

## Evaluation of the relationship between ownership concentration and institutional ownership with accounting conservatism in companies listed on Tehran Stock Exchange

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**Abstract:** The major shareholders use their impact on corporate behavior in several ways. They may influence on operating decisions of firms using the control of management and improve the selection of projects and the level of investment and reduce the risk of the lost resources (Baker et al., 2010). The Mug (1998) also stated that the higher is the level of institutional ownership, the better is monitoring the management, and this relationship is a positive relationship. Bush (1998) stated that institutional investors monitor the company by collecting information and implicitly pricing decisions of management and by managing how the company explicitly acts. One of the most important features of the new capital markets, especially in developing countries is the presence of major investors and companies owned by them in a large part of the equity.

[Mozhdeh Tahmasebi Notorki, Babak Salem Dezfuli. **Evaluation of the relationship between ownership concentration and institutional ownership with accounting conservatism in companies listed on Tehran Stock Exchange.** *N Y Sci J* 2018;11(3):61-67]. ISSN 1554-0200 (print); ISSN 2375-723X (online). <http://www.sciencepub.net/newyork>. 9. doi:[10.7537/marsnys110318.09](https://doi.org/10.7537/marsnys110318.09).

**Keywords:** Evaluation; relationship; ownership; concentration; institutional; conservatism Tehran Stock Exchange

### Introduction

Qualitative characteristics of accounting information have undeniable role in improving the information quality of financial statements. One of the qualitative characteristics of accounting information is accounting conservatism. According to the theoretical foundations of financial reporting of national accounting standards, accounting conservatism is one of the features that will improve the reliability of accounting information. Hence, it is claimed that accounting conservatism has an important role in the usefulness of information for decision-making and especially evaluating the stewardship of a manager. Accounting conservatism will delay the recognition of gains until its fulfillment and this enhances the quality of the financial statements. The main question of this research is to what extent the concentration of ownership and institutional ownership affects the accounting conservatism.

The aim of this study is to firstly study the relationship between concentration of ownership and institutional ownership with accounting conservatism. The second objective of this research is that the analysts notify users of accounting information, accounting standards' setters, Certified Public Accountants (CPAs) and the Stock Exchange organization about the factors determining the quality of financial statements.

### Research background

#### Foreign literature

Dimitropoulos et al. (2013) investigated the effect of international standards of financial reporting on the quality of accounting information in companies listed in the Athens Stock Exchange. They showed that the application of the accounting standards increases the quality of accounting information regarding the earlier recognition of losses, decreases the earnings management and increases the information content of accounting figures.

Inder and Wang (2015) investigated the relationship between debt maturity and conservatism in America Stock Exchange. They found that there is a negative and significant relationship between debt maturity and conservatism; in other words, companies that want to clear their debt in short-term, they apply less conservatism in their accounting.

#### Domestic literature

Lotfi and Hajipour (2010) in a study entitled "The impact of conservatism on management error in earnings forecasting" found that there is a negative relationship between conservatism of companies and their earnings forecasting. In other words, the greater the conservatism of firm is, the less bias toward optimism will be in firms' earnings.

Kordestani and Khalili (2011) showed that differential information content of cash flows and accruals in firms with a high degree of conservatism is higher than firms with low degree of conservatism. As well as, there is a positive correlation between differential information content of cash flows and

accruals with the degree of conservatism of companies.

Etemadi and Farajzadeh (2012) examined the impact of earnings management and capital structure on earnings conservatism. Companies, which attempt to have the increased earnings management through positive accruals, apply less conservatism in their

**Model and research variables**

$$NI_{it} = \beta_0 + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 (RET \times NEG)_{it} + \beta_4 IO_{it} + \beta_5 CONOWN_{it} + \beta_6 SIZE_{it} + \beta_7 MB_{it} + \beta_8 ROA_{it} + \beta_9 (IO \times NEG)_{it} + \beta_{10} (IO \times RET)_{it} + \beta_{11} (IO \times RET \times NEG)_{it} + \beta_{12} (CONOWN \times NEG)_{it} + \beta_{13} (CONOWN \times RET)_{it} + \beta_{14} (CONOWN \times RET \times NEG)_{it} + \beta_{15} (SIZE \times NEG)_{it} + \beta_{16} (SIZE \times RET)_{it} + \beta_{17} (SIZE \times RET \times NEG)_{it} + \beta_{18} (MB \times NEG)_{it} + \beta_{19} (MB \times RET)_{it} + \beta_{20} (MB \times RET \times NEG)_{it} + \beta_{21} (ROA \times NEG)_{it} + \beta_{22} (ROA \times RET)_{it} + \beta_{23} (ROA \times RET \times NEG)_{it} + \epsilon_{it}$$

Where in:

$NI_{it}$  = Net profit divided by the logarithm of the market value of equity;

$NEG$  = It is a dummy variable that if a stock returns is negative, it equals to one and otherwise it equals to zero;

$RET$  = Firm’s stock returns in year t;

$IO$  = Institutional ownership;

$CONOWN$  = Concentration of ownership;

$SIZE$  = Firm size;

$MB$  = Book value to market value;

$ROA$  = Return on assets;

$\epsilon_{it}$  = Remaining model.

**Research hypotheses**

1. There is a significant relationship between institutional ownership and accounting conservatism.

2. There is a significant relationship between concentration of ownership and accounting conservatism.

**Statistical population**

The population consists of all listed companies in Tehran Stock Exchange that their information is available from the beginning of the year 2010 to year 2014.

Sampling in this study was based on the systematic elimination. So the statistical sample included all companies in that population that information needed to evaluate and test research hypotheses about them is available. The following

reporting. Capital structure affects the size of conservatism. Companies which have mostly used equity for their financing had applied more conservatism in measuring earnings.

In this research, Basu (1997) conservatism model was used to test hypotheses.

criteria are taken into account in order to selection of companies in the sample.

**Research method**

This study is applicable based on a classification in terms of purpose. The study is also descriptive type in terms of categorization based on the data collection method. Considering that data used in this research are factual and historical information, this study is a retrospective research. In terms of research, this study is experimental type.

**Descriptive statistics of research variables**

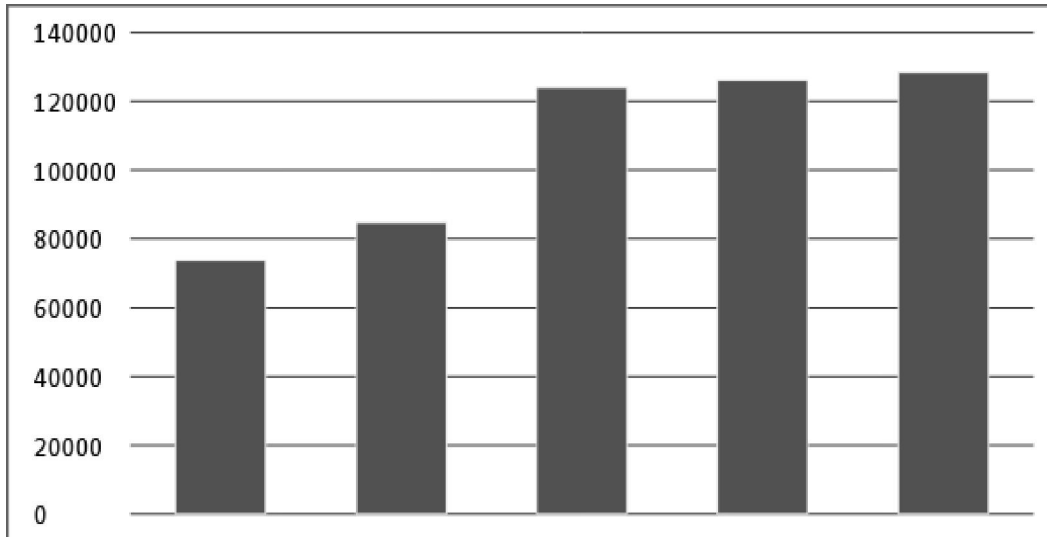
In general, descriptive statistics is the methods by which we can process and summarize the collected data. The summary of descriptive statistics related to the research variables after removing and screening the outliers using SPSS software is provided in Figure 4-1.

**Figure 4-1:** Descriptive statistics of research variables

Slenderness ratio	Skew coefficient	maximum	The least	Standard deviation	Middle	Average	observations	Variable
31.622	5.119	2976688	194057-	194057	15428	108628	821	Net profit ( $NI$ )
7.694	1.11974	574.379	65.730	96.558	22.171	00.200	821	Stock returns ( $RET$ )
1.680	0.824	1	0.000	0.462	0.000	0.309	821	Negative stock returns ( $NEG$ )
3.787	-1.361	99.450	0.000	27.209	81.650	71.800	821	Institutional ownership ( $IO$ )
4.307	-1.180	99.450	0.000	20.474	72.910	68.891	821	Concentration of ownership ( $CONOWN$ )
4.287	0.906	19.009	10.031	1.497	13.666	13.886	821	size of the company ( $SIZE$ )
22.151	2.485	19.729	-8.905	1.983	2.009	2.419	821	Market value to the office ( $MB$ )
4.367	0.881	0.626	-0.239	0.126	0.110	0.131	821	Return on assets ( $ROA$ )

According to Figure 4-1, the average of net profit of the sample firms to the logarithm of their market value is equal to 108,628 and its median is 15,428. The minimum and maximum value of this variable was -194,057 and 2,976,688, respectively. Its skewness and kurtosis indicate that net profit data do

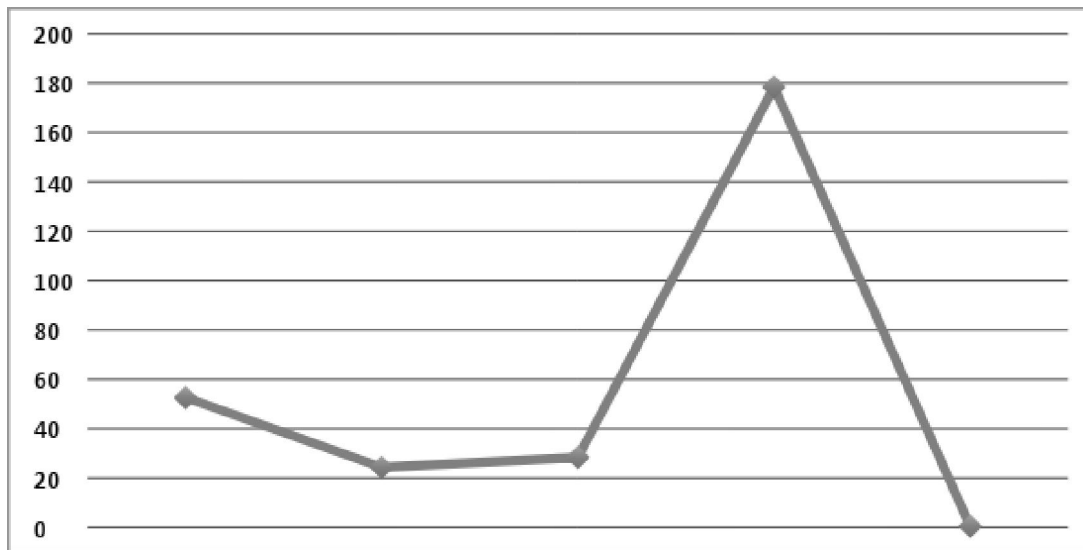
not have the normal distribution. So that skewness and kurtosis are equal to 5.119 and 31.622, respectively. Figure 4-1 depicts the average of annual process of this variable during the research period and represents an increasing trend for this variable.



**Figure 4-1:** The annual process of the net profit average of the sample companies

The evaluation of annual process of this variable (Fig. 4-2) suggests that stock returns of companies declined until 2011, it had a slight increase in 2012

and it has risen sharply in 2013. However, this increase was not sustainable and stock returns of companies had experienced a sharp decline in 2014.



**Figure 4.2:** Annual trend of annual stock return of sample companies

The descriptive statistics showed that stock returns of 30.9% of the companies were negative during the period. According to the description given in Figure 4-1, the average of institutional ownership of the sample companies was equal to 71.8%; and it

suggests that, on average, 71.8% of the shares of the sample companies were offering to the banks and insurance companies, holdings, investment companies, pension funds, investment funds, government organizations and institutions and state companies.



**Figure 4-3:** Average annual trend of institutional ownership and ownership concentration of sample companies.

According to this example, the value of institutional ownership and ownership concentration of companies declined since 2013, but increased again in 2014. Regarding the control variables, the mean size of the sample companies (the natural logarithm of total firm’s assets) was equal to 13.886, the average

rate of return on their assets was e 13.1% and the average ratio of market value to their book value was 2.419.

Research hypotheses will be estimated through model number (1) and using panel data:

**Research model estimation**

$$\begin{aligned}
 NI_{it} = & \beta_0 + \beta_1 NEG_{it} + \beta_2 RET_{it} + \beta_3 (RET \times NEG)_{it} + \beta_4 IO_{it} + \beta_5 CONOWN_{it} + \beta_6 SIZE_{it} + \beta_7 MB_{it} + \beta_8 ROA_{it} \\
 & + \beta_9 (IO \times NEG)_{it} + \beta_{10} (IO \times RET)_{it} + \beta_{11} (IO \times RET \times NEG)_{it} + \beta_{12} (CONOWN \times NEG)_{it} \\
 & + \beta_{13} (CONOWN \times RET)_{it} + \beta_{14} (CONOWN \times RET \times NEG)_{it} + \beta_{15} (SIZE \times NEG)_{it} \\
 & + \beta_{16} (SIZE \times RET)_{it} + \beta_{17} (SIZE \times RET \times NEG)_{it} + \beta_{18} (MB \times NEG)_{it} + \beta_{19} (MB \times RET)_{it} \\
 & + \beta_{20} (MB \times RET \times NEG)_{it} + \beta_{21} (ROA \times NEG)_{it} + \beta_{22} (ROA \times RET)_{it} \\
 & + \beta_{23} (ROA \times RET \times NEG)_{it} + \varepsilon_{it}
 \end{aligned}$$

In this model, F-Limer test was conducted to determine whether the use of panel data in estimation of the model is efficient or not; and the Hausman test

was used in order to determine which method is more suitable for estimation. The results of these tests are shown in Figure 4-5.

**Figure 4-5:** The results of selecting a model to estimate the research model

P-Value	Degrees of freedom	Amount of test statistic	Test statistic	Test type
0.0000	(630*167)	19.092	F	F Limer Test
0.0000	23	57.431	$\chi^2$	Hasman test

According to the results of the F-Limer test, since the P-Value of this test is less than 0.05 (0.0000), the homology of the width of the source is rejected

and it is required that panel data method is used in estimating the model.

**Figure 4-6:** The results of estimating research model

Dependent variable: net profit				
VIF	P-Value	Statistics t	Coefficient	Variable
-	0.000	-6.486	1397699-	C
3.645	0.3709	0.895	174808.4	NEG
2.159	0.1839	-1.330	-919.650	RET
3.778	0.0174	2.384	17815.33	RET*NEG
4,947	0.0056	2.781	2319.52	IO
4.474	0.0052	-2.802	-1972.81	CONOWN
3.427	0.000	6.678	101805.4	SIZE

**Continued Figure 4-6:** The results of estimating research model

VIF	P-Value	Statistics t	Coefficient	Variable
3.744	0.7649	-0.0299	-1569.76	MB
3.237	0.0000	5.871	560623.2	ROA
4.391	0.7270	0.349	289.335	IO*NEG
1.940	0.8336	-0.210	-0.617	IO*RET
3.736	0.2936	1.051	32.747	IO*RET*NEG
7.942	0.9487	0.064	80.038	CONOWN*NEG
3.438	0.4917	0.687	2.742	CONOWN *RET
6.782	0.5832	-0.548	-24.678	CONOWN *RET*NEG
3.526	0.3481	-0.938	-12851.76	SIZE*NEG
1.976	0.2917	1.055	49.948	SIZE*RET
3.831	0.161	-2.413	-1296.396	SIZE*RET*NEG
1.051	0.8654	0.169	1832.694	MB*NEG
9.609	0.9259	0.093	3.244	MB*RET
7.344	0.9899	-0.012	-4.207	MB*RET*NEG
5.024	0.0186	-2.358	-347164	ROA*NEG
6.089	0.5291	-0.629	-326.766	ROA*RET
3.460	0-.3285	-0.977	-6008.98	ROA*RET*NEG
Modified design coefficient 0.8875				
0.344 (0.8416)	Jarque-Bera statistics (P-Value)		35.054 (0.0000)	Model F statistics (P-Value)
1.579	Watson Camera Statistics		1.895 (0.0874)	Breusch-Pagan statistics (P-Value)

In assessing the overall significance of the model, according to the probability (*P-VALUE*), F-statistic is smaller than 0.05 (0.0000) that it is confirmed with 95% overall significance of the model. Adjusted determination coefficient of model also indicates that 88.75% of the net profit changes are explained by variables entered in the model. Also, in assessing the assumptions of the classical regression, the results of Jarque-Bera test suggest that the residuals from estimating the model have normal distribution with a reliability of 95%, so that the probability (*P-VALUE*) of this test is larger than 0.05.

### The results of the study

#### The results of the test of the first research hypothesis

According to the results presented in Figure 4-6, the significant level (*P-Value*) of t-statistic related to the variable «*RET\*NEG*» was smaller than 0.05 (0.0174) and its coefficient is positive (17815.33). According to Basu model, therefore, it can be said that stock companies act conservative in their financial statements. But the significant level (*P-Value*) of t-statistic related to the variable of «*IO\*RET\*NEG*» increases to higher than 0.05 (0.2936) with the addition of institutional ownership variable. So we can say that institutional ownership has no significant

relationship with accounting conservatism and the increase or decrease of the presence of institutional owners in the ownership structure of the companies has no important impact on the level of their conservatism. Hence, the first hypothesis of the study is rejected at the 95% confidence level.

#### The results of the test of the second research hypothesis

According to the results presented in Figure 4-6, the significant level (*P-Value*) of t-statistic related to the variable «*RET\*NEG*» was smaller than 0.05 (0.0174) and its coefficient is positive (17815.33). According to Basu model, therefore, it can be said that stock companies act conservative in their financial statements. But the significant level (*P-Value*) of t-statistic related to the variable of «*CONOWN\*RET\*NEG*» increases to higher than 0.05 (0.2936) with the addition of ownership concentration variable. So we can say that ownership concentration has no significant relationship with accounting conservatism and the increase or decrease of ownership concentration percentage of the companies has no important impact on the level of their conservatism. Hence, the second hypothesis of the study is also rejected at the 95% confidence level.

## Conclusion

**First hypothesis:** There is a significant relationship between institutional ownership and accounting conservatism.

The aim of this study is to test the first hypothesis that is whether there is a significant relationship between institutional ownership and accounting conservatism. After performing validity tests, we concluded that stock companies act conservative in their financial statements at the 95% confidence level. But the addition of institutional ownership variable increases the significant level (*P-Value*) of t-statistic related to the variable of «*IO\*RET\*NEG*» to higher than 0.05 (0.2936). So it can be stated that institutional ownership has no significant relationship with accounting conservatism and the increase or decrease of the presence of institutional owners in the ownership structure of the companies has no important impact on the level of their conservatism. Hence, the first hypothesis of the study is rejected at the 95% confidence level.

**The second hypothesis:** There is a significant relationship between concentration of ownership and accounting conservatism.

The aim of the test of the second hypothesis is to investigate whether ownership concentration has a significant relationship with accounting conservatism. After performing validity tests, we concluded that stock companies act conservative in their financial statements at the 95% confidence level. But the addition of ownership concentration variable increases the significant level (*P-Value*) of t-statistic related to the variable of «*CONOWN\*RET\*NEG*» to higher than 0.05 (0.5832). Therefore, it can be stated that ownership concentration has no significant relationship with accounting conservatism and the increase or decrease of the percentage of ownership concentration of the companies has no important effect on the level of their conservatism. Hence, the second hypothesis of the study is also rejected at the confidence level of 95%.

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3/17/2018