The Effect of Capital Structure, Shareholders and Major of the Company on the Conservative Practices in Companies

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Abstract   *Conservatism, an important feature in most high-quality reporting and most corporate may be used from it to achieve the quality of their reports. In this study, the effect of capital structure, ownership and firm size using data on conservative 50 companies listed in Tehran Stock Exchange and multivariate regression with panel data are analyzed. The research presented in this paper is two models of Biur and Rayan (2000) and Hayen Giuly model (2000) was used to measure conservatism. The results showed that the relationship between ownership concentration, percentage of institutional ownership, firm size, leverage, and conservative accounting conservatism varies by model. The similar first and two models, a significant relationship between conservatism capital structure and financial leverage as a representative there was no relationship between ownership concentration and conservatism protection. In the first model, not observed the relationship between the percentage of institutional ownership and conservatism, but in the second model was observed counter and significant relationship. In the second model, the relationship between firm size and conservatism, but no significant relationship was observed in the first model.*

Key words   Conservatism, capital structure, ownership concentration, institutional ownership, firm size

1. Introduction

At the end of the nineteenth century in Britain and the first decade of the twentieth century in America, a new form of accounting grew. Accounting conservatism gradually become an intrinsic part of the century that the performance of distributed applications involving contracts between owners different rights and claims of the company. During the liquidation bankruptcy, accountants all losses before income distribution were identified. The purpose of this was to ensure that the settlement be paid to persons who have priority in liquidation. The hypothesis that the demand for conservatism, the conservatism in financial reporting of companies listed after their shares in their names listed in the exchange rate, rather than the previous public or private property is out of stock, according to market mechanisms capital increase is expected to result in after entering the stock increased quality of financial reporting. Optimistic managers than unit makes commercial assets and income than is actually state.

Su and Lu [15] using experimental evidence showed that accounting conservatism and its determinants for participating in is important. And Watts [14] stated that, accounting conservatism as part of the system of performance of the company. Research is also trying to forward some of the factors influencing the conservative identify the relative importance of each of these factors is examined. Before the effects of various factors on conservatism by researchers has been studied, but the effects of capital structure, ownership structure, and large companies using two separate models simultaneously not considered conservative in this study, the effects of these factors will be considered first in Iran.

Table 1. The summary of studied in Iran and its results with conservatism subject

Number	Researchers names	Variable of study	results
1	Reza_zadeh& Azad [4]	Conservative level of information asymmetry investors	Positive and significant relationship
2	Kurdestani&Amir_beygi [5]	Asymmetry in favor of the MTB	Negative
3	Hassasyegane&et al [3]	Institutional investors - the company	Positive
4	Ebrahimikord_lor&Shahriari [1]	The size and intensity of conservative investing	Negative
5	Bani_mahd&Baghbani [2]	Conservative accounting firm reported losses	Direct relationship
6	Mehrani& et al results [6]	Conservative debt (Based on accruals based on market value)	Positive and significant relationship

2. Literature review

Research conducted in Iran showed a significant relationship between debt and loss of information asymmetry is a conservative issue. In table 1 are shown summarizes the results of the variables. Garcia and Mora comparing offered less conservative due to the fact the net (balance sheet conservatism or unconditional) and the conservatism of early detection of damage the benefits introduced by Basu (or conditional conservatism gains and losses) in the UK, with five European countries found that both types of conservatism exist in all countries [7]. Liu and Wang (2006) found that debt and ownership structure effect in accounting conservatism [7]. The results of the study Astamy and Tower [9] showed that financial leverage lower, ownership concentration lower (higher ownership dispersion) and the set of investment opportunities, the cause greater the degree of conservatism will result in financial statements. Sue and Lou [15] concluded, on the market, legal and institutional factors, described conservative, while in the company's, contract factors, is stimulants of report conservative. Ahmed and Divlman [7] argue that an entity with greater financial leverage have above problems to lenders and shareholders that accounting conservatism less the problems (especially problems the profit distribution policy) and therefore reduce the company's debt.

3. Hypothesis

Conservatism can be seen as a barrier limiting or even tries to motivate managers to overstated profits to controls [7]. according to demand theory, the conservative corporate in financial reporting after their name on the list, followed by exchange rate their shares, rather than before in public or private ownership is out of stock, the mechanisms available to investors and thus are expected to increase the quality Financial reporting increase after the exchange. In other words, the expected degree of conservatism in financial reporting by companies listed on the stock is higher than that of public investment demand, those levels of private investment by investors facing greater information asymmetry. So the shares are distributed among a wider group, asymmetricity more information and degree of conservatism is higher [6]. The first and second hypotheses of this study were as follows:

First hypothesis: between conservatism and ownership concentration (major shareholders) has a meaningful relationship.

Second hypothesis: the relationship between conservatism and the percentage of institutional ownership is significant.

If a member of the fiscal conservative in the face of the financial compensation and benefits managers, loan contracts, lawsuits and taxes. In this case, the conservatism of information asymmetry and asymmetric loss functions, parties, claims tax payers due from tax [13]. Watts [14] in the case of conservative since accounting is the title of the creditors of the potential risk of adverse are more interested in optimal performance, debt contracts is one of the most important demand financial statements are considered to be conservative. Zhang proved, in the case of accounting conservatism, the creditors of such benefits due to early retirement of debt, due to borrowing violation of the agreement, they are entitled. While borrowers are gain by payment of benefits like lower interest rates, due to reduced agency costs of debt, [15]. The third hypothesis of this study were as follows:

Third hypothesis: There is significant relationship between conservatism and leverage.

At least three reasons to expect a relationship between firm size and conservatism: a) political costs hypothesis, b) hypothesis effect of integration events (news), c) the disclosure hypothesis (or asymmetry) the first hypothesis predicted that, bigger corporate report profits that more conservatively, whereas hypothesis effect of aggregation and information asymmetry suggests that less conservative existing the profit reported by the bigger company. The fourth hypothesis of this study was as follows:

Fourth hypothesis: There is significant relationship between conservatism and firm size.

3.1. Statistic sample and community

The study population in this study is all firms listed on the Tehran Stock Exchange period 1383 to 1388 (6 years). In this study we used sampling of the many studies that have been done in IRAN as method, it is non-random purposeful sampling. In the non-random sampling, members of the population are selected that match to specific criterion or criteria that the researcher. In this study, sampling start with the total sample population and after consideration of the following criteria was selected:

1. Companies have to accept in Tehran Stock Exchange until the end of March 1382 and its fiscal year ending in March.

2. During the financial year, companies should have the intended change.

3. This company would be having continuous activity during period of investigation and its shares have been traded.

4. Financial information needed be available completely for the study period from 1388 to 1383 and don't belong to investment financial and intermediaries firms. Finally, after excluding firms that hadn't the above conditions, the study sample was 50 participants.

3.2. Analysis method

To test this hypothesis, regression testing is presented as follows:
Relation 1:

$$CON_{it} = \alpha + \beta_1 CONOWN_{it} + \beta_2 IO_{it} + \beta_3 Lev_{it} + \beta_4 Firm\ Size_{it} + \varepsilon_{it}$$

CON: Conservatism Index

In the research, two of the most widely used measures conservatism according to Conservatism Literature. Ahmad and Dulman [7] model is inspired by Beaver and Rayan [10].

Correlation 2:

Conservatism Index$= \dfrac{Book\ value\ of\ equity}{Market\ value\ of\ equity} \times$ (-1)

In this index, the emphasis has been on the market value of equity and has more balance sheet approach and unconditional conservatism is indicated. Ahmad and Dulman [7] model is inspired by Guly and Hain [11]:

Correlation 3:

(CON2) Conservatism Index$= \dfrac{Net\ income\ and\ operating\ cash\ flow}{Total\ Assets}$

In this index, and emphasis on accrual cases and have more pros and cons approach and conditional conservatism is indicated. In this study, for Conditional conservatism and unconditional both to be investigated and also to reach the question of what the market index is good for Iran market, these two indices were used.

CONOWN: Ownership concentration in this study, according to Stamy and Tawer [9] Total stock of natural or juridical persons is more than ten percent of company's shares. This percent is calculated by information presented in the financial statements of the Company.

IO: the percent of institutional investors divided by the total number of shares available to institutional common shareholders on ordinary shares issued is calculated.

Lev: the leverage, capital structure is represented in this study. This variable defined total liabilities to total assets at the end of period.

FirmSize: firm size which of the natural logarithm of mean assets is used as a measure of company size.

3.3. Descriptive statistics of variables

Descriptive statistics of the variables are presented in Table 2.

Table 2. Descriptive statistics of the variables

Size	Leverage	Percentage of institutional shareholders	Focus on taxes	Second model's Conservative Index	First model's Conservative Index	
12.929	0.655	0.456	0.751	-0.019	-0.648	Average
12.624	0.672	0.479	0.800	0.004	-0.428	Mean
17.851	0.978	0.992	0.950	0.391	-0.034	Max
10.341	0.180	0.026	-1.050	-1.123	-2.331	Min
1.446	0.147	0.198	0.175	0.180	0.483	Standard deviation
1.219	-0.366	0.208	-5.179	-2.534	-1.262	Skewness
4.572	2.917	2.892	51.159	14.952	4.083	Elongation

The coefficient of variation (standard deviation divided by the mean) of the dependent variable based on two models (first model: 0.744 and second model: 9.94) indicate conservative variables based on the second model has more distribution than the first model. This shows that if in conservative estimate is used of the first model (i.e. the book value of equity divide by the market value of shares multiplied by (-1) increased stability; i.e. scattering decreased. In all the independent variables, firm size has the lowest dispersion (0.094) because is used of the natural logarithm of total assets in calculating the size of the company so; in this case, low dispersion does not indicate more stability. Due to differences in mean and median of Index conservatism is less than first model (0.2) based on second model (0.021) i.e. the mean and median value are close and the index is normalized according to the second model.

3.4. Study of correlation between variables

Correlation between variables is shown in table 3.

Table 3. Correlation between variables

Second model's Conservative Index	Size	Leverage	Percentage of institutional shareholders	Concentration on ownership	first model's Conservative Index	
-0.007	-0.281	0.047	0.040	0.077	1.000	first model's Conservative Index
0.012	0.086	0.117	0.304	1.0000	0.077	Concentration on ownership
-0.207	0.159	0.288	1.000	0.304	0.040	Percentage of institutional shareholders
-0.026	0.206	1.000	0.288	0.117	0.047	Leverage
0.057	1.000	0.206	0.159	0.086	-0.281	Size
1.000	0.057	-0.026	-0.207	0.012	-0.007	Second model's Conservative Index

Results on correlation show that correlation between estimated conservative variable based on the first model (Con1) and percent of Institutional shareholders (PIO), Concentration on ownership (CONOWN) and financial leverage as capital structure agent (LEV) is positive and by firm size is negative. The highest correlation is between estimated conservative variable (under the first model) and firm size variable (-0.281) also correlation between estimated conservative variable (under second model) (Con2) by percentage of institutional shareholders (PIO) and financial leverage (LEV) is negative and Concentration on ownership (CONOWN) and firm size is positive, this variable has the most correlation by percentage of institutional shareholders (0.207).

3.5. Study of the reliability of variables

Reliability test is based on unit root tests, IM type, sons and Shim is used for conservative variables based on the two models are presented in Tables 4 and 5.

Table 4. Unit root test results for the conservative variables are calculated based on the first model

Unit root test				
Sample of 1383-1388				
External variables: external effects				
Estimated interval 0				
Observation	Level	Probability**	Statistics	Method
300	50	0.0444	-1.70174	
300	50	0.0000	-17.5782	Lean and Chaat Training*

Table 5. Unit root test results for the conservative variables are calculated based on second model

Unit root test				
Sample of 1383-1388				
External variables: external effects				
Estimated interval 0				
Observation	Level	Probability**	Statistics	Method
300	50	0.0336	-1.82984	Sons ans Shin test

According to these tables, the significance level (P-VALUE) was less than 5% we can say these variables were stable during the study period. Reliability means that the mean and variance of variables over time and the variables covariance has been fixed by varied years.

3.6. Test of hypothesizes

To test the hypothesis as noted above, two models of Beaver and Ryan (2000) and Guly and Hain (2000) were used to measure conservatism. Fitting Model result (1) and test of hypothesizes is reflected in table 6.

Table 6. Fitting Model result (1) and test of hypothesizes

Dependence variable: first model's conservative variables				
Method: least squares panel				
Sample: 1383-1388				
Data in each level 50:				
Total observation 300:				
CON1=C(1)+C(2)*CONOWN+C(3)*PIO+C(4)*LEV+C(5)*SIZE				
Probability	Statistic t	The standard error	Coefficient	
0.3060	1.026086	0.305469	0.313438	C(1)
0.2105	1.255732	0.183103	0.229929	C(2)
0.5517	0.596189	0.169247	0.100903	C(3)
0.0408	2.057241	0.217694	0.447850	C(4)
0.0000	-5.286789	0.021563	-0.113997	C(5)
-0.648296	Dependence variable average		0.124358	R^2
0.482917	Standard deviation of the dependent variable		0.108509	Adjusted R^2
1.289072	Information Criterion (Akaike)		0.455964	Normal Regression error
1.364747	Schwartz criterion		45.94669	Residual sum of squares
7.846561	F statics		-140.6651	Logarithm of Probability
0.000006	Probability (F-statistic)		1.904979	Watson camera statistic

Nikooie Barazesh index in first model (F) is significant and then regression is significant. In first model by Watson camera statistic, there is no correlation between successive residuals. Adjusted and determination coefficient of first model show about 10.8% of dependence variable changes (Conservatism) can be explained by the independent variables (concentration on ownership, Percentage of institutional shareholders and firm size). By regression coefficients of first model can be say, there is significant and direct correlation (third hypothesis) between conservative and financial leverage as capital structure. In other words, firms with higher financial leverage are more conservative. This may be due to fear of the terms of borrowing and or violating debt contracts. There is a significant inverse relationship between conservatism and firm size (Fourth hypothesis). Based on this concept larger firms have less conservative (the political cost hypothesis). By the first model, there is not significant relationship between conservatism with concentrated ownership (first hypothesis) and conservatism with percentage of institutional ownership so, the first and second hypotheses were rejected. Results of Barazash in second model and hypothesis test are reflected in Table 7.

Table 7. The model (2)'s Barazesh result and hypothesizes test

Dependence variable: second model's conservative index				
Method: least squares panel				
Sample: 1383-1388				
Data in each level 50:				
Total observation 300:				
CON1=C(1)+C(2)*CONOWN+C(3)*PIO+C(4)*LEV+C(5)*SIZE				
Probability	Statistic t	The standard error	Coefficient	
0.3307	-0.975352	0.127929	-0.124775	C(1)
.3073	1.023888	0.075396	0.077198	C(2)
0.0020	-3.135478	0.072264	-0.226582	C(3)
0.0270	2.244714	0.090135	0.022057	C(4)
0.2526	1.147693	0.009131	0.010479	C(5)
-0.018720	Dependence variable average	0.057242	R^2	
0.179751	Standard deviation of the dependent variable	0.035937	Adjusted R^2	
-0.604001	Information Criterion (Akaike)	0.176491	Normal Regression error	
-0.515979	Schwartz criterion	5.513409	Residual sum of squares	
2.686776	F statics	59.96413	Logarithm of Probability	
0.032908	Probability (F-statistic)	1.903506	Watson camera statistic	

In the second model, index of the first goodness model (F), was significant and is significant in regression resulting. According to Watson statistic camera in the second model, there are no correlation between successive residuals. Coefficient of determination modified model (2) indicates that approximately 3.5% of variability (conservative (independent variables can be found by) ownership concentration, percentage of institutional ownership, capital structure and financial leverage as representative, and firm size (explained). Coefficient determination of the second model is less than the first model (10.8%). In the second model is negative significant relationship between percentage of conservatism and institutional shareholders with 95% confidence level (second theory). In other words, firms with higher financial leverage, are more conservative. Also , we can say due to were not significant coefficients of variables of ownership concentration and firm size, with confidence level 95% no significant relationship between ownership concentration conservatism (first hypothesis) and conservatism with firm size (fourth hypothesis); So first and fourth theories were rejected. In Table 8, the results of hypothesis test due to the two model to compare are shown. *Table 7* Comparison results of hypothesis test due to the two models (1) and (2) between conservatism and ownership concentration) major shareholders (there is significant relationship.

Between the conservative and percentage of institutional ownership have a meaningful relationship.

There are significant relationship between conservatism and leverage.

There are significant relationship between conservatism and firm size.

4. Conclusions

Results of this research showed that the relationship between independent variables and according to how calculate conservatism method are different.

Only about relationship between conservative capital structure and financial leverage as representative in two models for conservative tested, the same result was obtained. This is direct relationship means with increasing financial leverage, increased conservatism.

Ahmad and Dyvlman believe that a business with high financial leverage are more problems between lenders and shareholders that conservative accounting was low these problems (especially problems related to profit distribution policy) and consequently reduce the cost of corporate debt. Lara and colleagues also argue that, increasing financial leverage will increase monitoring of institutional owners. One indicators of the quality of financial reporting, is compliance conservative. Stamy and Tower in their study found an inverse relationship between financial leverage and conservative. In both models between conservative and ownership concentration (Total stock natural or juridical persons who have more than ten percent stake in the company) was not observed relation. It means that ownership concentration has no effect on conservatism. However, Tower Stamy found the relationship between ownership concentration and conservatism that is in contrast with our study. In the first model, was not observed relationship between the percentage of institutional ownership and conservatism But an inverse relationship was observed in the second model, which means that at whole cannot be said, There is a relationship between the percentage of institutional ownership and conservatism. Corporate governance is the process through market-based mechanisms, based on contracts, legislation and law is affected to create stable value for shareholders, while to protect the interests of other stakeholders. This definition implies is the distribution of ownership structure; so role of corporate governance to protect the interests of shareholders and other stakeholders against opportunistic behavior of managers that control interests of these groups. According to second model, relationship between firm size and were not observed conservative (consistent with a study of Banimahd and Mehran) But an inverse relationship was observed in the first model (with studies EbrahimiKrdlr and Shahriyari) this means that the whole cannot be said that there is a relationship between firm size and conservatism. To justify inverse relationship between firm size and conservatism in the first model as part theoretical framework discussed in Chapter II, At least three reasons (political cost hypothesis, the hypothesis the effect of integration events), news (and the assumptions disclosed) or information asymmetries expected that relationship between firm size and conservative). As hypothesis of political cost we expect larger companies report earnings more conservatively and according to aggregation effect and information asymmetry theories, in earnings reported by larger firms are less conservative. The results of this study should be performed during the investment decisions of investors and managers Also to consider capital structure and ownership structure and its impact on the level of conservatism the information provided by companies and also Stock Exchange dissemination of information in line with companies pay attention to provide information on the factors affecting companies conservative.

Suggestions for future researches

It is recommended to use as much of the research results and also help to clarify the factors affecting the future of conservatism, pay more attention to the following topics:

1. Industry effect of type on the relationship between conservative capital structure, ownership structure and companies sizes.

2. Assess other ownership structures, such as corporate, private, foreign (in the investigate the relationship between conservative capital structure, ownership structure and size of firms.

3. The effect of macroeconomic variables on the relationship between conservative capital structure, ownership structure and companies size.

4. Repeating this study with regard to the effect on the relationship between politics and elections, conservative capital structure, ownership structure and companies size.

5. Due to the high volatility in economic, cultural and political participation in governing the our country, Recommended that in future research was used design of non-linear regression to determine the relationship between conservative capital structure, ownership structure and firm size.

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