The relation between governmental ownership and conditional accounting conservatism between companies listed in Tehran Stock Exchange

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Abstract: Employing better control through company managerial policies may lead to higher conservatism in financial lists so that we can make sure of the accuracy of information in financial lists and lack of any steps taken by managers for their own profit. The aim of this paper was to investigate the relation between governmental ownership and conditional accounting conservatism to evaluate. Conditional conservatism, Bal and Shiva Kumar model, based on commitment items was used. The subjects of the study were the companies accepted in Tehran Stock Exchange.Through random deleting, 83 companies were selected in the time period between 2006 and2011. To test the hypotheses, multiple linier regression and means comparison tests were employed. The results revealed that the percent of governmental ownership has a significant effect on conditional accounting conservatism and among the variables in the model (size of company and financial factor) which were controlled; the size of company had a direct relation with conditional conservatism while financial factor had a negative link with conditional conservatism in accounting.
Keywords: Governmental ownership, conditional accounting, conservatism, company size, financial factor.

INTRODUCTION

Conservatism regarded as one limiting factor in financial lists, is related to caution steps taken in identification and measurement of income and assets. No doubt, it has a significant role in the beliefs of accountants. In fact, some refer to conservatism as a main principle in accounting [1]. In its strong version, conservatism is defined as, "Don't predict any profit, yet predict all the losses" [2] refers to this proverb as the inclination of accounting towards high rate of verification to identify operational profits compared with losses. Despite many criticisms, conservatism has remained in literature for centuries and seems to remain for decades.

Conservatism has been effective in accounting theories from past and when financial lists are provided; it is regarded as criterion in supporting owners' rights. Considering and paying a regular attention to this concept in setting accounting standards can have more benefits in incomes rather than expenses.

Companies as financial units are always in search of more income and profit. For several reasons among which we can mention the separation of management and ownership, companies have to respond people from outside the companies in addition to performing operation. According to experimental evidences the most effective form of replying is financial reporting with the bankrupting of famous companies like Anroan, world come and etc., the credibility of financial figures were criticized as an important part of recording so that the investors stopped trusting financial statements prepared by managers [1].

This state of bankruptcy resulted in a question about company leadership and other factors regarding the perfectness and clarity in financial reporting. The presentation of deceiving reports such as abusing various accounting information in these companies led to a reaction by markets and institutions and these reactions in turn have improved company leadership in America and other parts of the world. Effective company leadership should be based on organizational and environmental criteria.

Investors observing management can trust the operations performed by company authorities such as the independence of managerial board and independent auditors. The factors of company leadership are significant for auditors in the process of reporting [3]. Institutional investors can be a good replacement for the government with their high fortune and can facilitates and fulfill the number 44 principle of constitutional law (Iran Investment Organization).

Conditional Accounting Conservatism

For the first time the term "conservatism" was defined by Bllis in 1924 as follows, "do not predict any profit, yet try to foresee all the losses". This definition of conservatism has been the basis of conditional accounting conservatism. However, it seems that this definition is related to an extremist context holding the identification of all losses without identifying any profit. In extremist conditional conservatism the profits are only identified when they are confirmed with 100 percent certainty. This conservatism is not desirable because of the expenses caused by undue information. Any delay in profit identification for which the information is highly accessible can cost a fortune for both determining highly accessible can cost a fortune for both determining assets for managers and for the purpose of approving monitory profits for shareholders. Applying the principle of controllability one can pay the reward sooner than the time extremist conservatism may allow [4].

Company Leadership

This refers to a set of controlling mechanisms inside and outside a company which can create a balance between the rights of shareholders and the needs of options of managerial board. These mechanisms can lead to a rational certainty on the part of shareholders, providers of financial resources, and other beneficiary groups about the fact that their investments will get back to them with a logical profit [2].

LITERATURE REVIEW

Ball and Shiva Komar [5] believe that conditional conservatism can potentially improve the efficacy of debt and reward contracts. In debt contracts early identification of losses compared with the profits can help loan givers in quick understanding of any aggression from contracts. However, unconditional conservatism can't lead to high promotion of contract efficacy and it's only an accounting method for contract parties to adjust predictions. Using samples from 20 companies, Brawn, Hi and Titil [6] investigated whether conditional conservatism can affect the information content of accounting incomes. They found out that the link between conditional accounting and information content of accounting incomes depends on commitment level of the country. In countries with high commitment level, conditional conservatism is positively correlated with information content. Their results are consistent with the idea that conditional conservatism has a useful role in decreasing opportunist behavior in managers in using committed items. However, the results reveal that the benefits of conservatism depend on environmental conditions and in countries with lower commitment level is not fruitful. Garcia Lara and et.al [1] investigated the relation between management board characteristics and conservatism in 193 Spanish companies from 1997 to 2002. To investigate the

criteria of company management system, they used external factors like Gamperz and internal factors like separating the director of management board from managing director, the number of responsible managers, and the number of meetings held by managing board.

The method used by them to measure conservatism was Basu [2] and commitment numbers of Ball and Shiva Kumar [5] and Gioli and Hine [6] were employed. The results revealed that effective company management system can have a significant role in using conservatism to warn profiting members. Chi et al., [9] performed a study under the title of "the relation between company leadership and conservatism". They use C-Score criterion of Khan and Watts to measure conservatism. Among the companies of Tiwan accepted in Stock exchange markets from 1996 to 2004, they concluded that in companies in which most of the stock is under the control of investors and they have many managing board members the need for accounting conservatism is lower. On the other hand, the companies in which most of the stock is under the control of management and those in which the duty of managing board director and managing director is only for one individual the need for conservatist reporting is high.

Gul et.al [2] studied the effect of the principles of company management system on decreasing the expenses of companies accepted in stock markets of Karachi (Pakistan) from 2003 to 2006. They used the variables of managerial leadership, institutional leadership, external leadership, the size of managing board, in-a-row selection of directors and managing directors, the structure of reward and managing board independence as principles of company managing system. To measure the agency expenses, asset circulation cost was employed. The results reveal that all the principles of company management system except for the size of management board are positively correlated with asset circulation cost and can decrease agency expenses.

Rezazadeh and Azad [6] performed a study under the title of "the relation between a mismatch of future information and conservatism with financial reporting". They found out that there is a significant and positive relation between a lack of adjustment in future information between investors and determined level of conservatism in financial statements and as this mismatch increases, the demand to impose conservatism in financial report increases. Etemadi and colleagues [5] made an effort to investigate the relation between conservatism and financial costs provision in companies accepted in Stock Market Exchange of Tehran and presented a model to predict level of accounting conservatism in companies.

The results revealed a correlation between the mentioned variables and resulted in a model for conservatism measurement. Mashayekhi and Nasiri [6] in a study titled "serial changes of conservatism in companies accepted in Tehran Stock Exchange Markets" endeavored to investigate conservatism changes in financial reports of companies in Iran with focus on committed items changes and the ration of market value to office value of pure assets. The population of this study includes the companies admitted in Tehran Stock Exchange Market from 2002 till the end of 2010 that were 116 companies (1044 years-company). The results didn't confirm the hypotheses of conservatism increase and revealed that the amount of conservatism in financial reports has not increased in the last decade.

Research Hypotheses
The following hypotheses were devised based on a review of international studies and effort to answer the objectives of the paper.

Hypotheses 1: There is a significant relation between government owner ship and conditional accounting conservatism.

Hypotheses 2: The conditional conservatism in companies with high percentage of government ownership varies from those with lower percentage of government ownership.

Population, Sample, and Time Period
The random deletion method was used to determine the sample in this study, that is, those companies having the following characteristics:

1. Their fiscal year was at the end of Esfand month.
2. They never have a stop in activities and no changes in financial period during the study time.
3. The entire data essential for the study were available and accessible.
4. They weren't parts of banks or financial institutes. Imposing the above limits, 83 companies were selected as the research sample.

METHOD
The present study is an applied research. It means that the paper tries to apply all the theories, rules, principles, and methods in basic studies to resolve executive issues. The study follows a correlational procedure.

In this study, multiple regression models were used with a multi-variable procedure. The model was as follows:

$\varepsilon it CONSER\_Cit = \beta 0 + \beta 1 GOV\_OWNit + \beta 2 SIZEit + + \beta 3 LEVit +$

$CONSER\_C_{it}$: includes conditional conservatism index

GOV_OWE_{it}: refers to government ownership percentage
$SIZE_{it}$: refers to company size index
LEV_{it}: refers to financial level

Dependent variable
In this study, conservatism based on committed items (Ball and Shiva Kumar) model was used to measure conditional accounting accounting conservatism and the following model is provided:

$$TACC_{i,t} = \alpha 0 + \alpha 1 * DCFO_{i,t} + \alpha 2 * CFO_{i,t} + \alpha 3 * DCFO_{i,t} * CFO_{i,t} + \varepsilon i$$

In which,
TACC= refers to the collection of committed items (goods)
(Committed items are gained from the difference of pure profit and operational cash process plus loss expenses)
CFO= refers to cash process resulted from operation
DCFO= is a virtual variable in which if CFO is minus, the amount of this variable is one; it is zero in other cases.
a3 is the conservatism index from company i in the period. In this formula, the relation a2 is the coefficient between committed items and cash processes in good news time and a2+a3 is the coefficient between committed items and process in bad news time. Conservatism means that in the existence of negative cash processes, the committed items are negative due to quick identification of fulfilled losses while when positive cash processes do not exist in this relation. So the higher is the amount of a3, asymmetrical behavior is observed about profits and losses (bad and good news) and as a result we will have more conservatism [4].

Independent variables
Government ownership percentage is the independent variable which shows the collection of shares under the control of government and semi-governmental organizations.

Control variables
1. **Company size:** this derives from the natural logarithm of total assets at the end of period. Zimerman (1983) states that large companies put great conservatism due to greater political sensitivities. This study also considers company size as a control variable in following performed studies in related literature.
2. **Financial level:** This refers to total debts in total assets at the end of period.

RESEARCH FINDINGS
Descriptive statistics
The results of descriptive statistics are presented in **Table 1.**

Table 1: Descriptive statistics

Maximum	Minimum	Standard deviation	Mean	number of observation	sign	variable
./95	./.	./253	./192	998	GOV_OWN	Government ownership
16/16	9	1.365	11.756	498	SIZE	Company size
./93	./.	./195	./615	498	LEV	Financial level
2.01	-2/12	./784	./149	498	CONSER_c	Conditional conservatism

The results of descriptive statistics reveal that the mean for conditional accounting conservatism in sample companies is 149 percent and minimum amount of conservatism is 2.12 and the maximum amount is 2.01. Also, sample companies use average of 61.5 percent financial lever. The mean for governmental ownership among observations equals 19.2 percent. Other results are shown in table 1.

The procedure of data distribution

To test the hypotheses, Kolmogrof_ Smirnof test was employed and the results are shown in table 2.

Table 2 : The result of Kolmogrof_ Smirnof

Significant level of Z (P-Value)	Z Statistics	sign	variable
./.	4.990	GOV_OWN	Government ownership
./107	1.184	SIZE	Company size
./095	1.274	LEV	Financial level
./352	./931	CONSER_c	Conditional conservatism

(K_S) test results show that the distribution of dependent variable (conditional accounting conservatism) follows normal distribution. Also, it is revealed that the distribution of company size and financial level are also normal.

Coefficient table between variables

In this study Pierson Coefficient was employed to determine the coefficient between quantitive variables and the coefficiency matrix between variables is shown in table 3.

Table 3 :Pearson correlation matrix

LEV	SIZE	CONSER_c	GOV_OWN	sign	variable
			1	GOV_OWN	Government ownership
		1	./123 **	CONSER_c	Conditional conservatism
	1	./116 **	./125 **	SIZE	Company size
1	./007	./119 **	-./011	LEV	Financial level
*,** significant level of reliability is respectively95% and 99%					

The results of coefficient matrix between variables presented in table 3 reveals that governmental ownership is positively correlated with conditional accounting conservatism and company size. Also, the results of the coefficiency test show that conditional accounting conservatism is positively correlated with company size and negatively correlated with financial lever.

Results of hypotheses one

Hypotheses one states that there is a correlation between government ownership and conditional accounting conservatism.

Multi-variable model was used to test hypotheses one:

$$CONSER\_C_{i,t} = \alpha + \beta_1(GOV\_OWN_{i,t}) + \beta_2(SIZE_{i,t}) + \beta_3(LEV_{i,t}) + \varepsilon i,t$$

Table 4: shows the results of hypotheses 1 test:

variable	symbol	Cofficient (Beta)	Statistics t	P-Value	Special amounts	Index Condition
					Co -Liner Investigation	
Fixed amount	α	-	-./978	./328	-	-
Government ownership	β₁(GOV_OWN)	./109	2/462	./0014	./984	1/016
Company size	β₂ (SIZE)	./102	2/285	./0023	./984	1/016
Financial level	β₃(LEV)	-./117	-2/650	./008	1	1
Regresion Model	F statistics	P-Value	Watson statistics	Coefficient determiner and adjusted determiner		
	12/711	./.	1/984	R²=./158 AdjR²=./143		

The results show that government ownership and conditional accounting conservatism are positively correlated. So hypotheses one cannot be rejected in error level of 5 percent. Besides, the results of the study posit that among the control level, company size and conditional accounting conservatism are positively correlated and financial lever and conditional accounting conservatism and negative, correlated. The correlation between two control variables with dependent variable is in reliability level of 93 percent.

Testing hypotheses two

The second hypotheses state that conditional conservatism in companies with higher percentage of governmental ownership is different from that of companies with lower governmental ownership.

Table 5 :Testing hypotheses two

Average groups Conditional accounting conservatism		Testing the equality of variances of the two groups (Levine test)		Testing equality of means between two groups (Independent t test)	
High Government ownership	Low Government ownership	Statistics (F)	Significant levelP- Value	Statistics (t)	Significant level P- Value
./254	.0/089	6/826	./009	2/198	.029

Based on the results of mean comparison test of two populations shown in table 5, the amount of F is 6.826 and its significant level is 0.09 percent, which is lower than error level accepted. So the equality of variances is rejected. T-test is used with adjusted level of freedom. The significant level of t is 29 percent and this shows that the means of two groups are significantly different with a focus on conditional conservatism. We can conclude that the percentage of governmental ownership can affect conditional accounting conservatism. Thus, the second hypothesis is not rejected in reliability level of 95 percent. Besides, the results reveal that the mean of conservatism in companies with higher governmental ownership is./. 254 while it is 89 percent in companies with lower governmental ownership discussion and conclusion-based of theories of conversions and conversional interpretation, conservatism in accounting is a mechanism to reduce the paradox credit providers and stock holders and their profit maintenance. The more conservatism is employed in an economical environment from managers and in their financial reports, we can have more reasonable and reliable accounting profit and this will prevent the distribution of company resources or loans from credit givers. The level of observing accounting conservatism greatly depends on cultural, economic, and political environment of any society. In societies where the government has a great role in economic activities and the entity of the private making has not been institutionalized, nor the governments as owners neither the managers as company governors show any inclination in designing controlling systems to observe conservatism. That is why with the existence of governmental banks do not follow accounting conservatism in governmental companies. It seems that the managers of governmental companies are not in good condition from the point of profiting due government support and their ineffective management and they only don't measure conservatism to show better outcome of companies and their personal profit [4].

Waste and shortage in resources and two critical problems in governmental institutes in developing countries, although these countries have

many limits in resources government economy and also limits the effective use of such resources. One of the best solutions is private making process. This is also performed in Iran based on general policies of number 44 in constitutional law. Allocating governmental institutions to private centers cam improve managerial organization. Because this can transfer ownership to investors whose motivations and capabilities are different in managing companies [6].

Conservatism has close relation with managerial policies of a company and both can be important in diminishing asymmetrical information and decreasing representing costs in contracts. Conservatism can limit the opportunistic behavior of company managers in their financial reports and lead to lower costs of branches in companies and institutes .

According to the analysis of hypotheses, this study investigated the relation between governmental ownership and conditional accounting conservatism. It had two hypotheses as mentioned. The first was the relation between governmental ownership and conditional accounting conservatism. Through using Ball and Kumar model the correlation was confirmed. Among the control variables, company size was positively correlated with conditional conservatism and financial lever was negatively correlated with conditional conservatism.

The second hypotheses was also confirmed and the effect of higher governmental ownership on conditional conservatism was verified. The reliability level was 95 percent performed The following suggestions are given based on findings of the study:

1. Stock and exchange organization is suggested to make companies to impose reasonable amount of conservatism. Because the complete deletion of conservatism can have harmful outcomes.
2. All investors are suggested to impose a good amount of conservatism in their financial statements.
3. Based on the findings it can be concluded that company ownership factors can affect conservatism, so investors and analyzers are suggested to pay attention to principles of company ownership in making decisions about investments.

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