**Impact of Financial Transparency on SMEs’ Value**

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**Abstract**

**Objectives** - This article aims to determine the influence of financial transparency on SME performance. The paper tests the hypothesis that there is no significant relationship between financial transparency and SME value improvement as indicated by interest coverage ratio and Tobin Q. Agency theory is a useful framework for designing financial transparency tools.

**Methodology -** The study applied census survey for one hundred twenty-eight SMEs listed in AIM Italia. The time under study was from 2014 to 2018. Out of the 128 listed SMEs targeted, 115 were analyzed forming 90% of the population. Financial transparency index (FTI) was developed as proxy measures of variables. Regression analysis and correlation analysis have been applied to test the hypotheses. Key study variables of SMEs are subject to descriptive statistics.

**Findings** - The results suggest a positive and significant relationship between the variables. Greater financial transparency allows SMEs to reduce information asymmetries and optimize their capital structure.

**Research limits**- Data used for this study need to be subjected to more statistical tests in order to establish a more robust validity and reliability. It is necessary to acquire further strengthened data and assume a variety of conditional situations. It is expected that subsequent studies can use larger samples, a broader geographic base (extended at european level) and a multi-faceted analysis.

**Practical implications** - Analyst and investors may apply findings to identify crucial financial transparency tools in financial markets. The findings can also be useful to stimulate debate on the role of financial tansparency policies in mitigating the difficulties of small and medium entrepreneurs in achieving value creation goals.

**Originality of the study** - The study has applied important mechanism in FTI to examine the effect of financial transparency on SME value which has provided new insight on the relationship thereby enriching the finding.

**Keywords -** Financial transparency, SME value, Agency theory, Information asymmetries

**JEL Classification**: C30, G20, G30, G39

1. **Introduction**

This paper investigates the role of financial transparency on Small Medium Enterprises (SMEs). Because financial transparency plays an important role on SME development, the aim of this study is to analyze the relationship between transparency and SME value.

Financial transparency can be defined as an information disclosure system that solves information asymmetry problems among firm’s stakeholders.

The academic debate towards transparency has recently flared up in the corporate finance studies. This is partly due to the works to Healy and Palepu (2001), Bushman *et al*. (2004),andLang and Maffet (2011).

On the other hand, a well-structured financial transparency system allows owner-manager of a small or medium-sized entity govern the structure of lending contracts and to keep degree of financial leverage under control (Thorsten and Demirgüç-Kunt, 2006). Similarly, Mazani and Fatoki (2012) show empirically that the firms with higher financial transparency benefit significantly from higher loan amounts, longer maturities, and significant smaller interest cost.

Put more simply, transparency affects the market mechanisms having to do with the sources of financing, since different lenders (domestic and foreign) have different information-gathering and processing abilities (Blackburn *et al*., 2013).

As described by Ricardo Julio Rodil (2015): «There are a variety of reasons the owner-manager of a SME might pursue a policy of financial transparency. For example, it seems reasonable to expect investors to be more inclined to risk their venture capital in entities that have sound and relevant information on their operations and financial health».

Studies attempting to relate financial performance to financial transparency are still indecisive. Bushman and Smith (2001) and Ojeka *et al*. (2015) found a significant association between financial transparency and a firm’s financial performance despite the limited evidence of a long-term relationship. Conversely, researchers such as Prat (2005), and Sahore and Verma (2017) did not find a significant relationship between profitability and financial transparency.

Chau and Gray (2002) define financial transparency as a set of rules and policies established by the management to regulate its affair and have efficient management of financial resources to improve the value of the company and achieve maximum shareholders returns. Likewise, an adequate financial transparency system allows the owner-manager to optimize financial structure and increase the bargaining power towards the lenders and investors. Emphasize transparency, publish reliable financial information for any potential interested party, are useful practices for achieving the value objectives of the firm.

For Degryse *et al*. (2010), firms with good financial transparency practices are investor friendly, which enable them to optimize their capital structure by attracting cheaper funding thereby maximizing returns to shareholders.

Damodaran (1996) states that SMEs suffer agency conflicts between shareholders and outside lenders. In SMEs the main agency costs do not derive from the relationship between shareholders and management but from the relationship between inside and outside lenders. In particular, shareholders have an interest in carrying out high-risk, high-return transactions, while loan-holders can protect their interests (reduce agency costs) through a series of loan instruments and techniques based on the presence of adequate guarantees.

According to Samuels *et al*. (1995) information opacity is the primary factor affecting the relationship financing as it generates the agency costs attributable to situations of hidden action and hidden information.

Murphy (1985) argues that financial transparency practices improve the efficiency and effectiveness of the company through adequate supervision and governance, thus minimizing conflicts between agencies and putting the interest of outside lender with that of shareholders in optimizing the corporate value.

This paper aims to determine the influence of financial transparency system for the growth of SME value. Analyzing SMEs listed in AIM Italia, the results confirm the positive relationship between financial transparency and variables that generate value creation.

An adequate financial transparency system allows SMEs owners to improve financial policy with positive impacts on interest coverage ratio (ICR), one of the best-known metrics to capture a company’s ability to create value. In fact ICR emphasizes the company’s ability to pay off the interest with the profits earned.

The paper is structured as follows. Section 2 examines the related literature, while Section 3 illustrates the research hypotheses, data sources and empirical model. Section 4 presents the main results of which their implications are discussed in Section 5. The final section contains the concluding remarks.

1. **Theoretical Background**

A frequently used definition of transparency is submitted by Bushman *et al*. (2004) as the widespread availability of firm-specific information concerning publicly listed firms in the economy to those outside the firm. The broad nature of this definition implies that the availability of such information may be important to a wide range of stakeholders, including equity holders, debt holders, government agencies and labor unions (Lang and Maffet, 2011).

Put more simply, transparency can be a remedy to overcome information asymmetry problems between two or more related parties. In general, Stiglitz and Weiss (1981) argue that agency conflicts such as asymmetry of information and moral hazard may impact on the ability to obtain the external sources of funds.

Financial transparency reduces informational asymmetries and the phenomena of moral hazard and adverse selection in the credit market. Therefore, a high financial transparency mitigates the danger of moral hazard (Diamond, 1991) and reduces agency costs (Jensen and Meckling, 1976).

In line with previous studies, Shinozaki (2014) argues that information asymmetry between borrowers and lenders increases the adverse selection and moral hazard risks for financial institutions.

The research conduct by Zulfikar *et al*. (2017) has shown that financial transparency is related with better financial outcomes, leading indirectly to higher credit ratings.

The information environment plays a central role both in determining the extent of these conflicts and in designing the mechanisms to mitigate them. Specifically, the fact that certain contracting parties possess superior firm-specific information at various times before and/or during the contracting relationship either create or exacerbate a wide range of agency conflicts (Armstrong *et al*., 2010).

In the search conducted by Mazani and Fatoki (2012), asymmetry of information has become a major issue for lenders in credit rationing. Hong and Gu (2014) studies add that asymmetry of information has made severe impacts on accessing external financial resources from formal financial industry.

Some authors associate the phenomenon of financial transparency with the disclosure of accounting information. Healy and Palepu (2001) argues that organizations disclose accounting information that is useful for investment decisions. Buskirk (2012) and Quintiliani (2018) points to the fact that financial disclosure is useful to minimize agency costs.

Other studies highlight that financial transparency systems are designed to help an organization adapt to the environment in which it is set and to deliver the key results desired by stakeholders (Petersen and Rajan, 2002).

As can be seen from the study by Cucculelli and Bettinelli (2015), SMEs should adopt tools to enhance transparency and provide proactively to banks all relevant information necessary to assess their risk profile. The tools to improve financial transparency are: planning system, quality standard, management control system, auditor, and the presence of a CFO. These tools improve the dialogue between and SMEs and banks and prove to be a good way to reduce information asymmetry and create stronger relationships.

This study uses the tools above mentioned for the construction of the financial transparency index.

As can be seen by Hirdinis (2019): «SME value is the result of the work management does in several dimensions, including net cash flow from investment decisions, growth and capital cost of the company. For investors, corporate value is an important concept because corporate value is an indicator of how the market perceives the company. High corporate values lead to good company performance. Creditors view company value closely. For the creditor, the value of the company is related to the liquidity of the company, i.e. if the company is considered capable or not to return the loan provided by the creditor. If the implied value of the company is not good, then the investor will rate the company as having a low value».

Value creation can also be defined as the attainment of predetermined targets, objectives, and goals within a given timeframe (Casey and O’Toole, 2014; Rahman, 2014).

Management control effects company’s value because of minimized expropriation by management, increased effectiveness in investments and improvement in available cash flows for owners (Jensen, 1991).

A good performance indicator should be measurable, applicable and important to the company (Carpenter and Petersen, 2002).

Performance measures used in empirical research can be classified as accounting-based means or market-oriented means. Firm performance was measured by market price of resources acquired and market price growth by Tobin’s Q calculation which measure share value growth.

This study uses ICR as the measurement of financial performance for the selected companies.

Tobin’s q measures the wealth generated by a firm for its shareholders. It compares how much more a company is worth when compared to the book value of its assets.

Any excess of market value of assets over their book value results from intangible assets, goodwill, future growth potential, and competitive position. Tobin’s Q can be affected by both the internal and external factors. Tobin’s Q is a company’s performances indicator, so it is important for an organization to manage its effectively.

1. **Hypothesis, Data and Empirical Model**

The aim of this study is to tests the relationships between research variables concerning financial transparency system and financial performance.

The population of the study comprised of all the 128 companies listed at the AIM Italia (the market of Borsa Italiana devoted to the Italian small and medium enterprises, which wish to invest in their growth) as at 31st December 2018.

The quoted SMEs are preferred as they have a defined structure, a legal mandate to operate, are likely to exhibit elaborate linkages between research variables and provide a basis for determining the market value and performance in an objective manner. The SMEs were obtained from AIM listings. Statistical sampling is conducted with systematic elimination method. The sampled SMEs must meet the following criteria: i) presence of homogeneous data over the past five years; ii) availability of useful data to test research hypotheses. As a result of these conditions, a sample of 115 firms was obtained.

The research adopted a census method due to the small number of qualifying companies at the AIM Italia. Secondary data were acquired through questionnaires, financial statements and financial reports of the AIM listed companies. An index was formed for financial transparency.

For SME value, financial statements and financial reports was analyzed to find ICR and Tobin Q. We used Rahavard Novin software for data collection and SPSS 20.0 for data analysis.

Where necessary data were not obtained, the same were requested directly from the company’s management. The period of research covered 2014 to 2018.

Financial transparency is measured by assessing the level of implementation of related 5 transparency variables (i.e., planning system, high quality standard, management control system, auditor, and whether the borrower has a CFO in the organizational structure or not) used as questions in the questionnaire.

Transparency variables are described below:

1. *Auditor*. According to Lang *et al*. (2012) auditor and accounting standard choices likely affect transparency through their effect on earnings management. They probably also affect transparency more generally through their effect on overall accounting quality and the supporting disclosures provided with the financial statements. The relationship between auditor and financial transparency is still inconclusive. Krishnan (2003) reported a feeble relationship; conversely, Han *et al*. (2011)noted a significant association. Therefore, this research includes an indicator variable if a SME adopts international standards on balance sheet and auditing.
2. *High quality standard*. Research such as Barth *et al*. (2008) suggests that global accounting standards facilitate more transparent reporting. However, Daske *et al*. (2008) suggest that, when the adoption of international standards is made on a voluntary basis, some firms may simply “adopt a label” while other firms actually make a serious commitment to increased transparency. Daske *et al*. (2008) argue that high quality accounting standards are likely to be most important in environments in which strong regulatory oversight ensures that the standards are applied substantively rather than simply asserted. Similarly, research such as Francis (2004) and, Hope and Langly (2010), argues that reliance on high quality auditors is likely to be more important in contexts in which the underlying oversight and litigation environments increase the bonding role of auditor choice. In other words, the extant research suggests that the use of international accounting standards and high-quality auditors is likely to be most beneficial in environments in which there is substantial local oversight and litigation exposure and, hence, firm-level accounting standard and auditor choice complement strong local institutions.
3. *Management Control System*. Merchant (2007), maintains that management control systems aim to support decision-making processes and to monitor resources in order to achieve effectiveness and efficiency objectives. According to Shleifer and Vishny (1997), management control entails a governance mechanism that assures investors that they will get return at the end. The prime problem stemming from ownership and lenders is difference in interests that leads to huge agency cost. The chief objective of management control is determined that appropriate check systems, controls, management structure and governance have been established to optimize returns and minimize losses the best interest of the shareholders with the aim of enhancing accountability, governance and transparency in such a way as to reduce agency costs through increased productivity and efficiency.
4. *Chief Financial Officer (CFO)*. This research assumes that SMEs with a CFO are more transparent (Quintiliani, 2017). In the context of SMEs, CFO takes strategic and critical role to dissolving information asymmetries between SME and its lenders. Information asymmetries and the resulting credit constraints are consequence of business opacity (Ackert *et al*, 2007). An unsatisfactory and incomplete piece of information has negative effects (so-called, adverse-selection problems): rationing of financial resources for the firms having valid business fundamentals, wrong pricing of loans, increase in nonperforming loans, suboptimal allocation of risk-based resources (Stiglitz and Weiss, 1981; Farmer, 1985; Bester, 1985; Williamson, 1987; Cressy and Toivanen, 2001). The CFO more than ever has become a reference point in the interlocutory processes with the managers and corporate managers of the banks with whom the company works. On this way, the relationship of mutual knowledge has gone into deepening also thanks to the need of the banking system to increase information transparency by the side of the firms. Good bank-firm relationship is often influenced significantly by CFO’s capacity. Jiang *et al*. (2010) group the segment of CFO’s ability into relationship ability with banks and technical ability to analyze invisible business assets.
5. *Planning system*. The presence of a planning system facilitates and makes communication between company and financial markets more transparent. Long-term financial planning and forward-looking rating are necessary to sit at the table of lenders in a transparent way, with real and certain data, and with the possibility of creating alternative scenarios. It is essential that SME is able to produce data quickly (financial simulation scenarios, forecast rating, budget), also with a view to improving the relationship between bank and firm. The study by Ali *et al*. (2007) indicate that SMEs equipped with financial planning systems have larger analyst following, lower dispersion in analysts' earnings forecasts, smaller forecast errors, less volatile forecast revisions, and smaller bid-ask spreads. The presence of a planning system is closely related to the presence of CFO.

Financial Transparency Index (FTI) were formulated as a standard proxy and based on forty-three binary objective study queries obtained from secondary data.

FTI has a value of 0 to 100, the assumption is that it is expected that companies with poorer financial transparency (opaque borrower) may perform sub-standard. Our quantitative research approach is descriptive and correlational. A multivariate regression model was applied to establish the relationship between financial transparency and company’s value. The model to test hypothesis is shown in formula (1):

Yit = α + β1FTit + εit [1]

where “Y” represents corporate value parameter (ICR and Tobin Q), “α” is the intercept or constant, “β1” is regression coefficient, “FT” is the composit of financial transparency (measured by financial transparency index – FTI), “ε” is a random error term, “i” is a number of SMEs used in the sample and “t” is the duration of the research. The research purpose is to see if there is a significant relationship between the creation of value as captured by ICR and Tobin Q and financial transparency attributes (planning system, high quality standard, management control system, auditor, and CFO).

The objective is twofold: first, to assess the impact of the level of financial transparency on the ability of the SME to create value; second, to understand if the relationship is linear.

The null hypotheses of the study are proposed as follows:

*RH1 - There is no significant relationship between* *financial transparency and interest coverage ratio for AIM Italia listed SMEs.*

*RH2 - There is no significant relationship between financial transparency and Tobin Q for AIM Italia listed SMEs.*

1. **Research Findings**

The aim of this study is to test the relationships between research variables concerning financial transparency system and financial performance. Variables of interest are planning system, quality standard, management control system, auditor, and CFO.

**Table. 1**. Financial transparency - Average scores of planning system, high quality standard, management control system, auditor, and CFO

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Variable** | **N.** | **Mean** | **Maximum** | **Minimum** | **S.D.** | **Kurtosis** | **Probability** |
| Planning system | 115 | 0.8012 | 0.8212 | 0.4010 | 0.4511 | 3.1276 | 0.3821 |
| Quality standard | 115 | 0.56421 | 0.65321 | 0.42833 | 0.41211 | 3.13125 | 0.01001 |
| Management control system | 115 | 0.8001 | 0.8112 | 0.4618 | 0.3145 | 2.1459 | 0.0098 |
| Auditor | 115 | 0.7133 | 0.8028 | 0.3345 | 0.3213 | 1.7893 | 0.0134 |
| CFO | 115 | 0.84501 | 0.88234 | 0.4212 | 0.1980 | 2.1191 | 0.0178 |
| **Average Score** | **115** | **0.6848** | **0.8001** | **0.4304** | **0.3101** | **2.6233** | **0.0156** |

From the table, the average mean of variables is 0.6648 and planning is practiced by an average of 0.8012 of the 115 listed SMEs at the AIM Italia - which is a reasonable number. Analysis of quality standard gives an overall mean score of 0.56421 which is comparatively very low given the high observed scores of the other financial transparency measures. The results disclosed in the above table 1 indicate that the overall mean score for Auditor is 0.7133. The results on Management control constructs give an overall mean average of 0.8001. Kurtosis analysis shows that peakedness of the distribution of the variables is 2.3701 which is less than k factor of 3 which indicates a platy-kurtic distribution (flatter than normal distribution with shorter tails). All the constructs are platy-kurtic distribution and are normally distributed. The reading from the above study indicates that presence of CFO has average of 0.84501. The study score confirms a compliance rate of over 68% with all variables for financial transparency. In order to tests if corporate value and financial transparency are related (RH1), we use the equation below (2):

Y = β0 + β1X [2]

where X = Financial transparency and Y = ICR.

Table 2 highlights the main results of testing data for the first hypothesis. It is evident that effect of financial transparency on ICR is significant with a regression (R) of 0.632. Therefore, financial transparency explained up to 62.1%, (R2 = 0.621) of the total variation in ICR is attributed to changes in financial transparency. The remaining 37.9% is explained by the other variable. In addition, the number of Durbin-Watson Test is 1.289, which shows that there is not auto correlation problem. These findings indicate that there is a significant relationship between financial transparency and ICR which is in line with the results of the study done by Carpenter and Petersen (2002).

**Table 2.** Regression model of financial transparency against interest coverage ratio

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **R** | **R2** | **Adj R2** | **Std. Error** | **Durbin Watson test** |
| 0.632 | 0.621 | 0.632 | 0.117654 | 1.289 |

Variance analysis was used to examine how effective statistically the model is to establish the significant impact of financial transparency on ICR. Based on the results of the ANOVA test or F-test in table 3 obtained F count is 422.680 with a significance level of 0.001. Because the significance level of 0.001 < 0.050, it can be stated that financial transparency has a significant influence on company value. This assertion therefore does not confirm the null hypothesis that financial transparency has no significant effect on firm value (as measured by ICR).

**Table 3.** The result of F-Test - ANOVA (financial transparency and interest coverage ratio)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **Sum of Squares** | **Df** | **Mean square** | **F** | **Sig.** |
| Regression | 4.121 | 1 | 4.298 | 422.680 | 0.001 |
| Residual | 2.842 | 299 | 0.027 |  |  |
| Total | 6.963 | 300 |  |  |  |

Table 4 shows a significant relationship between financial transparency and ICR; this is indicated by beta coefficients (ß = +0.633). With respect to significance level and the number of T statistic, null hypothesis is rejected. Thus, the study fully not supports first research hypothesis (RH1).

**Table 4.** Corefficient of financial transparency and interest coverage ratio

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Std. Error** | **Beta** | **T** | **Sig.** |
| (Constant) | 0.41 |  | -14.987 | 0.001 |
| Financial transparency | 0.51 | 0.633 | 19.301 | 0.001 |

Second hypothesis sought to establish the relationship between the variables declared for SMEs listed on AIM Italia. A regression of financial transparency on firm value was done using the equation below (3):

Y = β0 + β1X [3]

where X = Financial transparency and Y = Tobin Q.

The results highlighted in table 5 indicate a weak association exists concerning the variables with regression R of 0.512. This means that only 31.8% (R2 = 0.318) can be explained by financial transparency index (FTI) of the Tobin’s Q while the balance 68.2% is accounted for by other variables. At p-value greater than 5, F value is 111.018 indicating that FTI has a significant effect on firm value as measured by Tobin’s Q. Null hypothesis is thus rejected.

**Table 5.** Effect of financial transparency index (FTI) on Tobin’s Q

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **R** | | | **R2** | | **Adj R2** | | **Std. Error** | **Durbin Watson test** |
|  | 0.512 | | | 0.318 | | 0.296 | | 0.6671901 | 1.433 |
|  |  | | |  | |  | |  |  |
| **Model** | | | **Std. Error** | | **Beta** | | **T** | | **Sig.** |
| (Constant) | | | 0.279 | |  | | -5.541 | | 0.001 |
| FTI | | | 0.301 | | 0.498 | | 12.309 | | 0.001 |
| **Model** | **Sum of Squares** | | | **Df** | | **Mean square** | | **F** | **Sig.** |
| Regression | | 35.698 | | 1 | | 36.194 | | 111.018 | 0.001 |
| Residual | | 216.298 | | 299 | | 0.423 | |  |  |
| Total | | 251.996 | | 300 | |  | |  |  |

1. **Discussion**

Some studies (Lambert *et al*., 2007; Lardon and Deloof, 2014; Myers, 2014; Kim *et al*., 2013; Buskirk, 2012) show that financial transparency increases the credibility of the borrower with positive effects on the cost of debt. Furthermore, the most transparent SMEs are immune from the credit crunch effect. This impacts directly on ICR and indirectly on business value. In line with previous studies this work highlights the close positive link between transparency and value creation.

The study findings established that financial transparency attributes contribute significantly to the performance of SMEs. As presented in tables, FTI are related to value parameters. The findings confirmed the significant and positive impact of financial transparency attributes (planning system, high quality standard, management control system, auditor, and CFO) on SMEs’ performance.

Correlation output indicated that relationship between financial transparency and SME value of listed firms is statistically significant. Therefore, Hypothesis H1 was not confirmed by the study results.

The study result on significance of relationship between the independent variables and corporate value as measured by ICR and Tobin Q is also supported by agency theory.

Using Tobin's q as a measure of value SME, we seek to estimate the relative importance of financial transparency in determining firm performance. Our methods are analogous to those of Fen and P’ngand (2019), like them, we find that financial transparency effects account for the majority of the explained variance.

Transparency in modern financial disclosure is considered as being crucial (Barth and Schipper, 2008) in helping lenders to reach their own conclusions about businesses (Billings and Capie, 2009).

Hutton (2007) argue that financial transparency can be a good tool for limiting the increase of opportunistic behavior of managers.

The agency theory referred to in this study concerned with aligning interest between outside lenders and shareholders. In this field of studies some authors have examined the problems faced by SMEs when attempting to raise finance. In particular Lean and Tucker (2001) affirm: «The nature of the information asymmetry problem on the firm’s side is that it cannot prove the quality of its investment projects to the provider of finance (usually the bank). SMEs’ managers often suffer from a lack of financial sophistication as they are often product or service specialists, not specialists in the area of finance. Thus, the information asymmetry problem is partly one relating to difficulties in the spheres of communication and credibility. A closer relationship between the bank and the firm should reduce the information asymmetry regarding the firm’s understanding of the lending constraints faced by bank managers».

Relationship between bank and SME which must be based on transparency that is an open exchange of information with banks and other providers of finance (Watson, 1986). To fulfil the expectations for transparency, SMEs they must have useful tools such as: planning system, quality standard, management control system, auditor, and the presence of a CFO. These tools improve the dialogue between and SMEs and banks and prove to be a good way to reduce information asymmetry and create stronger relationships.

Auditor and accounting standard skills have a positive influence on the performance of SMEs.

The study revealed the presence of a strong positive linkage between SME value and presence of a management control system. This indicates that management control practices improved financial transparency. This is in line with the evidence of the studies of Merchant (2007), and Cucculelli and Bettinelli (2015).

1. **Concluding remarks**

Based on an empirical analysis, this paper aims to analyze the relationship between financial transparency and the ability of SMEs to create value. In this perspective, the work investigates questionnaires, financial statements and other relevant reports of 115 firms listed at the AIM Italia. The period of research covered 2014 to 2018.

The independent variable was examined under different sub constructs affecting the main financial transparency: planning system, high quality standard, management control system, auditor, and CFO.

Correlation output indicated that relationship between financial transparency and corporate value of SMEs is statistically significant and that all independent variables are related to ICR and Tobin Q. Variance analysis gives an F – Value of 422.680 while the p value is less than 5% supporting the fact that the level of financial transparency has a significant influence on SMe value. The computed value of chi-square is always positive. The findings of the study highlight the view that the higher the financial transparency of the entrepreneur, the greater his ability to create value as measured by ICR and Tobin Q. Therefore, the empirical results reject the research hypotheses and they claim that financial transparency has a positive impact on the ability of small and medium enterprises to create value, as measured by ICR and Tobin Q.

The results of this work lead to some implications of potential interest. First, it reinforces the body of research and empirical studies concerning the quality and quantity of financial transparency system in developed markets and highlights the importance of financial transparency in the business world within the framework of agency theories. In addition, would provide a basis for future research and allow academics to further investigate this concept in the context of other markets (so called emerging markets).

Further research can examine all the effects of desirable financial transparency related or not to fim value. In the end, is indeed desirable to increase financial transparency? Today, trust can be built only on excessive financial transparency? Studies like the ones conducted by Tadesse (2006) discuss about the transparence fragility, when disclosures created negative externalities with negative economic consequences. Canibano *et al*. (2002) also documented that extensive transparency and disclosures can have sometimes exact the opposite effect. Until what point financial transparency can increase in order to improve SMEs performance but not to comprise negative effects? These questions will guide future studies that will deal with the link between financial transparency and SMEs’ performance.

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