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## Ownership Structure and Disclosure Quality: Case of Iran

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### Abstract

The paper investigates the relationship between ownership structure and disclosure quality. The investigation has been performed using panel data procedure for a sample of 80 Iranian listed companies on the Tehran Stock exchange during 2010-2014. The license of the firms' disclosure quality which is published by Tehran Stock Exchange is used to measure the disclosure quality, and for better understanding of the ownership structure, this structure is divided into two classes of government and managerial ownership. The results of the study revealed that managerial ownership has a negative and significant effect on disclosure quality, but no significant relationship was observed between governmental ownership and disclosure quality. The results show that the governmental ownership does not affect the quality of disclosure, meaning these companies have a low attention and concern on the quality of their disclosures. Adversely, private companies because of the need to absorb capital from market try to enhance the quality of their disclosures.

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### 1. Introduction

Accounting disclosure is very important to all stakeholders; it provides them with the necessary information to reduce uncertainty and helps them to make suitable economic and financial decisions (Amer, et.al, 2013). The main

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core of Agency Theory is that managers, as the agents of shareholders, may act in a way that does not result in maximizing the wealth of shareholders. Based on this theory, enough mechanisms of control and supervision should be established to reduce the contrast between the managers and the owners in a firm. One of these mechanisms is firm domination. If the mechanisms of firm domination work well, they will result in the reduction of opportunistic and jobbery behaviours of the manager and this can increase the quality of disclosure. Ownership structure (Governmental and managerial ownership) can be mentioned as one of the most important mechanisms of firm ownership. Therefore, it is expected that governmental investors will have more motivation to supervise the processes of firm's disclosure. Therefore, firms can increase the expectations of state investors that are one of the most important beneficiaries in Iranian firms through increasing their disclosure quality. On the other hand, it seems that the firms which have very high management ownerships have lower disclosure quality compared to other firms. The reason for this fact could be that based on the Agency Theory, managers are trying to maximize their own expected desirability. Therefore, they need useful information which they can obtain it easily and will not be willing to disclose the information properly and comprehensively. Also, the firms which do not have main owner and their owners are scattered will seek to provide the information needs of users by disclosing high quality information.

## 2. Literature review

The amount of accuracy in information disclosure can affect decision making and prediction. Generally, the higher the quality and accuracy of information disclosure are, the better decision makings and predictions will be. Besides, high quality of information disclosure and information asymmetry causes more coordination between managers and investors. The more the asymmetry between the managers and investors is, the more the investors will expect efficiency of investment. Disclosure cases as the final outcome of accounting process and the main information source, which is highly considered and emphasized by the users of accounting information users, might be measured under the effects of accounting procedures of management selection. Selecting the accounting procedures and information disclosure might provide the opportunity for the manager to decide on the time of recognizing and measuring the costs and incomes.

As it is known, the standards of accounting have defined minimums for information disclosure. In addition, Stock Exchange has made the firms disclose more amount of information compared to the amount defined by the accounting standards with the purpose of supporting the investors and clarity in the market. The question is that what factors cause difference and improvement of disclosure quality of the firms? The existence of not very adaptable evidences related to the effects of ownership structure on disclosure in developing countries introduces some uncertainties about the type and extreme of this relationship in Iran with a developing economy. Decisions of financial disclosure of firms usually are not made in vacuum and financial reporting is one of the ways by which information is transferred and the combination of communication sources, quantity, and quality of disclosed information depends on many factors which need to be investigated in order to have a general understanding of disclosure procedures. Experimental evaluation of the variables affecting the disclosure quality provides an opportunity which helps to improve the disclosure quality. Investigating the annual reports of the firms shows that the disclosure quality is different in such reports and the difference of firms' disclosure is to a large extent a function of the type of relationship between ownership and management of the firm in different aspects and also their assessment about disclosing information for the purposes of investment.

In a study under the title of "Corporate governance and voluntary disclosure", Eng and Mak (2003) have shown that the less the management ownership and the more firm ownership are, voluntary disclosure of information will increase and the ownership of main shareholders does not have a meaningful relationship with disclosure and the more the percentage of non-responsible managers is, voluntary disclosure will decrease. After analyzing the data, Huafang and Jianguo (2007) concluded that there is a reverse relationship between main ownership and the amount of information disclosure.

Donnelly and Mulcahy (2008) reported clear evidence that voluntary disclosure increases with the number of nonexecutive directors on the board. Firms that have a nonexecutive chairman make greater voluntary disclosures than other firms. Also, their results showed there is no association between the extent of voluntary disclosure and ownership structure.

Abdullah (2008) found that institutional ownership is an important factor that could assist companies to perform

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