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## Examining the Impact of Family Ownership on Corporate Information Transparency

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### ABSTRACT

The major purpose of the study is to investigate the impact of family ownership on information transparency of the listed companies in Tehran stock exchange. All listed companies in Tehran stock exchange were selected as statistical population during 2008 to 2012. Hence, family ownership, and financial information transparency level and accounting information transparency level are considered as independent and dependent variables, respectively. There has been also used from three control variables of firm size, financial leverage and firm profitability. To test the hypotheses, Ordinary Least Squares (OLS) is used through EVIEWS 7 software. The results indicated that there is no significant relation between family ownership and financial information transparency level of companies. Also, there is not significant relation between family ownership and accounting information transparency level of companies.

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## INTRODUCTION

Companies' managers are considered as shareholders' administrators, yet they have incomplete information about how a company performs, therefore, information has undeniable role in decreasing problems of administration role. Suitable transparency and disclosure which causes decreased information asymmetry is the separable component of corporate governance system. Companies' shareholders (owners) are always concern about managers' performance not to move along with their interests and spend companies' resources on their increased profits. They are also uncertain about published information by the firm, because managers may manipulate information to achieve some special goals such as increasing profit figures and realized income growth rate in order to keep their cooperation and gaining more rewards. Their concerns would be decreased along with more financial and non-financial information disclosure, especially information about decision structures in companies [11].

Minmayer *et al.*, (2003) in his research about financial information transparency and corporate governance principals on American public companies found that audit committee (internal) has positive and essential relation with management and participative management. They also concluded that positive performance of audit committees causes improving management and monitoring, consequently positive performance of companies and investors' satisfaction and trust. There are various comments about the relation between accounting information transparency and corporate governance. Capalan & Staremborg (2000) has confirmed the regulatory role of accounting information transparency in securities secret transactions. While current evidences suggest accounting figures are used in determining cash bonus, and important procedure is observed in behavior of reward determining factors and importance of cash bonus as motivating factors.

Jensen *et al.*, (2003), on the other hand, has provided a research that examines Sweden and Norwegian marine companies in terms of agency theory and corporate governance principles, and concludes that suitable performance of board of directors in accounting information transparency would enhance financial performance of companies and investors' satisfaction and trust toward published information by companies. Nordin *et al.*, [13] investigated the impact of family ownership and board composition on financial reporting transparency. Their findings demonstrate that independence versus dependency of board members has influence on enhancing companies' transparency. As well, independence level of board members positively and significantly influence on

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financial information reporting transparency. Generally, what we want in this research is to examine the impact of family ownership on corporate information transparency level. It seems that an answer to the question can be effective for executive and non-executive managers, real, potential and institutional investors as well as independent accountants.

*Research methodology:*

*Research hypotheses:*

- There is a significant relationship between family ownership and financial information transparency level of firms.
- There is a significant relationship between family ownership and accounting information transparency level of firms.

*Research method:*

The research plan is done by post-event approach (via past data). On the other hand, the current study is a kind of descriptive-correlation research. It is quantitative based on the type of the research and it is also practical in terms of purposes.

*Statistical population of the research:*

The statistical population of the current research includes all listed companies in Tehran stock exchange which have been listed during 2008 to 2012. The standard of sample selection is omissive and is done based on the following condition:

- 1- They should be manufacturing firms; they should have not been related to banks and financial institutions (investment companies, intermediary companies, holding companies, banks and leasing).
- 2- Their financial year ends in 19/3/...
- 3- Their stock should be traded in stock exchange.
- 4- They should not have been changed their activities or fiscal year during the studied years.
- 5- Their financial information should be available.

Regarding restrictions, 331 firms have been selected between 421 listed companies in Tehran stock exchange using systematic omissive method and 74 firms have been finally selected base on Cochran method as ultimate sample. The Cochran method is as follows:

$$n = \frac{(331)(1.96)^2 \times (0.5)(0.5)}{(331)(0.1)^2 + (1.96)^2(0.5)(0.5)} \cong 74$$

Where, maximum permissible error (d) is 0/1, confidence coefficient is 0/95, t= 1/96, p and q are 0/5 and population volume is N. "n" would find his maximum amount and it causes the sample to be big enough.

*Research's variables:*

*Accounting information disclosure level:*

To measure accounting information disclosure level according to Barth *et al*, (2009), earnings transparency criteria is used that equals with regression coefficient of determination obtained from stock returns on earnings and profitability changes (Qaemi & Alavi, 2012).

$$R_{i,t} = \alpha_0 + \alpha_1 E_{i,t}/P_{i,t-1} + \alpha_2 \Delta E_{i,t}/P_{i,t-1} + \varepsilon_{i,t}$$

In this model, the variables are:

$R_{i,t}$ : Annual returns I in year t which is calculated by returns comprehensive formula.

$E_{i,t}$ : Earning per share before abnormal items of firm i and year t.

$\Delta E_{i,t}$ : Changes in earning per share from year t to t-1.

$P_{i,t-1}$ : Stock price at the end of year t-1.

*Family ownership:*

The ownership level of first, second and third degree relatives of board members from firm's stock.

*Firm size:*

Natural logarithm of book value of firm's total assets.

*Financial leverage:*

Total debt to total firm's assets ratio.

*Firm profitability:*

It is used for determining profitability criteria from ROA or net profit to total assets ratio.

*Research model:*

Each conceptual model is the starting point and the base for conducting studies and researches in a way that the considered variables and their internal relations are determined. On the other words, an ideally conceptual model and or mind map and analysis tools is used regarding the provided hypotheses from regression model:

- First hypothesis

$$\begin{aligned} \text{Financial Corporate Transparency}_{it} \\ = \gamma_0 + \gamma_1 \text{Family Ownership}_{it} + \gamma_2 \text{Size}_{it} + \gamma_3 \text{Leverage}_{it} \\ + \gamma_4 \text{Profitable}_{it} + \epsilon_{it} \end{aligned}$$

- Second hypothesis

$$\begin{aligned} \text{Accounting Corporate Transparency}_{it} \\ = \gamma_0 + \gamma_1 \text{Family Ownership}_{it} + \gamma_2 \text{Size}_{it} + \gamma_3 \text{Leverage}_{it} \\ + \gamma_4 \text{Profitable}_{it} + \epsilon_{it} \end{aligned}$$

In this research, ADF test is used to determine whether xt time series has static process (zero accumulation order) or divergent (one accumulation order). Applying a suitable method for panel data is necessary like examination of the variables' staticness. We use modified Wald test to examine group wise heteroskedasticity among surpluses of regression fixed effects model. Also, F and Hausman test is used to determine either fixed effects method or random effect. To describe the explanatory power of explanatory variables, adjusted coefficient of determination (Adjusted R2) is used, and F-fisher test is applied in order to examine the significance of variables and overall adequacy of the model. Statistical analyses are also made using EXCEL and EVIEWS software.

*Research's results:**ADF method:***Table 1:** ADF unit root test on variables.

Variables	Probability	Statistics
Financial information transparency level	0.0011*	-4.445186
Accounting information transparency level	0.0003*	-4.614278
Family ownership	0.0016*	-4.341853
Firm size	0.0006*	-5.006259
Financial leverage	0.0002*	-5.815476
Firm profitability	0.0016*	-4.512364

\* 5% error level

Regarding table 1-1, examination of calculated statistics values and their acceptance probability indicates  $H_0$  (non-durability) is rejected for all variables and all studied variables are durable

*Determination of model estimation method- Significance test of fixed effects method:**F statistics test:***Table 2:** Results of F statistics test.

Description	Statistics value	Freedom degree	probability
Cross-section F	1.998457	73	* 0.005
Cross-section Chi-square	141.003261	73	* 0.001

\* 5% error level

*Hausman test:***Table 3:** Results of Hausman test

Description	Statistics value	Freedom degree	probability
Cross-section F	7.551469	12	* 0.004

\* 5% error level

Regarding table 2 and 3, the results of both F and Hausman test is less than 5% in both probability tests, so fixed effects method should be used in related regression model.

*The first hypothesis test:***Table 4:** The first hypothesis of regression model.

Variable name	Impact factor	Estimation deviation	t-statistics	Significance level
Fixed	0.379	0.419	1.925	*0.011
Ownership structure	-0.054	0.615	-1.226	0.083
firm size	0.117	0.225	2.145	* 0.008
Financial leverage	-0.345	0.349	-1.325	0.074
Firm profitability	0.228	0.51	1.785	* 0.038

\* 5% error level

**Table 5:** Explanation and significance ability of whole model.

R		Durbin-Watson	ANOVA	
Coefficient of determination	Adjusted coefficient of determination		F	Sig.
0.514	0.506	1.624	14.336	** 0.000

\*\* 1% error level

Regarding the table 4, since Durbin-Watson statistic test value is determined among 1.5 to 2.5, lack of correlation between errors is not rejected and regression can be used. . Due to F value test is significant (14.336) in error level less than 0.01, it can be concluded that panel research regression model which composed of independent, control and dependent variables is a suitable model and independent and control changes can describe firms' financial information transparency level changes. The adjusted coefficient of determination is equaled with 0.506 and indicating that 50.6% of all firm value changes are depended on independent and control variables of this model. As well, impact factor of family ownership variable on financial information transparency is -0.054, and indicating the variables has negative and weak impact on financial information transparency. On the other hand, regarding significance level of t-statistics significance level of t-statistics of family ownership is 0.083),  $H_0$  is not rejected with 95% confidence due to error level is less than 5%, and it can be stated that there is no significant association between family ownership and financial information transparency level.

*The second hypothesis test:***Table 6:** The second hypothesis of regression model.

Variable name	Impact factor	Estimation deviation	t-statistics	Significance level
Fixed	0.418	0.661	1.915	*0.011
Ownership structure	-0.126	0.455	-1.224	0.086
firm size	0.316	0.518	2.316	* 0.007
Financial leverage	-0.057	0.243	-1.812	* 0.022
Firm profitability	0.166	0.391	1.776	* 0.037

\* 5% error level

**Table 7:** Explanation and significance ability of whole model

R		Durbin-Watson	ANOVA	
Coefficient of determination	Adjusted coefficient of determination		F	Sig.
0.452	0.448	1.552	14.065	** 0.000

\*\* 1% error level

Regarding the table 6, since Durbin-Watson statistic test value is determined among 1.5 to 2.5, lack of correlation between errors is not rejected and regression can be used. . Due to F value test is significant (14.065) in error level less than 0.01, it can be concluded that panel research regression model which composed of independent, control and dependent variables is a suitable model and independent and control changes can describe firms' accounting information transparency level changes. The adjusted coefficient of determination is equaled with 0.448 and indicating that 44.8% of all firm value changes are depended on independent and control variables of this model. As well, impact factor of family ownership variable on accounting information transparency level is -0.126, and indicating the variables has negative and weak impact on accounting information transparency level. On the other hand, regarding significance level of t-statistics significance level of t-statistics of family ownership is 0.083),  $H_0$  is not rejected with 95% confidence due to error level is less than 5%, and it can be stated that there is no significant association between family ownership and accounting information transparency level.

*Conclusion and suggestions:*

The main purpose of the study is to examine the impact of family ownership on information transparency level of the listed companies in Tehran stock exchange. Hence, family ownership, and financial information transparency level and accounting information transparency level are considered as independent and dependent variables, respectively. There has been also used from three control variables of firm size, financial leverage and firm profitability. To test the hypotheses, Ordinary Least Squares (OLS) is used through EVIEWS 7 software. The findings showed that there is not a significant relation between family ownership and firms' financial information transparency level. As well, there is not a significant association between family ownership and firms' accounting information transparency level. Regarding the obtained results from the research's hypotheses, it can be concluded that the firms with family ownership don't tend to disclose the firms' financial and accounting information and it can be suggested to managers to establish suitable policies for transparenting financial and accounting information in order to creating a framework for transparenting financial and accounting information which leads to better financial and accounting information disclosure so that actual and potential investors and other stakeholders can make informed decisions (decreased information asymmetry) and provide opportunities for development and growth of their companies.

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