

# Stock Companies as an Important Source of Influence to Increase Investment in Economic Projects: Case Study of Mofid Brokerage Firm

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## Abstract

One of the main tools to extend and make deeper the capital market is promoting the level of market analysis. Without extensive and comprehensive research and analysis on the capital markets, we cannot expect to grow capital market's position in the national economy. A brief review of developments in stock companies, as a key element of the market capitalization of the economy, indicates that gap analysis has been existed on this market. But promising steps have been taken towards the use of standard indicators and methodologies for analyzing our capital markets through recent years. However, it is still common that we are far from the analyzing the capital market and we have lots of works to do on this field. In this study we investigated the relationship between conservatism and some characteristics of the board of directors (as the main strategy of the company) in order to motivate and increase the level of investments. To achieve this goal, 53 companies which are the subcategories of Mofid brokerage firm were selected for a period of 6 years (from 1385 to 1391).

**Keywords:** Conservatism, company's strategy, motivation, Mofid brokerage firm.

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## Introduction

Directors as responsible for preparing the financial statements, who are conscious about the financial status of company and with greater awareness of the users of financial statements, are potentially trying to provide a favorable image of the business unit. In such circumstances, accounting principles and practices apply the conservative concept to support the development of accounting standards bodies with the goal of balancing optimism managers, support stakeholders' rights and fair presentation of the financial statements. Accountants are using Conservatism as a limiting principle of accounting for many years, and despite many criticisms, it always maintains its position among other accounting principles (Kurdistan and Amyrbygy Langroodi. 2010). So that we can know conservatism survives as evidence of the fundamental principle against criticisms over many years. Considering importance of conservatism, the need for standards in financial reporting is necessary to detailed measurement (Badavrnahandi et al. 2011).

Board size and composition of board is effective on decisions about the quality of the replacement CEO, ownership and Reward executives. On the other hand, separation of duties Chairman and CEO is beneficial in the board's decision (Parsaeian and Arab. 2010).

Applying Non-executive managers in the board of directors is a strong motivation for local managers to maximize shareholder towards internal managers. Also Non-executive managers of the company have less information about the activities and management decisions because of their part time jobs. Useless information enables non-executive managers to effectively monitor the managers.

Smith and Watts (1992) stated that there is contradictory information between internal and external managers in firms with significant investment opportunities and it makes difficult to monitoring by external managers.

Hermalin and Weisback (2009) found that there is a negative relationship between board of director's size and firm value. The important question Based on the following discussion is, whether board of director's characteristics and conservatism has a significant effect on the motivations to invest in the brokerage firm's capital?

Mofid brokerage firm as a financial intermediary have many activities in order to has been more services to shareholders, to obtain the maximum benefit of its shareholders and by utilizing the latest technologies in information technology and security issues related to online trading system and relying on powerful forces and providing regular services in the field of electronic stock trading services, consulting, sell-side research, proprietary trading, and investment management.

## History of research

Jin et al (2008) Indicated that increasing investment opportunities, cause the decreasing in the relationship between members and non-mandated conservatism. Roslinda (2009)'s research results indicate that there is a weak relationship between corporate governance with increasing conservatism in the financial statements. He found

that audit committee independency and size of board of directors does not have any effect on increasing conservatism in the financial statements. Garcia and Penalva (2006) applied three functions indicators such as, dualism of Chief Executive Officer's duty, board of director's composition and board of director's performance to corporate governance mechanisms and they discovers that firms with stronger corporate governance mechanisms are much more conservative. Lim et al (2010) showed that there is a positive relationship between the independent directors of the board and accounting conservatism. Badavarnahandi et al (2011) found that there is no significant relationship between the level of institutional ownership concentration, the level of institutional ownership and the proportion of non-executives in charge of conservatism in financial reporting.

### **Theoretical Foundations of Research**

From the perspective of representation theory, the presence of non-assigned directors (non-executive) of the supervisory board of directors companies and their performance, as individuals, is considerably helpful in reducing conflicts of interest between shareholders and managers to attend meetings of the board of directors. Non-bound managers can provide the firm's financial health by understanding the role of self-regulatory strategies and prevent existing interests among the executors of corporate governance systems (Hermalin and Weisback, 2009). Beekes et al (2009) stated in a research that companies who have more independent board members are more conservative. Thai and Kuntisook (2011) concluded that firms with more independent board members and ownership concentration are very conservative. There are two different views in theoretical literature on the role of Board of director's size on the performance of their Board of directors. The first view suggests that a smaller Board of directors would improve the company's performance. When Board of directors is composed of many members, representation problems increases since the number of board members may act as inutile members.

On the other hand, the second view states that the smaller board of directors is deprived of the advantages and benefits of specialized and diversified opinions and recommendations which exist in the larger Board of directors (Dalton and Hayn, 2007). Chi et al (2007) found that firms with greater share of institutional investors and larger board of directors have lower demand for conservatism. Theoretical literature states that the separation of the board and CEO, cause to better performance of the company. Chi and colleagues, found that those companies which have more responsible managers and the CEO is also chairman, have lower demand for their conservatism. Based on practical researches which have been done, the separation of Chairman and CEO's duties makes Board's decision usefulness.

When the Chairman and CEO are separated, the representation costs can be reduced. According to representation theory, the separation of Chairman and CEO cause to performance of observing the managing. Motivation can be called stimulus or can be known as a power, the guidance and a supportive factor (Ann Ho, 2009).

Gich and Berlainzin (2011) described the motivation as engines and steering wheel. Motivation is desire or tendency to act in a particular way. Incentives and motivation, often used interchangeably, however, we can considered motive more accurate than

motivation, because motivation is the main factor of productivity in motive but motive is the reason for why a particular behavior take into account.

The main purpose of increasing the level of investment involved in this study is the choice of his financiers to obtain the optimal portfolio in their investment.

### **Mofid brokerage firm**

Mofid brokerage firm was recorded and published in 1373 as a public joint stock company in Tehran with a capital of 10,000,000. Currently, the increase in capital assets of 35 billion Rials IRR has been occurred and a bigger increasing about 50, 000, 000, 00 has been on the agenda of the Board of Directors. This company nowadays is as one of leaders in private sector in field of Stock Exchange. The main office is located in Tehran and it has some representative trading stations in several cities such as Tehran, Tabriz, Urmia, Karaj, Shiraz, Mashhad, Zahedan, Isfahan, Qazvin, Qom, Yazd, Birjand and Bandar Abbas.

The following is a summary of subject company activities:

- Brokerage services, broker / trading include: Exchange Trading such as stocks and bonds.
- Financial and counseling services include: Funds management of joint venture marketing the sell securities and Publisher permission for the registration of securities offerings
- Giving advice in the fields of: Method of sale and supply of securities and Design Exchange
  - Exchange of goods
  - Electronic services

This is the organizational motto of this Corporate Brokerage:

Mofid brokerage firm with experienced and qualified managers and experts with numerous reputable dealers in major cities has extensive activity in the field of exchange of different goods. The company uses the latest technologies in the world, and is prepared to provide any services for shareholders throughout Iran.

### **Population and statistical sample**

The data are collected in this research are part of all companies that are Subsets of this Mofid brokerage firm, And they have following features:

- Financial year is up to the end of March.
- Companies should not change their own financial year's thorough special periods.

- They should have Information about the variables which have been selected in this study.

- Buying and selling shares during the considered course

Among the companies which are in the subcategories of Mofid brokerage firm, 250 companies qualified for selection as the samples. Within existing limitations, among the samples which include 250 companies, 53 companies in the study had all the required information, which remained as the final samples at the end of the research. Sample size has been calculated using the following formula (Azar and Momeni, 2008):

$$n = \frac{(Z_{\frac{\alpha}{2}})^2 \times p \times q \times N}{(N - 1) \times E^2 + [(Z_{\frac{\alpha}{2}})^2 \times p \times q]}$$

N= Statistical population size

n= the sample size

p= the success ratio

q= Failure ratio

Z=variable of normal distribution standard

E= the estimated error

In Similar researches the confidence interval and the estimated error considered as 0.95 and 0.12 (Kanani, A. 2010).

So we use these numbers in our research too. Due to the size of the study Statistical population that is equal to 250 the volume of the sample is calculated as follows:

$$n = \frac{(1/96)^2 \times 0/5 \times 0/5 \times 250}{249 \times (0/12)^2 + [(1/96)^2 \times 0/5 \times 0/5]}$$

n = 53

Thus it can be seen that at 0.95 of confidence interval and the error 0.12, 53 samples should be selected in order to generalize the results to the entire Subsets of Mofid brokerage firms for the test period (1385-1391).

### Data Collection

The required data for this research have been collected through library method and also variables have been obtained from the financial statements of companies and databases such as pars portfolio, Tadbir and Dena Sahn.

## Research Methods

The present research is in applied research categories, According to the aim of study. And according to the data collection method, it is a descriptive research (non-experimental) in the kind of correlation particularly structural equation modeling. A full structural equation modeling and confirmatory factor is a blend of analyzing the diagrams (Kalantari, 2003). In the research with the aims to test a model of the relationship between variables, structural equation modeling is used (Sarmad et al, 2005). The questionnaire had been set in the form of six major components that influence motivation and increase the involvement of investors in the capital. This questionnaire has been scientifically validated questionnaires to measure the reliability of Cronbach's alpha test. The results indicate that the alpha coefficient is 0.889, so the questionnaire is approved.

## Research hypotheses

Based on the determinants identified in the theoretical literature research and questionnaire, six hypotheses are presented below:

**H<sub>1</sub>:** There is a significant relationship between the characteristics of the board of directors and motivation of investors to invest in the company.

**H<sub>2</sub>:** There is a significant relationship between the proportion of independent directors on the board of directors and motivation of investors to invest in the company.

**H<sub>3</sub>:** there is a meaningful relationship between the Individual differences in conservatism among board members and motivation of investors to invest in the company.

**H<sub>4</sub>:** there is a significant relationship between the size of the company's board of directors and conservatism and motivation of investors to invest in the company.

**H<sub>5</sub>:** there is a meaningful relationship between solidarity and unity of corporate board members and their and conservatism and motivation of investors to invest in the company.

**H<sub>6</sub>:** there is a significant relationship between the Separation of board of directors and the CEO's duties and conservatism motivation of investors to invest in the company.

## Data analysis

To test the hypothesis, we used path analysis. Path diagram can be seen as a means to show what factors cause changes in other variables. If the model accepted by Suitability factors, it can be useful for Test the hypothesis about the relationship between the variables used in the path diagram. So the first step is to determine the Suitability of model (Sarmad et al, 2005).

Figure 3, is the path diagram to test hypotheses. The Suitability criteria calculations for this model are as follows:

Chi-Square = 870.20, GFI= 0.90, NFI= 0.95, GFI= 0.92, AGFI= 0.90, RMSEA= 0.00

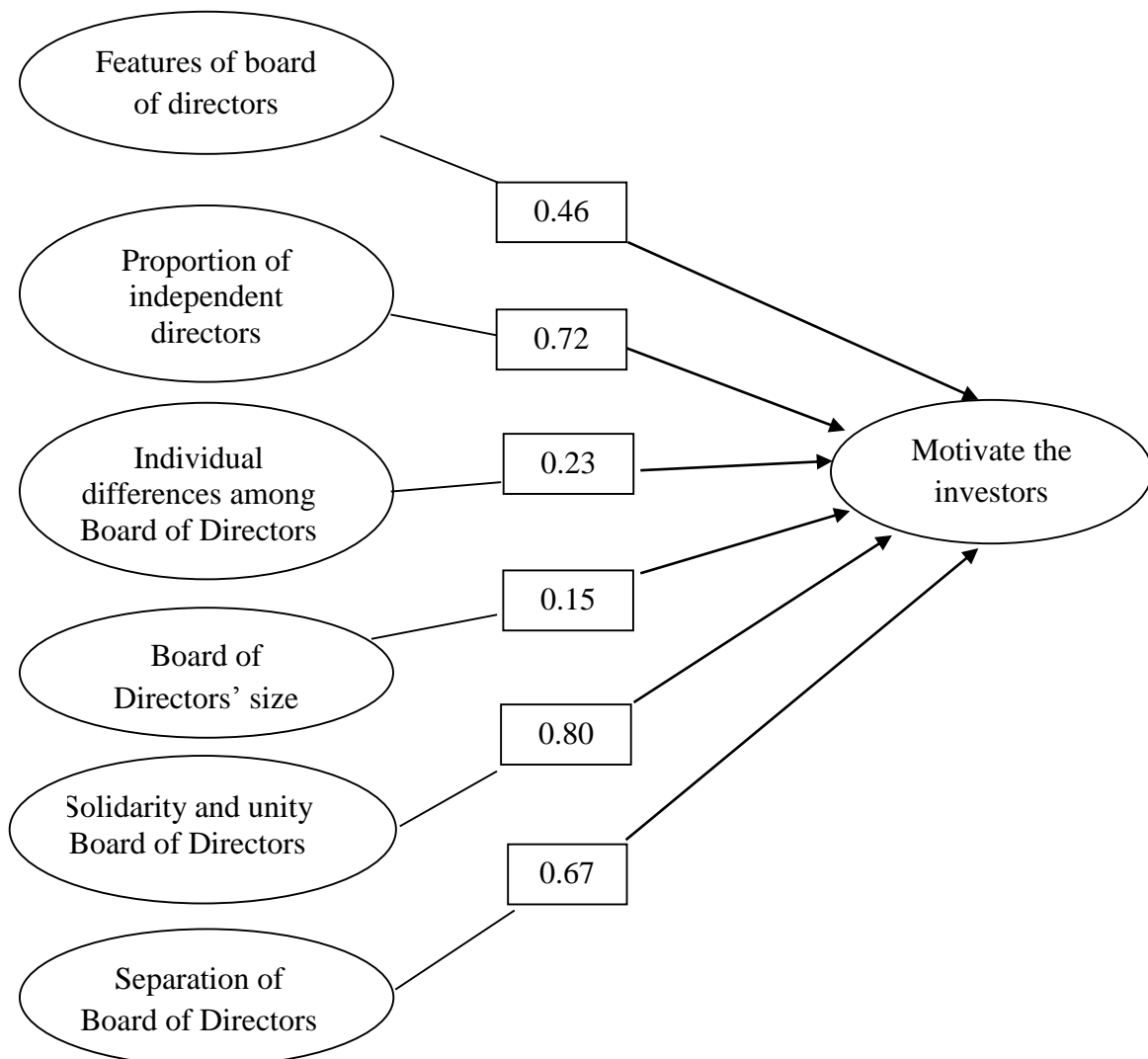


Figure 1. Diagram of the research hypotheses

Because these factors, indicating a very high suitability and appropriateness of the model, so the theoretical model is confirmed. And because of this confirmation provide by suitability factors, we can use it to test hypotheses. The results can be seen in table 1.

Table 1: Results of testing research hypotheses

Dependent variable	Independent variable	Path ratio	Result
Motivate the investors	Board Features	0.46	accepted
	Proportion of independent directors on the board	0.72	accepted
	Individual differences of Directors	0.23	accepted
	Board size	0.15	accepted
	Solidarity of Board of Directors	0.80	accepted
	Separation of the of Board's duties	0.67	accepted

## Conclusion and recommendations

Experiences of success and failure in developing countries, after three centuries of the Industrial Revolution, showing that achieving economic growth and development need to make some special arrangements in social, cultural and economic areas.

Powerful financial markets, including the specific mechanisms are considered in this economic arena. Having strong financial markets, in turn, require powerful financial institutions in this field.

Mofid brokerage firm in its 5-years perspective decided to play an effective role on the capital market in Iran, and even expand the scope of its transactions into the abroad and it helps its customer in different parts, such as advice, investing management and trading, and also plans to help its customers by providing the necessary facilities in the near future commodity exchanges, OTC<sup>1</sup>, futures and other licensed transactions and plans to work seriously and effectively than before.

In this research, the factors associated with the conservative strategy to motivate investors to invest in the field of stock exchange companies have been studied. Analyzing the determining factors was based on a model in which there are a lot of variables as some factors in motivating the investors such as, characteristics of the board, proportion of independent directors on the board of directors, board members, individual differences, the size of the board of directors, board members, the solidarity, the separation of the board and CEO that we explain them in detailed. As predicted by the model, the results showed a significant positive correlation between all the variables in the model would motivate investors to invest in companies and this shows that the correlation between the independent variables and the dependent variable is continuous.

At the end of this research, it is recommended that companies are operating in the stock market, corporate board members, shareholders, audit firms and researchers being more familiar with the theoretical literature on strategic studies and expanding companies in the stock market in order to properly fulfill their role in the system and thus could have influence on enhancing corporate value. Also Investors and analysts pay attention to the information related to corporate governance mechanisms and investment opportunities as well as the other information.

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<sup>1</sup> Over-the-counter (finance)



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