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OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND OWNERSHIP STRUCTURE WITH CONSERVATIVE ACCOUNTING

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ABSTRACT

First of all, this paper introduces the concepts of capital structure and ownership structure and then studies the relationship between these factors and conservative accounting approach. This paper lies inside descriptive projects with cross sectional correlation category in which data are analyzed through regression analysis method. Based on carried out tests it was revealed that correlation rate between operational accounting conservatism and capital structure is 0.28 and its significance factor is below 5%. Therefore, we can argue that there is an inverse and meaningful correlation between capital structure and operational conservatism. On the other hand, the significance factor of ownership structure and ownership concentration rate is more than 5%. Therefore, it could be argued that there is no significance correlation between these two variables and operational conservatism. By conducting the significance test of regression it was revealed that there is a linear relation between operational conservatism and capital structure as well as between ownership type and ownership concentration rate. But in the significance test of coefficients, capital structure does not affect operational conservatism and only ownership type and ownership concentration affect operational conservatism. Also, the significance factor of the three mentioned variables is higher than 5% in office conservatism approach. Therefore, there is no meaningful correlation between independent variables and office conservatism. In the significance test of regression however, there is no linear relation between office conservatism and ownership structure as well as between ownership type and ownership concentration. On the other hand, in the significance test of coefficients only the parameter of ownership type affects office conservatism.

KEYWORDS

capital structure, ownership structure, conservatism, ownership concentration, ownership type.

INTRODUCTION

Capital structure has been introduced as the most important parameter affecting rank of companies and directing companies in capital market. On the other hand, the ownership structure of companies affects as an important factor accounting approaches and financial reports. In today's continuous changing world, credit rank of companies depends to some extent on their capital structure. Obtaining an optimal capital structure is considered as an important and vital problem in companies. Different factors like internal and external decisions affect the capital structure of a company which makes it difficult and even impossible to predict how capital structure of a company is formed which is generally referred as the architecture of capital structure. Stockholders prefer to choose such a capital by which, in addition to enriching their wealth, Agency Costs is minimized through minimizing *Weighted Average Cost of Capital* and the conflicts between benefits of stockholders and ownership are minimized (Wang, 2010). As management and ownership were separated, this was managers who manage offices as the representatives of ownerships i.e. stockholders. Formation of representative relationship results in conflicts between benefits of managers and stockholders. This means that it makes an opportunity to managers to show opportunistic behaviors and make decisions which meet their benefits which are in contrast with stockholders benefits. This problem causes companies to pay special attention to accounting conservatism as one of the most important concepts in financial reporting.

Conservatism is an accounting technique supporting companies' owners and stockholders, who form the ownership structure of company, and inhibits managers from opportunistic decisions and excessive optimistic views in offering profit and basically inhibits additional payments to managers like additional awards [Mehrani et al, 2011;49].

RESEARCH LITERATURE

Izadnia and Rahimi Dastjedrdi (Izadnia & Rahimi Dastjedrdi, 2010) carried out a research with the title of "*the impacts of capital structure on rate of return equity and earning per share*" and concluded that there is a direct relation between debt than to stockholders' income ratio (independent variable) and rate of return and earning per share (dependant variable). Also, they concluded that there is meaningful relation between debt to assets ratio and earning per share. Mehrani, Morad and Eskandari [Mehrani, Moradi & Eskandari, 2011] carried out a research with the title of "*the relationship between type of institutional owner and conservative accounting*" and studied the effects of the existence of institutional owners on conservative accounting processes and concluded that institutional investors are not the same and affect accounting processes through different ways. Arbajian and Safari Graeili [Arbajian & Safari Graeili, 2010]

investigated the effects of capital structure on the profitability of the companies accepted in Tehran Stock Exchange and discovered that there is a relationship between short term debt to assets ratio and companies' profitability while there is an inverse relationship between debt to assets ratio and profitability.

Jaish Koomar [Jaish Koomar 2003] investigated in his study the relationship between ownership structure, corporate governance and corporate dividend policy and argued that ownership structure is one of the most important factors affecting corporate dividend policy although its effects differ from company to company and from layer to layer. Moorizolroka [Moorizolroka 2007] carried out a research under the title of "the impacts of company value on capital structure" and found that capital structure is considered as a system managing companies which could promote company's productivity and manage its works and create value for company. Chiao, Zhuen and Zhang [Chiao, Zhuen & Zhang, 2000] studied in their research the quality of conservative accounting which affects the relationship between accounting information and company value. The results of their study revealed that developed companies affect income and office values. Lee [Lee, 2009] investigated the capital structure and ownership structure of Chinese companies and concluded that there is a negative and direct relationship between company's performance and financial leverage and short term debts' ratio. For this, Chinese companies use short term debts. Kapopolo and Lazarito [Kapololo & Lazarito 2007] investigated in their studies the effects of ownership structure on company performance by analyzing 175 Greece companies and concluded that there is a positive relation between more concentrated ownership structure and higher profitability. In other words, gaining more profit requires less spread ownership. Jozpedz [Jozpedz et al, 2010] studied the relationship between capital structure and ownership type in 7 countries of Latin America and found that there is a positive relationship between leverage and ownership concentration. Also, the results of this study indicate a positive relation between leverage and growth variable as well as a negative relation between leverage and profitability. For this, large scale companies have more tangible assets. Nadim Ahmad and Zhung wang [Nadim Ahmad & Zhung Wang, 2001] investigated critical factors determining capital structure in Pakistan production industries and discovered that there is a negative relation between profitability, liquidity, income oscillations and tangible assets structure and debt ratio while company size has positive relation with debt ratio. Ghangh Wang [Ghangh wangh et al, 2010] investigated through their study the relationship between accounting conservatism and debt managerial ownership and concluded that accounting conservatism, as a mechanism showing contrasts between stockholders and debtors, decreases representative costs.

Moham [Moham et al, 2009] investigated the relationship between the flow cash dispersion of controller stockholders and accounting conservatism and argued that there is a positive relation between cash flow dispersion among several main stockholders and accounting conservatism. Sanchez [sanchez et al, 2009] investigated the relationship between loss on time recognition and the main ownership structure and concluded that minority interest decreases as the ownership of main stockholders increases. Amotla [Amotla, 2009] investigated the effects of leverage on investment in new emerged markets. He argues that the effects of leverage on investment is a very important parameter as company value is determined through the expected cash flow generating due to investments while the channels by which leverage affects investment are not clear.

Sunde and Zhang [Sunder & Zhang, 2009] studied the effects of conservatism on debt contracts. Their results revealed that there is a direct relation between conservatism and debt rate. Hasan [Hasan et al, 2009] showed that there is a considerable negative relation between the size of director board and family control and debt to stockholders equity ratio.

SUBJECT IMPORTANCE

The overall results of the carried out studies indicate that capital structure is the most important factor affecting company values. On the other hand, the ownership structure of companies has been recognized as an important factor affecting accounting as well as financial reporting procedures. Board of directors needs reliable information in order to supervise their managers. Accounting conservatism is one of the most vital sources provide directors with such reliable information which is very beneficial for supervising managers and evaluating their strategies and decisions.

STATEMENT OF PROBLEM

The quality of obtaining optimal capital structure is as one of important and vital issues companies involve with. Various internal and external parameters affect financial structure of companies and make it difficult and even impossible to predict how capital structure of a company, which is referred as architecture of capital structure, is formed. Regarding diversity of factors affecting capital structure of companies typical questions always arise including: how an idealistic capital structure could be obtained? How companies could approach towards such an idealistic structure?

Regarding the fact that conservatism supports both ownerships and stockholders, it seems that it is the answer of the problem of this paper.

STUDY OBJECT

The main object of this study is to evaluate the relationship between capital and ownership structures and conservative accounting values. In order to reach to this object the following three hypotheses have been employed.

HYPOTHESES

- 1- there is a meaningful and positive relation between company's capital structure and accounting conservatism
- 2- there is a meaningful and positive relation between company's ownership type and accounting conservatism
- 3- there is a meaningful and positive relation between company's ownership concentration rate and accounting conservatism

METHODOLOGY

Definition of study variables and measuring them

Independent variables:

- 1- Capital structure: capital structure is considered as the ratio of total liability to total assets in the considered year: $\text{TOTAL LIABILITY} / \text{TOTAL ASSETS}$
- 2- Type of ownership: this means that whether the considered company is a state company or a private company. Based on the related rules if government is considered directly or indirectly as the ownership of the company it is considered as a state company, and the assigned value to this company is one, otherwise it is a private company.
- 3- The rank of ownership concentration

In order to define the rank of ownership concentration, Hirschfeld-Hirschman index is used. This index is the ratio of the sum of the squares of shares percentage to the number of company's stockholders. This index increases as ownership concentration increases. In the case where all shares of a company belong to one person this index gains the maximum value i.e. 1000 units. In the case where the ownership is dispersed and all stockholders have the same number of shares, the HHI index would gain the minimum value i.e. 1000/??

$$HHI = \left[\frac{\sum (P_i/p)^2}{n} \right] \times 100$$

In which HHI is the index of the ownership concentration of each company, P_i is the total number of main stockholders of each company and P is the total number of whole stockholders of each company.

DEPENDANT VARIABLES

Conservatism is considered as dependant variable. In order to calculate conservatism, Hayn-Givoly model [Hayn & Givoly, 2000] is employed.

This model calculates conservative index as follows:

$$\text{TOTAL ACCRUAL} \times (-1) / \text{TOTAL ASSET} = \text{Conservative Index}$$

Operating accruals is net profit minus net cash flow of operation plus the value of depreciations of assets.

According to this model, there is a negative relation between conservatism and operating accruals. For this, the relation is multiplied by -1.

CONTROLLING VARIABLES

Relevant adjustments ratio, rate of sales growth, on assets return and P/E ratio and price to profit cash share are introduced to model respectively in order to evaluate the main variable in the presence and without the presence of these factors.

Among 108 companies accepted in Tehran Stock Exchange, 50 investors and financial intermediate companies were omitted and 73 companies also were omitted due to the fact that the due date of their financial time period was not ended to March. Among rest companies 99 companies were selected randomly.

RESEARCH MODEL

$$\text{CONS} = \alpha_0 + \beta_1 \text{Stru} + \beta_2 \text{Owne} + \beta_3 \text{Conc} + \beta_4 \text{Cont Var} + \epsilon$$

In which; **CONS**: is accounting conservatism and dependant variable **Stru**: is capital structure and independent variable **Owne**: is type of ownership and independent variable **Conc**: is ownership concentration rate and independent variable **CONT VAR**: are research control variables **β_1 , β_2 , β_3 and β_4** : are the coefficients of model. It is expected that all of them have positive relation with dependant variable ϵ : is error tolerance

The above mentioned model has been extracted from available models introduced in the paper under the title of "the relationship between debt management ownership and accounting conservatism" written by Fee Zhee as well as the paper under the title of "performance enclosure and their actions" written by David Kadmartorib and the paper of "the effect of company's ownership structure on company's conservative income" written by Kangh.

RESULTS AND DISCUSSION

DESCRIPTIVE STATISTICS

TABLE 1: THE FOLLOWING TABLE SHOWS DESCRIPTIVE STATISTICS OF THIS STUDY

	conservatism operational	capital structure	ownership type	ownership concentration
Mean	74.4485	.7268	.40	3332.6339
Std. Error of Mean	8.28906	.05537	.057	301.30489
Median	47.5800	.6314	.00	3056.9024
Std. Deviation	71.78536	.47950	.493	2609.37689
Variance	5153.137	.230	.243	6808847.741
Skewness	1.036	5.062	.417	.947
Std. Error of Skewness	.277	.277	.277	.277
Kurtosis	.442	30.411	-1.877	.439
Std. Error of Kurtosis	.548	.548	.548	.548

This table shows the descriptive statistics of capital structure, type of ownership and ownership concentration through operational accounting conservatism. The mean values of operational accounting conservatism and capital structure are respectively 74.4485 and 0.7268 and their variances are respectively 80289 and 0.5537. Since the Cholgy coefficient of the operational accounting conservatism variable is 1.036 this implies that this variable is to some extent right skewed and does not symmetrically (0.5) differ from normal distribution. The Cholgy coefficient of capital structure is 5.0626, which is right skewed. Also, the elongation factor of this variable (operational accounting conservatism) is 0.442 which is almost normal as it is very close to 0.5. The elongation factor of capital structure variable is 30.411, which is higher than normal distribution. The 75 percentile of operational accounting conservatism is 11.07, which indicates that 0.75% of data are below this value. Also, the 25 percentile of this variable is 47.58, which implies that 25% of data are below this value. On the other hand, the 75 and 25 percentiles of capital structure variable are respectively 0.7511 and 0.5358 respectively implying that 25% of data are higher than these two values and 25% of them are less. Thus, we can conclude that the data of both operational accounting conservatism and capital structure variables covers a positive range. In other words, 50% of operational accounting conservatism data range from -18.35 to 110.7. Similarly, the statistics of other variables are presented.

TABLE 2: SHOWS THE RESULTS OF STATISTICAL TEST OF RESEARCH HYPOTHESES AS WELL AS OPERATIONAL CONTROL VARIABLES WITH TOGETHER

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	50.101	9.787		5.119	0.000
Ownership-type	60.868	15.474	0.418	3.933	0.000

As we can see in coefficient significance table, the significance factor of type of ownership is sig=0.000 which is below 5%. For this, the H_0 hypothesis which says that "the coefficients of regression model are zero" is eliminated and hypothesis H_1 is accepted. In other variables we have sig>0.5% implying that the regressions of the variables of capital structure, ownership concentration, relevant adjustments, sale growth rate, on assets return and P/E ratio are zero. This means that the hypothesis H_0 is accepted and the hypothesis H_1 is eliminated. Basically, this is not true we conclude that the eliminated variables are not good predictors. Instead, we conclude that they play no important role in model.

TABLE 3: STATISTICAL RESULTS OF HYPOTHESIS AND MODEL RESEARCH

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
capital structure	-0.064	0.210	-0.029	-0.303	0.763
ownership type	0.126	0.186	0.065	0.677	0.500
ownership concentration	-1.395E-5	.000	-0.033	-0.343	0.732
Annual adjustments	-0.062	0.022	-0.291	-2.831	0.006
Rshdfrvsh rate	0.034	0.012	0.277	2.768	0.007
Return on assets	-0.021	0.034	-0.060	-0.627	0.532
P.E	0.001	0.001	0.083	0.828	0.410

We can see that the significance level of all three main variables is higher than 5%. Therefore, the coefficients of these variables are not significance in model. The significance factor of on assets return control and P/E ratio is also higher than 5% indicating that the coefficients of these two variables are not significance too. Therefore, in the all five mentioned variables the hypothesis H_1 is eliminated and the hypothesis H_0 is accepted. This means that the hypothesis which says "capital structure, type of ownership, ownership concentration rate and assets return don't affect operational conservatism" is not true.

On the other hand, we can see that the significance factor of relevant adjustments and sales growth rate is below 5% (the significance factor of relevant adjustments and sales growth rate is respectively $\text{Sig}=0.007$ and $\text{Sig}=0.006$). Thus, we argue that the two variables are significant in the model. We can see that the effects of relevant adjustments ($\text{Beta}=-0.291$) and sales growth rate ($\text{Beta}=+0.277$) are higher than any other variable.

DISCUSSION AND CONCLUSION

Since this study states capital structure and ownership structure in terms of official and operational conservatism, three office hypotheses and three operational hypotheses were offered. In order to test research hypotheses (the relationship between operational conservatism and capital structure and type of ownership and ownership concentration rate) multiple regression model was employed. The relationship between capital structure as well as ownership concentration rate and operational conservatism was not approved. On the other hand, as the significance factor of them is higher than 5%, then the assumption that says regression model is linear was not approved. Also, the assumption that says the significance of each independent variable affects conservatism dependant variable was not approved while the relationship between type of ownership and operational conservatism was confirmed because its significance factor is below 5%. Therefore, both assumptions i.e. "the regression model is linear" and "significance of type of ownership affects the dependent variable of operational conservatism" were confirmed. On the other hand, the relationship between capital structure and type of ownership as well as ownership concentration and office conservatism was not confirmed as their significance factor is below 5%. Therefore, both assumptions i.e. "the regression model is linear" and "significance of type of ownership affects the dependent variable of operational conservatism" were not confirmed. The findings of this study are similar to that of studies of Shahriari, Yeghane, Ebrahimi and Arabi which indicate a relationship between ownership concentration and conservatism. Also, studies of Mehrani, Moradi and Eskandar show a meaningful relationship between institutional ownership type and accounting conservatism. In the case of foreign studies, the results of studies of Chee Lio wang [Chi Lio Wang, 2007], Ajinkiabraj and Sengopta [Ajinkiabraj and Sengopta, 2005] and Bosch [Bosch, 1998] are similar to the present study.

SUGGESTIONS BASED ON STUDY FINDINGS

Regarding the fact that stockholders are the ownerships of companies' shares and have significant influence on companies, it is suggested that company's shares be distributed among different stockholders for better control purposes.

It is suggested that the impact of other related variables on the results of this study be investigated. For example, the impact of institutional stockholders on the relationship between company size and debt and accounting conservatism.

SUGGESTIONS FOR FUTURE STUDIES

Investigating the relationship between capital structure as well as type of ownership (state or private) and other indexes especially fiscal transparency.

Investigating the relationship between conservatism and other variables including profit quality and profit management.

Studies should be carried out in long term periods and with higher volume of samples in order to promote the validity of the obtained results.

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