Effect of relationship between the asymmetry of information and conservatism of the companies listed in Tehran Stock Exchange

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ABSTRACT: The main objective of this paper is to determine the relationship between information asymmetry and conservatism of the companies listed in Tehran Stock Exchange. Because on our reasoning, information asymmetry between investors make more conservatism in financial reporting. Conservatism, in turn, decreases incentives and ability of managers to manipulate accounting information, and thereby reduces agency costs resulting from information asymmetry.

Keywords: performance, gender, primary schools

INTRODUCTION

Demand to conservatism in financial reporting increases after increase information asymmetry between investors and thus, the conservatism quota will be approved as one of the qualitative characteristics of financial statements.

Since determining accounting profit is a choice between in time and delayed combination of economic gains and losses, the principle of conditional conservatism is also known as a method of recognizing an in time loss. Conditional conservatism is in time detection of bad news rather than good news in earnings.

In the present study the relationship between ownership concentration and conservatism has been investigated.

The regression model was used to investigate this relationship. Based on the financial information of listed companies in Tehran Stock Exchange for the period 2002-2006 (285 year - company) concluded that with regard to control variables such as size, growth, and . . . There is a negative relationship between ownership concentration and conservatism.

MATERIAL AND METHODS

Research is field description and data required for the study has been collected by simple random sampling method through financial companies’ statement, computer databases (Rahavard Nowin and Tadbir Pardaz Software), research management site and Islamic development and studies. The collected data were analyzed using SPSS software. The final analysis has been also performed using SPSS software.

Regression model of study:

Model of the study has been used to investigate the relationship between concentration of ownership and conservatism. The adjusted model of Stam and Tower (2006) is as follows [6]:

\[ CMS_i = a_1 + b_{1\text{profi}} + b_{2\text{Levi}} + b_{3\text{Size}} + b_{4\text{OwnCo}} + \text{Ni} + b_{5\text{IOSi}} + b_{6\text{AIPI}} C_1 \text{Ind}_i + C_2 \text{Country} + e \]

According to the theoretical framework of the foregoing, we modify the model, and get the model:

\[ CONSER_{it} = a + \beta \text{CONOWN}_{it} + \beta_2\text{SIZE}_{it} + \beta_3\text{LEV}_{it} + \beta_4\text{GROWTH}_{it} + \beta_5\text{MBV}_{it} + \beta_6\text{ROA}_{it} + \beta (7-10) \text{YEAR}_{it} + \beta (11-25) \text{INDRSTRY}_{it} + \beta_2\text{RATIO} \]

Other variables that influence the relationship include:

Size
Financial leverage
Growth
Market value to book value
Return on Assets
Industry
Year
Population of the study:
The population of the study is the listed companies in Tehran Stock Exchange. The sample includes companies that meet the following conditions:
The companies that have been accepted since 2008. Since assets of the beginning period of 2009 (assets of the end period of 2008) is also required, only companies that have been adopted from 2009 onwards are present in the sample.
The companies that end of their fiscal year is 29 March of each year. The use of company data with different fiscal years will make it difficult to interpret the results.
The companies that have not changed their fiscal year during the period of investigation. The company that has changed its financial year will destroy the sample due to use year.
The companies that have no suspension in their transactions more than a month during the period of study. Trading detention leads to a distortion of the Tables used (for example corporate risk) in the study.
The companies that have no long-term activity suspension during study because these operating suspensions will lead to reduced reliability of results due to a possible repeat in the future.
The companies that their profit or operating cash flow is not negative. Negative operating cash flows will lead to decrease in the effective tax rate interpretation transparency.

Data analysis

In Table 1, original variables descriptive statistics of the model have been mentioned.

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Average</th>
<th>Standard deviation</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservatism</td>
<td>17%</td>
<td>1.24</td>
<td>190</td>
</tr>
<tr>
<td>Concentrated ownership</td>
<td>81%</td>
<td>1.12</td>
<td>190</td>
</tr>
<tr>
<td>Size</td>
<td>4.76</td>
<td>76%</td>
<td>190</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>57%</td>
<td>45%</td>
<td>190</td>
</tr>
<tr>
<td>Growth</td>
<td>4.76</td>
<td>3.51</td>
<td>190</td>
</tr>
<tr>
<td>Market value to book value</td>
<td>17%</td>
<td>2.71</td>
<td>190</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>17%</td>
<td>13%</td>
<td>190</td>
</tr>
<tr>
<td>Competition</td>
<td>1.2</td>
<td>14%</td>
<td>190</td>
</tr>
</tbody>
</table>

Independent variables of the model of the concentrated ownership is 61 percent that indicate the high ownership concentration in the sample. According to state ownership and ownership of investment institutions in the Tehran Stock Exchange that are generally associated with majority ownership (management stock) it is concluded that the sample selected for this study represents the community. The high ratio of market value to book value (4 times) is the result of lack of adjustment and the valuation of the old assets of company in Iran. The same issue is superiority of the selected criteria to measure the conservatism (Giuli and Hien version) in this study on measuring the conservatism based on ratio of market value to book value. In other words, if instead of Giuli and Hein’s conservatism measure, the ratio of market value to book value was used, it was wrong in the conclusions of economic research.

In Table 2 Correlation coefficients determined and adjusted for the power of the research model is presented. The Durbin-Watson statistic and ANOVA also have been shown.

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Durbin- Watson</th>
<th>Sig of F</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.718</td>
<td>0.459</td>
<td>0.371</td>
<td>1.358</td>
<td>0.000</td>
</tr>
</tbody>
</table>

As it can be seen, R, R², R² adjusted as follows: 718, 495, and 371. As it can be seen, the gap between R² and R² adjusted is 7 percent. This value indicates that removing some of the control variables of the model will have little impact on the explanatory power of the model. In other words, the relationship between the independent variable (concentrated ownership) and the dependent variable (conservatism) have not been influenced by the control variables of the model. Of course, this rule is not subjected to two control variables of the size and the degree of competition, as we shall see in the Table 3, these two control variables are the significant coefficients. On the other hand, compared with similar studies (especially in the humanities), a correlation coefficient of 37%, is considered high correlation coefficients. Watson and Durbin statistic value is equal to 1.35. Limits for the Durbin- Watson statistic in the statistical resources is between 1.5 and 2.5 and in some other texts is considered between 1.9 and 2.1 [1]. The amount obtained from the model (1.35) is outside
the scope of the above, but close to them. The cause to achieve this statistic, can be related to lack of volatility and lack of adequate changes domain in the independent variable (concentrated ownership). So, assuming no autocorrelation in the waste likely to be approved. The significance level (sig) F statistic of ANOVA test is 0.00. So assuming no regression line and regression coefficients equal is rejected at the 99% confidence level.

In Table (3), the major variables coefficients of the model and meaningful levels of them are offered. As can be seen concentrated ownership variable coefficient in the model is negative and significant level of 0.016. In other words, at a significance level of 5%, we conclude that the concentration of ownership has a negative correlation with the degree of conservatism. Among other major variables of the model, size and degree of competition in a significant level of one percent, respectively have a direct and inverse relationship, and grow at 10% significance level is inversely related to conservatism. The relationship between financial leverage, market value to book value, and return on assets is not significant at a significance level of less than 10 percent.

Table 3. regression coefficients and the significant levels

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Factor</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.242</td>
<td>0.85</td>
</tr>
<tr>
<td>Concentrated ownership</td>
<td>-0.915</td>
<td>0.016</td>
</tr>
<tr>
<td>Size</td>
<td>-0.535</td>
<td>0.001</td>
</tr>
<tr>
<td>Lever</td>
<td>-0.699</td>
<td>0.117</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.051</td>
<td>0.098</td>
</tr>
<tr>
<td>Market value to book value</td>
<td>-0.002</td>
<td>0.935</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>-1.15</td>
<td>0.219</td>
</tr>
<tr>
<td>The degree of competition</td>
<td>-9.11</td>
<td>0.000</td>
</tr>
</tbody>
</table>

CONCLUSION

In this paper, the impact of changes in information asymmetry between investors on conservatism also been investigated and shown that by changing the information asymmetry between investors, the conservatism amount in financial reporting will change. The results or demand of conservatism is compatible more in measuring the profits as a means of reducing agency costs caused by information asymmetry between investors.

The results approve usefulness of conservatism as one of the qualitative characteristics of financial information, and also explain the role of information asymmetry between investors on conservatism in financial reporting, are.

As in Table (3) can be observed, ownership concentration variable coefficient is negative and significant level is less than 5%. Therefore, we conclude that at 5% significance level, there is an inverse relationship between ownership concentration and conservatism.

It follows that by the increased concentration of ownership, conservatism become less and therefore earnings quality provided will be low. This result is consistent with the strategic alliance hypothesis. This hypothesis states that the major shareholders due to a larger portion of the property owned by the company meet their goals, against the interests of minority shareholders united together.

The results showed that the collapse, conservatism through requiring managers to disclose timely bad news, prevents the accumulation of such news within the company. Hence, conditional conservatism reduces possibility of sudden entering the bad news mass to the market and thus reduce the risk of future stock price.

Recommendations

The present study suggests that even by taking into account the personal interests, owners of major companies draw a longer- term horizon and even with pressure on managers to reduce false profits prevent dividend and the withdrawal of cash flows from companies, implement the profitable projects and in the long-term increase in their stock prices rather than bear the high costs and the loans through the use of non-dividends. Of course, to achieve a balance is seen logical. In some cases, dividend and instead of it taking loans for capital projects is seen logical. Central bank laws in preventing banks from major investments in shares of companies is seen useful. Since the banks deal with problems such as lack of receipt of the loan, possibility of pressure on investee companies to increase profits and therefore high dividends is high. However, implementation of legislation to prevent major acquisition of shares from the stock exchange, the solution is not logical, because the change in the mindset of major and institution owners can change concentration ownership to a powerful control tool in the companies’ leadership system.
REFERENCES