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The Effect of Unconditional Conservatism, Institutional Ownership and Size of Institute Auditor on Stock Price

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Abstract

The purpose of this research is to determine the effect of unconditional conservatism, institutional ownership and size of institute auditor on stock price. For measure unconditional conservatism we use the Beaver and Ryan model (2000). In this study we use a sample of 101 firms listed in Tehran Stock Exchange during the period 2010 to 2014. The results of multiple regression model and panel data with fixed effects, showed that in 95% confidence, unconditional conservatism has significant negative effect on the stock price and institutional ownership has a significant positive effect on stock prices, but no significant correlation between the size of audit and stock prices.

Keywords: Unconditional conservatism, institutional ownership, size of institute auditor, stock price.

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Introduction

Recent years have passed while the world economic arena has witnessed massive bankruptcy of companies such as Enron, World Com, Global Crossing, Robert Maxwell, Swiss Air, Philippe Halsman. Such failures caused that the finger to the accounting and financial reporting symptoms; So often, these events "accounting scandal" was called.

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The main charge in the wake of the scandal came to accounting and auditing profession, auditors of these companies were more noticed that Arthur Andersen audit firm to collapse (Enron auditor), which had a history of nearly 9 decades (Monem, 2007). Research results show that the company close to bankruptcy at the end of his life, and their reporting is not desirable quality in these companies and these companies had a low level of conservatives so that in this artificial benefit management company had taken place many rules and accounting principles, despite the fact that prior to the bankruptcy of the world's largest energy production company (Enron) stock price reached the highest possible levels, But immediately after the bankruptcy, the company's stock price suddenly slashed and many shareholders were bankrupt.

Corporate financial scandals in recent years, the role of corporate governance in effective monitoring and performance management decisions challenged. Rectify this situation requires an increase in the effective monitoring of the performance of the company. One of the mechanisms of corporate governance, which has become increasingly important, is the emergence of institutional investors. Institutional investors and power companies have an incentive to monitor (Ebrahimi et al., 2010). Although the "corporate governance" remains only in the characters, plot and reviews in our country and yet serious action is not accepted for implementation and the establishment of firms in the economy, however in recent years there has been considerable progress in establishing corporate governance through legislation and regulation and voluntary measures in developed and developing countries. Investors and shareholders have become more aware of the necessity and importance of corporate governance and are interested to implement this system in the companies. Some empirical studies express the existence of a positive relationship between corporate governance and corporate efficiency. Generally speaking, corporate governance is the company's control and guidance system. Corporate governance follows to achieve company objectives at the micro level and resource allocation at the macro level (Bazri, 2008).

In the view or market theoreticians, investors and other participants, attain more successful with appropriate valuation measures. This article tries to show and compare the effect and relevance between various market indicators and stock price predictions.

Literature review

Herrmann et al. (2008) examined differences in conservatism between firms audited by Big 4 and non-Big 4 auditors during the financial crisis and post-crisis periods in Thailand. The findings indicated a significant increase in conservatism following the Asian financial crisis. Moreover, they found that there is no significant difference in conservatism between Big 4 and non-Big 4 auditors in the post-crisis period while both Big 4 and non-Big 4 audit clients reported more conservative earnings.

From the theoretical perspective, Spicer (1978) argues that institutional investors consider investing in the low socially responsible companies as a risky investment. This risk emerges from the possibility of damaging sanctions that result in legislative or regulatory action, decisions of a court, or consumer relations. Thus, investing in companies that are socially responsible may reduce the above risk. Therefore, managers

should take a cue from this theoretical perspective to invest in CSR[1] activities (Cox et al., 2004). The empirical studies of the relationship between CSR and IO[2] reveal a positive relationship (Cox et al., 2004; Johnson and Greening, 1999; Waddock and Graves, 1997; Graves and Waddock, 1994) and no relationship (Mahoney and Roberts, 2007).

Foster (1973) demonstrated that such preliminary an- nouncements can be associated with stock price changes. For this reason, no forecasts were collected for the months September through December. Furthermore, the fiscal year end of each firm was determined in order to exclude fourth-quarter releases for non-December 31 fiscal year firms.

Nagel (2004) modifies this proxy by considering the percentage of shares owned by institutions instead of the number of institutions owning shares. During his sample period 1980–2003, he reports that a number of cross-sectional patterns, including the book-to-market effect, are much stronger when residual institutional ownershipis low than when it is moderate or high. Furthermore, he reports that the patterns are mainly driven by low returns on overvalued stocks, rather than high returns on undervalued stocks. Nagel also finds that when he combines his period with Chen, Hong, and Stein's period, there is no longer any reliable pattern for 1980–2003 between the number of mutual funds holding a stock and subsequent returns.

Methodology and population

This study is considered the functional categories and in terms of methods, descriptive research based on regression analysis in which the data is used by mergers and acquisitions. The data collected from the compact disc and digital strategy Codal site. Data analysis was performed using software Eviews.

The study population are listed companies in Tehran Stock Exchange during the years 2010 to 2014. In this study, sampling was conducted using systematic elimination. The selected sample consisted of all companies listed on the Tehran Stock Exchange that the following conditions must be met:

1. The names of companies listed in the list of companies listed on the stock exchange by the end of 2010.

2. To enhance comparability, it is the financial period ending 29 March.

3. During the period under review does not change the fiscal year (2010-2014).

4. Be accessible financial information.

5. Not including financial companies, investment firms and financial intermediation companies (such as banks, financial institutions).

[1]Corporate Social Responsibility

[2] Institutional Ownership

After the above restrictions, was selected 101 companies and examined a total of 505 years-firms

Research hypotheses and research models

According to the literature and theoretical foundations and previous literature and in order to answer to the research questions, three hypotheses were formulated as follows:

H_1: There is a significant relationship between the stock price and earnings unconditional conservatism.

H_2: There is a significant relationship between the stock price and institutional ownership.

H_3: There is a significant relationship between the stock price and size of institute auditor

$$P_{it} = \alpha_0 + \beta_1 ANCO_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it} \quad (1)$$

$$P_{it} = \alpha_0 + \beta_1 OWNER_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it} \quad (2)$$

$$P_{it} = \alpha_0 + \beta_1 BIG_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it} \quad (3)$$

where P is stock price, ANCO is unconditional conservatism, LEV is leverage, ROE is return on equity, MCS is percent of credit sales, OWNER is institutional ownership, BIG is size of institute auditor.

Variables measurement

Independent variables

Unconditional conservatism (ANCO)

Beaver and Ryan (2000) used the opening ratio of book value of equity to market of equity (book-to-market ratio) to measure unconditional conservatism.

$$Book\ to\ market_{it} = \frac{Book\ value\ of\ firm_{it}}{Market\ value\ of\ firm_{it}} \quad (4)$$

Institutional ownership (OWNER): Percent of specialist shareholders with long-term vision with major investments amount.

Size of institute auditor (BIG): BIG is dummy variable, if the audit carried out by the National Audit Office 1, otherwise 0.

Dependent variable

Stock price (P): This variable is directly has been extracted from financial statements. Also unit of measurement this variable is Rial.

Control variables

Leverage (LEV): Leverage is estimated of division of long-term debt to total assets.

Rate on equity (ROE): Rate on equity is estimated of net profit to equity.

Credit sales (MCS): Percent credit sales is obtained by dividing the amount of credit sales to total sales.

Empirical findings

Descriptive statistics

In order to gain a better understanding about statistical samples and variables, calculated summary statistics of variables. Table 2 shows an overview of descriptive statistics variables.

Table 1. Descriptive statistics of variables

	P	OWNER	BIG	SIZE	LEV	ROE	MCS
Mean	6056.45	0.64	0.27	13.87	0.10	0.32	0.72
Median	3084.50	0.73	0.00	13.72	0.05	0.27	0.71
Maximum	54078.00	0.99	1.00	18.45	0.95	2.84	0.99
Minimum	214.00	0.00	0.00	10.23	0.00	-1.76	0.52
Std. Dev.	7426.52	0.28	0.44	1.30	0.12	0.50	0.09
Skewness	2.80	-1.04	1.04	0.53	3.06	1.50	0.58
Kurtosis	12.64	2.94	2.09	3.94	15.94	11.78	3.15

Unit Root Test

For consider the stability of variables are used from "Phillips-Person Fisher" and "Hadri" tests. According to the significant level of each test, can be said that that in 95% confidence, independent and control variables were stable during the study period.

Table 2. Stability test results

	Phillips-Person Fisher		Hadri		Result
Variables	Statistic	Prob.	Statistic	Prob.	
P	239.962	0.035	14.472	0.000	√
ANCO	302.514	0.000	19.654	0.000	√
OWNER	238.371	0.001	13.963	0.000	√
SIZE	406.136	0.000	20.925	0.000	√
LEV	468.968	0.000	19.614	0.000	√
ROE	464.693	0.000	14.497	0.000	√
MCS	404.503	0.000	15.891	0.000	√

* These statistics are expressed for continuous variables (except zero and one).

Correlation analysis

If high correlation between the independent variables in a regression model, may lead to a distortion of the results. A high correlation, high correlation means that more than 50 percent. As can be seen in Table 3, there is no correlation greater than 50%.

Table 3. Correlation analysis

Correlation analysis of the first hypothesis					
	OANCO	SIZE	LEV	ROE	MCS
ANCO	1	0.06	-0.32	-0.20	-0.06
SIZE	0.06	1	-0.09	0.04	-0.03
LEV	-0.32	-0.09	1	0.14	0.00
ROE	-0.20	0.04	0.14	1	-0.02
MCS	-0.06	-0.03	0.00	-0.02	1
Correlation analysis of the second hypothesis					
	OWNER	SIZE	LEV	ROE	MCS
OWNER	1	0.21	-0.03	0.06	-0.05
SIZE	0.21	1	-0.09	0.04	-0.03
LEV	-0.03	-0.09	1	0.14	0.00
ROE	0.06	0.04	0.14	1	-0.02
MCS	-0.05	-0.03	0.00	-0.02	1
Correlation analysis of the third hypothesis					
	BIG	SIZE	LEV	ROE	MCS
BIG	1	0.30	-0.11	0.07	0.01
SIZE	0.30	1	-0.09	0.04	-0.03
LEV	-0.11	-0.09	1	0.14	0.00
ROE	0.07	0.04	0.14	1	-0.02
MCS	0.01	-0.03	0.00	-0.02	1

Test panel or pool data

To test data must first recognize the data panel or pool. "F-Limer" test used for the job. If the level is significantly lower than the 50% data Panel, and otherwise the pool

(combined) are. As you can see in the table at a significance level of less than 50% of all assumptions and data are panel. After determining the type of data should be fixed and random effects can be demonstrated. To do so, the "Hausman" test used in this test if the level is significantly lower than the 50% fixed effects and random effects are otherwise. As you can see is all hypothetical significant level of less than 50% and have fixed effects.

Table 4 Test panel or pool data

	F-Limer test			Hausman test		
	probability	Statistic	Result	Probability	statistic	Result
First hypothesis	0.0000	7.207	Panel	0.0000	56.708	fixed
Second hypothesis	0.0000	7.194	Panel	0.0000	63.762	fixed
Third hypothesis	0.0000	7.279	Panel	0.0000	61.205	fixed

Regression analysis

Stock price under unconditional conservatism

The results of the analysis of the first hypothesis is the linear regression model in Table 5, F-statistic is used to determine the significance of the model. According to statistics probability F calculated in Table 5 (significantly Model 0.0000) it is clear that the model was significant and at least one of the coefficients of the regression model is nonzero. Durbin-Watson test was used to assess the assumption of non-correlation established in the results of the regression equation. Durbin-Watson value equal to 2.245, as its value is between 1.5 to 2.5, it shows that there is a correlation between the residuals of the first kind. The results show that there is a significant relationship between unconditioned conservatism as the independent variable and stock price as the dependent variable, also according to the obtained coefficient for the independent variable (-585.84), it can be concluded that there is a negative relationship between dependent and independent variables and with the increasing conservatism of reduced prices, therefore the first hypothesis is confirmed. The adjusted coefficient of determination in the regression model results from the first hypothesis is equal to 0.6278, this value indicates that about 63% of the dependent variable explained by the independent and control variables.

Table 5. The significance testing results of the first hypothesis regression model

$P_{it} = \alpha_0 + \beta_1 ANCO_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it}$			
Variables	Coefficients	t-Statistic	Prob.
α_0	-49106.02	-5.462	0.000
ANCO	-585.54	-2.398	0.017
SIZE	3656.91	5.270	0.000
LEV	-3615.15	-1.271	0.205
ROE	1229.23	2.480	0.014
MCS	6540.86	1.866	0.063
R^2	0.7058	Prob. (F-statistic)	0.000
$\bar{R}^2$	0.6278	Durbin-Watson stat	2.245
F-statistic	9.049	Observations	502

Stock price under institutional ownership

Table 6. The significance testing results of the second hypothesis regression model

$P_{it} = \alpha_0 + \beta_1 OWNER_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it}$			
Variables	Coefficients	t-Statistic	Prob.
α_0	-54917.47	-6.003	0.000
OWNER	5257.36	2.003	0.046
SIZE	3754.24	5.403	0.000
LEV	-2022.61	-0.733	0.464
ROE	1233.89	2.483	0.013
MCS	7437.31	2.138	0.034
R^2	0.7045	Prob. (F-statistic)	0.000
$\bar{R}^2$	0.6262	Durbin-Watson stat	2.275
F-statistic	8.993	Observations	502

F-statistic is used to determine the significance of the model. According to statistics probability F calculated in Table 6 (significantly Model 0.0000) it is clear that the model was significant and at least one of the coefficients of the regression model is nonzero. Durbin-Watson test was used to assess the assumption of non-correlation established in the results of the regression equation. Durbin-Watson value equal to 2.275, as its value is between 1.5 to 2.5, it shows that there is a correlation between the residuals of the first kind. The results show that there is a significant relationship between institutional ownership as the independent variable and stock price as the dependent variable, also according to the obtained coefficient for the independent variable (5257.36), it can be concluded that there is a positive relationship between dependent and independent variables and with the increase in institutional ownership stock price increases, therefore the second hypothesis is confirmed. The adjusted coefficient of determination in the regression model results from the second hypothesis is equal to 0.6262, this value indicates that about 63% of the dependent variable explained by the independent and control variables.

Stock price under size of institute auditor

Table 7. The significance testing results of the third hypothesis regression model

$P_{it} = \alpha_0 + \beta_1 BIG_{it} + \beta_2 LEV_{it} + \beta_3 ROE_{it} + \beta_4 MCS_{it}$			
Variables	Coefficients	t-Statistic	Prob.
α_0	-51268.12	-5.687	0.000
BIG	42.266	0.036	0.972
SIZE	3732.99	5.343	0.000
LEV	-1868.75	-0.672	0.502
ROE	1308.45	2.628	0.009
MCS	7362.24	2.075	0.039
R^2	0.7015	Prob. (F-statistic)	0.000
$\bar{R}^2$	0.6224	Durbin-Watson stat	2.256
F-statistic	8.865	Observations	502

F-statistic is used to determine the significance of the model. According to statistics probability F calculated in Table 7 (significantly Model 0.0000) it is clear that the model was significant and at least one of the coefficients of the regression model is nonzero. Durbin-Watson test was used to assess the assumption of non-correlation established in the results of the regression equation. Durbin-Watson value equal to 2.256, as its value is between 1.5 to 2.5, it shows that there is a correlation between the residuals of the first kind. The results show that there is a significant relationship between size of institute auditor as the independent variable and stock price as the dependent variable, also according to the obtained coefficient for the independent variable (42.266), it can be concluded that there is a positive relationship between dependent and independent variables, given that model results show that there is no significant relationship between institutional ownership with the dependent variable stock price, therefore the third hypothesis is not confirmed.

Conclusions

The first hypothesis of the study was to evaluate the effect of unconditional conservatism on stock prices of companies listed on the Stock Exchange of Tehran. The results showed that conservatives have a significant effect on stock price and its effect is negative, and reduced the company's stock price with increasing conservatism. These results suggest that, as long as companies increase the amount of conservatism, lower identify profitable due to the conservative approach and reduced profitability than before but earnings quality is higher. In fact, the company announced lower profits, its stock price is less, also you should know that these companies during the financial crisis more successfully than other companies due to higher flexibility and despite the low prices of shares are more valuable for investment. Therefore, it is recommended that investors consider the company's shares for investment.

The second hypothesis of the study was to evaluate the effect of institutional ownership on the stock prices of companies listed on the Stock Exchange of Tehran. The results showed that institutional ownership has a significant effect on the stock price and the type

of effect is positive, and by increasing institutional ownership, stock price increases. These results indicate that, while institutional ownership in companies will increase due to more favorable corporate governance, stock prices will rise, and reduce conflicts of interest between managers and owners and grow the stock price upward. Therefore, it can be stated that with increasing institutional ownership is provided respect to maximizing shareholder wealth.

The third hypothesis of the study was to evaluate the effect of institutional ownership on the stock prices of companies listed on the Stock Exchange of Tehran.

The third hypothesis of the research is to investigate the effect of the size of the audit on stock prices of companies listed on the Stock Exchange of Tehran. The results showed that the size of the audit firm has no significant effect on stock price. In other words, stock prices are unaffected by the credit companies that have been audited by the National Audit Office or others.

One of the main limitations of this study is the lack of internal and external similar studies that has faced the researchers compared their findings with restrictions.

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