

FAMILY OWNERSHIP AND CORPORATE INFORMATION TRANSPARENCY

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Abstract— This paper investigates the impact of family ownership on information transparency of the listed companies in Tehran Stock Exchange. The population used in this study comprises firms listed on the Tehran Stock Exchange (TSE) between 2008 and 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. 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.

Index Terms — Family Ownership; Accounting Information Transparency; Financial Information Transparency

I. INTRODUCTION

Capital markets are information markets by nature. Investors make investment decisions by evaluating information and capital also flows with information (Ye et al, 2009). Corporate information transparency is critical to ensuring that limited resources are allocated efficiently, which is one of the basic objectives of market structures. Corporate information transparency also plays a significant role in ensuring market fairness and effectiveness and is one of the methods that can mitigate the adverse selection and moral hazard caused by information asymmetries.

Family firm is a prevalent phenomenon across many countries. Family owned and family controlled firms constitute around 90% of the firms in United States. (Poza, 2007) According to Claessens et al. (2002), two-thirds of the businesses in the East Asian countries are controlled by founding families. The corresponding figure for Western Europe is 44%. (Faccio & Lang, 2002) La Porta et al., (1999) study firms from 27 developed countries and show that only 30% of the firms have dispersed ownership. Credit Suisse study 3,568 listed family businesses in 10 Asian markets. The study shows that India has the largest percentage of listed family businesses which is around 67% of all listed companies. 663 out of 983 listed companies in

India are family businesses. Family business tends to have concentrated ownership and family involvement. This characteristic of family business is bound to have an impact on firm value. (See for example Anderson & Reeb, 2003) Studies on family businesses analyzing the financial performance of these businesses draw upon various theoretical perspectives to explain the association ranging from agency theory (Schulze, Lubatkin and Dino, 2003), stewardship theory (Miller, Le Breton-Miller and Scholnick, 2008), socio-emotional wealth theory (Gomez-Mejia et al., 2001) to resource-based perspective of firm. Fan and Wong (2002) argue that the entrenchment effect and the proprietary-information effect associated with concentrated ownership result in corporate opacity and low informativeness of accounting earnings. Wang (2006), on the other hand, argues that a founding family firm with its unique concentrated ownership is “less likely to engage in opportunistic behavior in reporting accounting earnings because it potentially could damage the family's reputation, wealth and long-term firm performance” (p. 622). When the alignment effect overwhelms the entrenchment effect, the family firm would be inclined to report high quality financial information. Ali et al. (2007) show that the difference in Type I agency problems across family firms and nonfamily firms dominates the difference due to Type II agency problem. Thus, they observe that family firm reports higher earnings quality than nonfamily firm. This work tries to answer this question by evaluating the relationship between family ownership concentration and information transparency of the listed companies in Tehran Stock Exchange.

A. Methodology

1) Definition of family firm

Defining family firm should take into account the possible differences in the cash flow rights and control rights of owners due to pyramiding and crossholdings. Measuring insiders' shareholding based on cash flow rights alone could lead to wrong interpretations. Studies try to trace direct and indirect equity interest by means of equity chains. (See for example Lins, 2003). Family firms have different levels of family ownership and family control. Previous works have adopted different measures based on ownership and control

for defining a family firm. (Astrachan, Klein & Srnyrniois, 2002) The broad parameters along which a firm gets classified as a family firm are

- a. family is the major shareholder of the firm (Barontini&Caprio, 2006);
- b. family members serve on the board of directors of the firm (Rutherford et al., 2008);
- c. firm is led by a family member (McConaughy et al., 2001);
- d. evidence of generational transfer of control is evident (Chrisman et al., 2004).

Most researchers use a combination of these factors to define a family firm. (Anderson & Reeb, 2003; Andres, 2008; Arosa et al., 2010).

We also define the family firm on the ownership level of first, second and third degree relatives of board members from firm's stock.

2). Hypotheses

Based on the discussion in the previous section we derive the following hypotheses for our study.

- *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.*

3) Sample and variables definition

The statistical population of the current research includes all listed companies in Tehran stock exchange which have been listed during 2008 to 2012. Sample firms selected 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
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 and 74 firms have been finally selected based on Cochran method as ultimate sample.

4) Research's variables:

Financial Information Transparency (FIT):

Based on the elicited transparency privilege from Tehran Stock Exchange ,firms with higher rate than medians rates in the class of firms with much financial information Transparency(value one) and other firms in the class of firms with less transparency(value of zero)have been located.

Accounting Information Transparency (AIT):

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).

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

In this model, the variables are:

R i,t: Annual returns I in year t which is calculated by returns comprehensive formula.

Ei,t: Earning per share before abnormal items of firm i and year t.

ΔEi,t: Changes in earning per share from year t to t-1.

Pi,t-1: Stock price at the end of year t-1

Firm size: Firm size is the log of 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

5) 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 regression model

$$FIT_{it} = \alpha + \beta_1 FOWN_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 PROF_{it} + \epsilon_{it}$$

• Second hypothesis regression model

$$AIT_{it} = \alpha + \beta_1 FOWN_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 PROF_{it} + \epsilon_{it}$$

Where:

FIT = Financial Information Transparency

AIT =Accounting Information Transparency

FOWN =Family Ownership

SIZE = Firm size

LEV = Financial leverage

PROF =Firm profitability

Panel Data method is employed as technique to estimate the 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 EIEWS software.

B. Results

1) Descriptive Statistics

As reported in *Table 1*, The minimum and maximum value and mean and the standard deviations of Financial information transparency level(FIT) are 0,1,0.627 and0.337 respectively.The minimum and maximum value and mean and the standard deviations of accounting information transparency level (AIT) are 0.066, 0.416, 0.197,and 0.447respectively.The minimum and maximum value and

mean and the standard deviations of Family ownership (FOWN) are 0.109, 0.736, 0.416 and 0.261 respectively.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FIT	74	0	1	0.627	0.337
AIT	74	0.066	0.416	0.197	0.447
FOWN	74	0.109	0.736	0.416	0.261
SIZE	74	12625	37025	21663	5617
LEV	74	0.214	0.916	0.572	0.339
PROF	74	0.165	0.792	0.465	0.762

The minimum and maximum value and mean and the standard deviations of Firm size, financial leverage and Firm profitability as control variables shown in Table 1.

2) *Regression Model Results*

Table 2: Results of F statistics test.

Description	Statistics value
Cross-section F	1.998457
Cross-section Chi-square	141.003261

* significant at 95% level of confidence

Table 3: Results of Hausman test

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

* significant at 95% level of confidence

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.

3) *The first hypothesis test:*

Table 4: Regression model results of first hypothesis

	Coefficient	t-Statistic	Prob.
C	0.379	1.925	*0.011
FOWN	-0.054	-1.226	0.083
SIZE	0.117	2.145	* 0.008
LEV	-0.345	-1.325	0.074
PROF	0.228	1.785	* 0.038
F-Statistics	14.1547	Durbin-Watson stat	1.6247
R-squared	0.5147	Prob(F-statistic)	0.000
Adjusted R-squared	0.5062		

* significant at 95% level of confidence

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 (14.154) in error level less than 0.05, 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), H0 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.

4) *The second hypothesis test:*

Table 5: Regression model results of second hypothesis

	Coefficient	t-Statistic	Prob.
C	0.418	1.915	*0.011
FOWN	-0.126	-1.224	0.086
SIZE	0.316	2.316	* 0.007
LEV	-0.057	-1.812	* 0.022
PROF	0.166	1.776	* 0.037
F-Statistics	14.065	Durbin-Watson stat	1.552
R-squared	0.452	Prob(F-statistic)	0.000
Adjusted R-squared	0.448		

* significant at 95% level of confidence

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 0.05, 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 0.086), H0 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.

C. Conclusion

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 that Consistent with the findings of Pizarro et al. (2010), Abdolmohammadi and Kvall (2013) and is not Consistent with the findings of Anderson and Reeb (2006). findings of As well, there is not a significant association between family ownership and firms' accounting information transparency level that Consistent with the findings of Wang (2009), Driffield et al. (2010), Nordin et al. (2012), Pizarro et al. (2010) and is not Consistent with the findings of Mishra (2004). 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 trans parenting financial and accounting information in order to creating a framework for trans parenting 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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