash flows are used. The CFO and CFF convey the additional useful information beyond earnings although the investors in the SET strongly use earnings in determining of stock prices.

When earnings are high transitory, the market react more likely negative comparative with low transitory. So, the (naive) investors should not fixate on earnings, specifically for the stocks in the property development that the investors should examine CFO and CFI in addition to earnings in setting stock prices.

Moreover, the results suggest that the investors in the SET should examine the ratio of net cash outflows for investing activities to net cash inflow from financing activities in using of CFO to determine the stock prices due to the fact that CFO of the firms with  $CFF > CFI$  are more positively reacted than that of the firms with  $CFI > CFF$ . The evidence also suggests that for the growth firms with CFI/CFF ratio in excess of 1, earnings of those firms are reacted more likely positive whilst CFO and CFF are reacted more likely negative than the others. Further, the investor should examine the transitory of earnings, types of stocks, and the CFI/CFF ratio all together when use earnings and cash flows information to set the stock prices.

As a result, the evidence leads to a recommendation that the cash flows statements are important and should be prepared accurately under the appropriate basis. So, the problems about preparing of cash flows statement suggesting by Vorasak Toommanon (2001) should be solved in order to protect the mistake in making decision of investors.

The evidence also recommends that the (naive) investors should not fixate on earnings, specifically when earnings are high transitory. There are alternative data, such as cash flows, that might be used in determining stock prices. In addition, the findings of this study might be useful for investors at the SET to determine stock prices. However, examining the factors of transitory of earnings, firm types, and the CFI/CFF ratio all together might facilitate to use earnings and cash flows information efficiently.