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The Effects of Ownership and Corporate Ownership on Voluntary Information Disclosure Extent in Financial Reports

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ABSTRACT

This study aims to examine the effects of ownership and corporate ownership on voluntary information disclosure extent in the financial reports of the accepted companies in the security exchange market of Iran. To test the hypotheses, a two-step regression was used. The statistical population of this study was all companies in exchange market of Iran, selected based on the specific conditions for choosing 212 companies from 2005- 2009. The results showed a positive correlation between voluntary information disclosures in financial reports and corporate ownership in high levels of ownership concentration. They also showed a negative correlation between voluntary information disclosure in financial reports and corporate ownership in low levels of ownership concentration.
KEY WORDS: ownership structure, disclosure, Tehran security exchange, management board.

1. INTRODUCTION

For many years, economists believed that all related groups to a corporate company like managers and stockholders cooperate for a common goal. But, since 1961, various cases of benefit inconsistencies among member groups and the ways of their confrontation with them have been regarded by the economists. These cases are regarded in Agency Theory. The cornerstone of this theory relies on the fact that as the stockholders, managers may act or decide in a way that doesn't t necessarily maximizes other stakeholders' wealth. So, a proper mechanism should be provided to protect stockholders from benefit contrasts. Financial statements' transparency and information disclosure quality are also regarded as practical strategies in that theory. It is mostly noticed that transparent and qualitative information decreases information asymmetry. Information asymmetry refers to the situation in which managers' awareness from company activities is more than other stockholders. Such inconsistencies lead to the problems like moral risks and incorrect choices.

The term "ownership" refers to the right that a human has toward a thing unless it trespasses social laws. Ownership concentration is a state in which most of company stocks belongs to the majority of stockholders; it also shows the percentage of the stocks belonging to the minority of them. Polsiri (2005) introduced the issue of probable effect of ownership concentration on the lack of financial health of the companies. Then, Ding, Hua, and Junxi (2004) examined the correlation of ownership concentration and earning management among 140 Chinese companies in the Stock Exchange of China and found no correlation between them. Also, large public companies show less willingness to the earning management. Literally, disclosure means information representation. In accounting, it refers to the dissemination of financial information (in annual reports) of a company. It also may get more limited and refer to representing the information, not mentioned in financial statements. Information disclosure in balance sheet, loss and profit statement, cash flow statements is regarded as a measurement. So, in the limited term, information disclosure refers to management analysis discussions, financial statements notifications, and complementary reports. Quality and transparency are used as synonyms in many cases so, there is no consensus on separate definitions for them. For example, terms like suitability, comprehensiveness, inforamiveness, and timeliness. Bal et al and Kusary define transparency as a combination of timeliness and conservativeness. Timeliness refers to the extent to which economic events of current periods are included in the financial statements of that period. Conservativeness refers to the higher spread rate of bad economic news compared with good news reflected in financial reports. Bars and Shepper claim that the transparency of financial reports is the extent to which financial reports reveal economic affair of a business unit to make it comprehensible for reports users (Bozzolan et al 2008). Vishwanath and Kufman (2001) offered a model for measuring financial information disclosure. They mentioned 3 criteria for information transparency: 1. Information availability, 2. Relatedness, and 3. Quality and truthfulness.

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Despite existing reasoning in relation with higher transparency, companies don't tend to volunteer information disclosure. Vishwanath et al (1999) mention high costs of gathering, processing, and disclosing information as the barriers of information disclosure and external factors.

Transparency refers to timely and reliable economic, financial, social, or political information increase to be accessible for all stakeholders (Vishwanath et al 1999). Hsiu (2006) defines transparency as removing secretiveness and coverage for some behaviors and activities that have benefits for specific people or groups. Since Iran is one of the developing countries, it needs legislation in capital market; thus, enough embedding should be provided for the cooperation of private section in this field. Based on the studies of international expert organizations, developing countries like Iran don't have transparent information status especially in the capital market; as a result, they need to take some serious steps for enhancing their information transparency.

2.2. Hypotheses

A necessity of healthy competition is the access of all stakeholdersto the capital market along with the goods, money, and work for which transparent information is highly influential. Market causes increasing transaction costs and deficiency in transparent information causes market's disability in optimizing resources allocation. The more accessible and transparent the information is, the better decision-makings in optimized, efficient, and transparent resource allocation will result. The effective factors in market transparency which is the final goal of capital market include legal systems, political economy, company size, financial leverages, profitability, ownership concentration, audit change, and management board. It is clear that due to the role and importance of ownership, ownership concentration is regarded as a key factor and as the attention focus of the investors.

H1.Voluntary disclosure extent has a positive correlation with the ownership of corporate institutes in higher levels of ownership concentration.

H2. Voluntary disclosure extent has a positive correlation with the ownership of corporate institutes in lower levels of ownership concentration.

3. RESEARCH METHODOLOGY

3.1. Research design

In this study, a two step analysis was used in the following way. In first stage, ownership concentration measurement (Herfindahl index), divided into instrumental variable, was regarded as regression stockholder intensity and defined as the total ratio of stakeholders of a group and total distributed shares. Ownership concentration, represented as Herfindahl index, had an average value of 0.18 which showed its high concentration. But, if it was 0.1, ownership concentration would be regarded as average and trivial. From first step's equation, the adopted values of Herfindahl index resulted. In second stage, Herfindahl index was included in regression model which combined the observations both in cross-sectional and longitudinal ways (Haiyan Jiang and AhsanHabib, 2009).

$$(1) SDSCORE_{it} = \beta_0 + \beta_1 \widehat{H}_{it} + \beta_2 PER_{it} + \beta_3 CAP\_INTEN_{it} + \beta_4 SIZE_{it} + \beta_5 LEVERAGE_{it} + \varepsilon_{it}$$

$i = 1,2,3,\dots,n$

$t = 1,2,\dots,4$

Where$SDSCORE_{it}$ is scaled voluntary disclosure index of of every financial year,$\widehat{H}_i$represents the fitted value of Herfindahl index which is a proxy for the ownership concentration of each financial year. This equation includes a common control variable used in academic researches for identifying the factors of voluntary disclosures. Company's profitability has a positive effect on voluntary disclosures' selection,profitability refers to the net profit divided by to talassets and is denoted by PER_i.$CAP\text{-}INTEN_{it}$ would also be expected to relate positively to voluntary disclosure choices as companies' tendency to information disclosure increases with their demands for capital. Firm size $SIZE_{it}$ has been reported to be a factor influencing the quality and the quantity of firm disclosure (Haiyan Jiang and Ahsan Habib, 2009).

This can happen for the following reasons:

Larger companies are more likely to be exposed to litigation rather than their smaller counterparts. So, they may disclose the information more voluntarily to avoid such costs.

Reporting detailed information for larger companies is less costly compared with the smaller companies. Companysize $SIZE_{it}$ is measured as natural log of total assets. Disclosure level has also been supposed to increase with leverage as shareholders would like to be informed by voluntary disclosure regarding the debt information to ensure that the debt acts as a disciplining mechanism in curbing managerial opportunistic use of excess cash. Firm leverage$LEVERAGE_{it}$is calculated by dividing total liability into total assets. Although Equation 1 doesn't classify ownership to examine the effect of each

group on the scores of voluntary disclosure, Equation 2 includes this feature in the analyses. (Haiyan Jiang and Ahsan Habib, 2009)

$$SDSCORE_{it} = \beta_0 + \beta_1 ADUM_{it} + \beta_2 \widehat{H}_{it} * ADUM_{it} + \beta_3 \widehat{H}_{it} * OTHDUM_{it} + \beta_4 PER_{it} + \beta_5 CAP\_INTEN_{it} + \beta_6 SIZE_{it} + \beta_7 LEVERAGE_{it} + \varepsilon_{it} \quad (2)$$

$i = 1,2,3, \dots, n$

$t = 1,2, \dots ,4$

Equation 2 identifies the marginal effect of eachcontrolownership on disclosure extent. ADUM is coded one when the company has financial institutions-controlled ownership structures and zero otherwise; OTHDUM is coded one when ownership concentration on corporate voluntary disclosures under financial institution –controlled , government controlled, and management controlled ownership structures are captured by coefficients $\beta_4, \beta_{5,}$ and $\beta 6$. For testing non-linear correlation between ownership concentration and voluntary disclosure extent Equation 3 can be estimated as follows(Haiyan Jiang and AhsanHabib, 2009):

$$SDSCORE_{it} = \beta_0 + \beta_1 ADUM_{it} + \beta_2 \widehat{H}_{it} * ADUM_{it} + \beta_3 \widehat{H}_{it} * OTHDUM_{it} + \beta_4 \widehat{H}_{it}^2 * ADUM_{it} + \beta_5 \widehat{H}_{it}^2 * OTHDUM_{it} + \beta_6 PER_{it} + \beta_7 CAP\_INTEN_{it} + \beta_8 SIZE_{it} + \beta_9 LEVERAGE_{it} + \varepsilon_{it} \quad (3)$$

$i = 1,2,3, \dots, n$

$t = 1,2, \dots ,4$

Equation 3 was estimated for all sample observations. For ownership structures controlled by corporate institutes, second order relation between theses structures and voluntary disclosures will be supported if β_2 $is\ negative$ $(H1)$ and β_4 is positive (H_2). (Haiyan Jiang and AhsanHabib, 2009)

3.2. Measurement of variables

To identify 2 different ownership structures, the following steps were regarded. When corporate institutes shareholding accounts for themajorityof top 5shareholdings, the company's ownership structure was controlled by corporate institutes. For example, a company may have 5top stockholders holding 60% of the company's share. The shares were distributed among 5 topstockholders with the order of 30, 10, 10, 5, and 5 percent. If the first and fourth top stockholders were corporate institutes with 35% total shareholding, this company would be grouped in controlled ownership structure. For this firm'sADUM would be coded 1 and OTHDUM would be coded zero.

A voluntary disclosure checklist was constructed based on Botosan (1997).Based on the voluntary disclosures the companies provide in their annual reports, she builds a disclosure index. Financial investors and analysts recognize the items included in his disclosure index as useful for deciding about investmentsand item selection is directed through an American study on business reporting, an international investigation about informatics needs of the investor and a Canadian study of the benefits of corporateannual reports of (Botosan 1997). Creating disclosure index in this study followedBotosan method (1997). The existing items in the checklist were included in 5 informationgroups:

1. Background information
2. A summary of historical results
3. Important non-financial statistics
4. Projected information
5. Management discussion and analysis

Voluntary disclosure index which was used for every company was scored based on this checklist and scaled by the maximum disclosure score. If annual report of the company revealed relevant items in the checklist, an additional point was awarded.

3.3 Sample selection

The sample for this study was selected from the companies listed in Iran Stock Exchange Marketsfrom2005-2009. Consistent with extent studies, the sample excluded financial institutions (e.g. pension funds, mutual funds, money managers, insurance companies, investment banks, commercial trusts, endowment funds, and hedge funds), as well as oversea companies listed in Iranianstockmarketsforoversea companies had different governance and disclosure regulations according to cross-listing. A total sample of 1650 firm/year observations representing 360 companies over period of 2005 to 2009was selected. The sample size was reduced to 1045 firm-year observations representing 212 companies after sample screening. Tables I provides the sample selection procedure and industry composition of the sample observations.

Table 1.The trend of sample –selection of the companies-observation

1650	340	Table 1. sample selection procedure	
		Omissions	
213	45	1.	Financial institutes
0	0	2.	Foreign companies
358	76	3.	Unavailable information about voluntary disclosure
34	7	4.Unavailable information about ownership structure	
1045	116	Applicable final sample	

4. Empirical results

4.1. Descriptive analysis

Table 2

		SD SCORE	H	PER	CAP_INTEN	SIZE	LEVERAGE	PDUM
N	Valid	212	212	212	212	212	212	212
	Missing	3	3	3	3	3	3	3
Mean		33.8611	4.3415	.1089	.2276	11.7416	.6409	.7642
Std. Error of Mean		.36085	1.24098	.00696	.01167	.04218	.01341	.02923
Std. Deviation		5.25405	1.80690	.10130	.16989	.61419	.19522	.42553
Variance		27.605	3.265	.010	.029	.377	.038	.181
Skewness		-.023	.925	.635	.793	.865	.912	-1.253
Std error of skewness		.167	.167	.167	.167	.167	.167	.167
Minimum		24.43	.00	-.27	.00	10.33	.11	.00
Maximum		47.01	9415.11	.53	.74	14.16	1.88	1.00
Sum		7178.54	9.20	23.09	48.26	2489.22	135.86	162.00

4.2 Substantive empirical results

We could use Spearman or Pearson correlation for regression analysisand also examine the correlation between variables, especially every variable with the main variable; but, the best way was to use multi-variable regression. Because it expands the correlation coefficient between two variables and predicts a variable and its changes based on other variables (predictor or independence variable).Variables in this paper are control variables that if they are significant, we will have the possibility of reaching extra analyses.

The results of regression 1

$$SDSCORE_{it} = \beta_0 + \beta_1 \hat{H}_{it} + \beta_2 PER_{it} + \beta_3 CAP_{INTEN_{it}} + \beta_4 SIZE_{it} + \beta_5 LEVERAGE_{it} + \varepsilon_{it}$$

Table 3

Model		Un-standard Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.196	7.135		1.569	.118
	H	.000	.000	.066	.979	.028
	PER	11.687	4.450	.225	2.626	.009
	CAP_INTEN	2.640	2.086	.085	1.265	.207
	SIZE	1.607	.582	.188	2.760	.006
	LEVERAGE	1.706	2.305	.063	.740	.460

R^2= 0.3249 Adjusted R^2= 0.308515 Durbin-Watson=5.09336

Durbin-Watson statistics show the correlation between the remaining.If this value is close to 2, it shows the lack of correlation between the remaining.

The results of regression 2

$$SDSCORE_{it} = \beta_0 + \beta_1 PDUM_{it} + \beta_2 \hat{H}_{it} * PDUM_{it} + \beta_3 \hat{H}_{it} * OTHDUM_{it} + \beta_4 PER_{it} + \beta_5 CAP\_INTEN_{it} + \beta_6 SIZE_{it} + \beta_7 LEVERAGE_{it} + \varepsilon_{it}$$

Table 4

Parameter	Estimate	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
b	23.261	5.485	-97.651	97.651
b1	8.363	1.100	-19.579	19.579
b2	.000	.000	-.003	.003
b3	.000	.000	-.004	.004
b4	3.668	3.461	-61.614	61.614
b5	2.758	1.591	-28.329	28.329
b6	.408	.461	-8.209	8.209
b7	-1.465	1.781	-31.712	31.712

Regression 3 results

$$SDSCORE_{it} = \beta_0 + \beta_1 PDUM_{it} + \beta_2 \hat{H}_{it} * PDUM_{it} + \beta_3 \hat{H}_{it} * OTHDUM_{it} + \beta_4 \hat{H}_{it}^2 * PDUM_{it} + \beta_5 \hat{H}_{it}^2 * OTHDUM_{it} + \beta_6 PER_{it} + \beta_7 CAP\_INTEN_{it} + \beta_8 SIZE_{it} + \beta_9 LEVERAGE_{it} + \varepsilon_{it}$$

Table 5

Parameter	Estimate	Std. Error	95% Confidence Interval	
			Lower Bound	Upper Bound
b	22.417	5.541	-98.541	98.541
b1	6.133	19.939	-39.315	39.315
b2	.001	.008	-.015	.015
b3	.000	.006	-.012	.012
b4	-0.8.8338	.000	-1.3916	1.3916
b5	5.5608	.000	-1.7516	1.7516
b6	3.221	31.487	-62.086	62.086
b7	2.746	14.372	-28.338	28.338
b8	.515	4.236	-8.352	8.352
b9	-1.891	16.378	-32.293	32.293

Based on the results for Equation 3, performed for the whole sample observations, for the ownership structures controlled by public sections,asecond order and positive correlation of these structures and voluntary disclosure is supported since $\beta_2$is positive (H1) and β_4 is negative (H2).

5. Conclusion

Disclosure in a broad term refers to information representation. Accountants use this term in a limited way, implying publishing financial information of the company in financial (annual) reports. In some cases, this term gets more restricted, referring to the information not mentioned in financial statements. Information publication in balance sheet, benefit and loss statementsand cash flow statementsare regarded under the title of recognition and measurements. Then, in most restricted term, disclosing the information including management discussions and analyses denotes to financial statements and complementary reports.The results of this study showed that voluntary information disclosure in financial reporting has a positive correlation with corporate ownership in high levels of ownership concentration(b2=.001) and a negative correlation with low levels of ownership concentration(b4=-0.88338).

Ownership concentration refers to a state in which a considerable amount of company's stocks belongs to the major stockholders and the rest belongs to the minority of them. According to Mahdavi and Meidari (2005), comparing ownership concentration indices in the markets of Iran with America, Japan, Germany, China, and Zech shows the concentrated ownership structures of Iran. Moreover, in Iran like Zechmore ownership concentration has led to more efficiency. In other words, minimizing ownership has a negative effect on the efficiency. They also concluded that due to the lack of a supportive system of the minor stockholders, performing public projects like justice share can lead to public ownership delivery, reducing GDP, and even unfair income distribution,investigating 244 accepted companies in the security exchange of Canada.These results agree with the findings of Bozac(2007) concluding that there is a negative correlation between ownership concentration and strategic performance of the company.

Investigating the information of German companies, Klark and Vejsik (2005) found out that there is a negative correlation between ownership concentration and stock return. These results disagree with the findings of Mahazarpoor(2004). With a sample of 58 companies, Mahazarpoor examined the correlation between ownership concentration and the performance of accepted companies in security exchange and concluded that the more ownership concentration causes more control on the managers, improving the performance of the companies. These results agree with the findings of Ding et al. Examining 140 accepted companies in Beijing security exchange, Ding et al (2004) found no correlation between ownership concentration and profit management while in public companies such correlation is observed. Also, large public companies have fewer tendencies to profit management. Based on Dingo et al (2004), there is a type of mediating effect of ownership structure in the relation between ownership concentration and information quality (from the view of public or private section).These results agree with the findings of this study in Iran.

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