Ownership Concentration and Accuracy of Financial Reporting

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Abstract

This study aims to examine the effect of some variables of corporate governance on the accuracy of financial reporting and audit reports quality of companies accepted in Tehran Stock Exchange from 2007 to 2012. Corporate governance variables used in this study are the concentration of ownership and institutional investors. The ratio of the absolute value of annual adjustments to net income is used to calculate accuracy of financial reporting and number of conditional clauses of the audit report is used to calculate the quality of the audit report. The results show that the concentration of ownership has a positive and significant relationship with the accuracy of financial reporting and the negative relationship with institutional investors and significant financial reporting accuracy. On the other hand, the concentration of ownership has a significant and positive correlation with the quality of the audit report and no significant relationship has been observed between the quality of the audit report and institutional investors.

Keywords: corporate governance, financial report, audit report, ownership, Tehran stock exchange

Introduction

From many years ago, economists assumed that all groups were related to the corporation attempt for a common goal. But in the last 30 years, cases of conflict of interests between groups and the way through which companies confront with such conflicts are increased. These are generally called "agency theory"(Jensen & Meckling, 1976). According to Jensen and Meckling (1976) agency relationship is a contract under which the employer or the owner chooses representative or agent and devolves the decision-making authority to him. In agency relations, maximizing wealth is the aim of owners. So, to achieve this goal owners monitor and evaluate agent's performance.

Separation of ownership and controlling in companies need the corporate governance system in order to monitor managers supporting the investors about agency issues (Fama & Jensen, 1983; Jensen & Meckling, 1976). One of the assumptions used in accounting is "corporate governance" which leads to increasing possibility of financial reporting dependence (Di, 2005). Corporate Governance System is a mechanism related to company managing and contact beneficiaries with each other's to maximize their benefits and also prevent a conflict of interest and violation of the one's right to benefit another. In other words, corporate governance mechanism makes this assurance that managers act for the interests of stakeholders and do not pursue personal interests and attempt to maximize the value of the company. Also this mechanism influence the quantity and quality of information disclosure by companies (Kanagrtnam et al., 2007)

Many factors affect the quality of financial reporting and financial reporting influences a variety of factors. Firm's ownership structure can affect factors affecting the quality of financial reporting, financial reporting accuracy and quality of the audit report. The ownership structure of limited public companies can be spread (in spite of a large number of small shareholders) or concentrated (despite a few major shareholders). When ownership is under the control of major
shareholders, centralized control system and when the property is distributed, decentralized control system is used. Since the concentration of ownership was observed as an important determinant of corporate governance mechanism, it seems identity of controller ownership plays essential role about ownership –performance. The present study seeks to investigate the existence of relationship between the ownership structure of a company and accuracy of its financial reporting.

**Theoretical foundation**

**Ownership structure**

Ownership word means “the one’s right to seize the object, except those excluded by law” (farhange moen, 2005). The ownership structure characterizes the structure and composition of the shareholders of a company and sometimes characterizes the ultimate majority owner of shares of that company. Many economic analysts believe that any type of ownership can also affect corporate performance. Therefore, control methods of managers and factors affecting their performance, as well as ways to measure the impact of each type of ownership on corporate performance are interesting issues for shareholders, managers and researchers.

Shivakumar and Ball (2005) have offered evidences from 25 countries with a common law system and the legal system enacted in 1985 till 1995 which including more than 40,000 samples. Offered evidence is in accordance with this assumption that dispersed ownership pattern of governance in countries with common law system leads to the financial information's disclosure more timely than concentrated ownership governance pattern in countries with enacted legal system. Mazuta and Brunzty (2013) examined the impact of corporate governance disclosure in Internet Financial Reporting (IFR). The results indicated a positive correlation between internet financial reporting and corporate governance while there was a negative relationship between ownership structure and internet financial reporting. A company's ownership structure is significant from different aspects and initially in terms of two variables including internal stakeholders and shareholders' equity to internal and external stakeholders. Accordingly, the stock is in the hands of institutional shareholders and government is deemed as the main parts of the corporation external ownership. The stock in domestic shareholders represents the percentage of the stock owned by the shareholders, company's managers and employees. The stock owned by institutional shareholders refers to the percentage of shares that are owned by institutional and legal investors (Sarin et al., 1999). The ownership structure of a company can be internal or external and in this regard, several aspects such as centralization or decentralization ownership, the real and institutional and managerial and non-managerial of the shareholders can be considered.

Therefore, it is noted that the structure of corporate ownership in corporate governance literature system has a great place. Corporate governance structures are multidimensional. Each dimension may substitute or complement each other to form a good governance structure.

**Ownership concentration**

Ownership concentration is the major shareholder in a company (Thomson & Pedersen, 2000). Major shareholders associated with monitoring the management of the company's the stock which is kept lower than the expected benefits because they have more incentives to monitor management costs. Blair (1995) believed that increasing the ownership concentration of large shareholders provides sufficient incentive to monitor managers. Dmstz and Lahen (1985) have supported the sight that major shareholders have more motivation to bear the fixed costs of data collecting and are empirically involved in management monitoring. By contrast, dispersed ownership has little incentive to monitor management (Miher & Anderson, 2000).

In some conditions, the company's shareholders have fewer interests or no incentive to monitor managers. (Blair, 1995; Hart, 1995)
Bendson and Volfnzun (2000) argued that small shareholders know large shareholders as a sample of regulatory environment. Their argument is compatible with the sight says “concentration of ownership is a detail monitoring of corporate governance (Laporta et al., 1998). Based on the representation framework developed by Jensen and Meckling (1976), its expected existing of large shareholders led to less opportunist behavior. So, this concentration of ownership may have an impact on return on investment and subsequently, on the company's stock price by increasing incentives to monitor and control the behavior of self-interested managers in the allocation of resources.

**Institutional Ownership**

Investment of institutional investors is equal to the percentage of shares held by governmental and public companies in the capital stock of the company, these companies including insurance companies, finance institutions, banks, state-owned enterprises, and other components.

Shareholders, especially institutional investors in corporate governance play an important role. Institutional investors can monitor the company management. Their effect on the management of the company can be the base to align the interests of management with the interests of shareholders. Institutional owners have an important role in the corporate monitoring of the equity held by them. Owners (shareholders) of the company have different rights including the rights of the electing board as a representative to monitor the performance of managers. On the other hand, the major shareholders have a significant role in the transmission of information to other shareholders. They can obtain private information from management and convey this information to others (Kumar, 2003).

McConnell and Srvayz (1990) and Hartzl and Stark (2003) found evidence upon which the companies supervised by institutional investors can restrict the behavior of managers. Institutional investors have opportunities, resources and ability to monitor, regulate and influence their managers. Companies monitoring through institutional investors can force managers to focus more on their performance and pay less attention to behave opportunistically. Shleifer and Vishny (1986) pointed out that there is a large shareholder that reduces the problem of representation in the organization. In fact, institutional investors play an essential role in improving corporate governance system.

Institutional investors have the incentive and ability to influence corporate policies for the best interests of shareholders. Since a large portion of the shares owned by institutional owners thus, the minority shareholders are interested in controlling the management actively to obtain benefits in long-term from their investment. In addition to financial incentives, they have great power to influence the management of the company (Park Shin, 2004).

Pound (1988) has proposed two opposing hypotheses on the relationship between institutional ownership and firm value which including effective monitoring hypothesis and the hypothesis of the convergence of interests. Effective monitoring hypothesis acknowledges that institutional investors with more investment impose more efficient supervision and differences of opinion or disputes over representation is likely to be resolved. This hypothesis predicts positive relationship between institutional investors and a firm value. In contrast, interest convergence hypothesis suggests that large institutional shareholders have strategic alliances with management. This hypothesis predicts negative relationship between institutional investors and firm value.

**The quality of the audit report**

Phenomena such as global economic crisis lead to highlighting the essential role of a high quality and reliable financial reporting. These minded comforts also reflect other aspects of quality auditing and financial reporting issues. Audit quality is directly related to corporate governance and oversight mechanisms have a hidden and multi-dimensional structure (Lin and Liu, 2009). In the
past, many attempts have been done to define "quality audit" but none of them have not found general acceptance.

Quality audits have different definitions. Audit quality in the professional literature is defined as the relevant audit standards. Accounting researchers consider the multiple dimensions of audit quality and the dimensions often lead to the appearance of different definitions.

Di Angelo (1981) defined quality audit as the joint probability that a particular audit discovers significant distortions in the financial reports and reports his discovery. Davidson and Neu (1993) provided a more comprehensive definition of quality audit: the auditor's ability to detect and remove the significant distortions and manipulations performed in reported earnings as well. the ability of the auditor in audit quality is an important issue which is interpreted from different perspectives and widely is related to internal and external factors, auditors properties (such as experience, competence, ethics, etc.), independent auditors (independence of the employer, the competition market, etc.) and the legislative environment (compulsory replacement, audit and non-audit services, etc.). Due to different users opinions about audit quality we achieve the fact that none of these factors have any major effect on audit quality lonely. This view suggests that it should be a deeper understanding about the complexity of the issue through research. It also shows that users should carefully consider the fact that immediate activities do not influence the others' opinion and attitudes about audit quality. Therefore, an understanding of each other's views and knowing how ones work influence opinions and attitudes of others about audit quality.

The characteristic of the auditor is one of important factor which including his skill and experience, moral values and thinking. Another important factor refers to the audit process. This process involves the validity of the methodology of the audit, the extent of audit procedures used and the availability of audit evidence required.

Audit outputs are also important implications for audit quality because the output by the users is considered in the evaluation of audit quality. For example, if the report of the auditor on expressing an audit outcome to be clear, it can have a positive effect on audit quality. Similarly, the relationship between auditors and the pillars of leadership on issues such as qualitative aspects of financial reporting and internal control weaknesses can have a positive effect on audit quality.

**Background of Study**

**External investigations**

Gene Ray and Xin Ren (2012) empirically examined the relationship between the institutional environment, ownership structure and the quality of accounting earnings based on data obtained from listed companies in China's stock market from 2007 to 2009. They found that the improvement of the institutional environment in the region increase the quality of accounting earnings. The concentration of ownership has a significant and negative correlation with the quality of accounting earnings information. Accounting profit information has high quality in the state-controlled companies. Institutional environment plays a complementary role of ownership structure and good institutional environment can reduce the negative impact of ownership concentration in accounting earnings quality. Effect of institutional environment on the quality of the accounting earnings between companies has controlled by the government and NGOs with a significant difference.

Zyvriqt (2011) in a research studied audit quality and the factors affecting it. In this regard, the effect of ownership structure on audit quality was examined. Quality of audits in accordance with auditing role in enhancing the quality and reliability of financial statements are critical. The results showed a significant association between audit quality and firms with institutional and foreign ownership and a negative relationship between ownership concentration and audit quality.
The results showed that institutional and the foreign investors are willing to hire high quality auditors to audit.

Chen et al (2010) by using the representation theory tested whether the demand for audit quality distinct by Chinese companies to systematically is associated with a change in the ownership structure. Test results are in support of agency theory. In particular, it was found that the stock reduction and increase institutional investors lead to an overall increase in demand for higher quality audit in China's stock market. However, the individual influence of shareholders on the company auditor's decision appears to be negligible. The results suggest that presence of large institutional investors can help in transition economies allotted.

Busling and Manigart (2007) studied the effect of ownership concentration on the quality of financial reporting in the private companies. The results show that the shareholders of private companies affect the publicly available accounting information quality. More precisely, companies with major shareholders quality of provided accounting information is lower than companies with no major shareholders.

**Internal investigations**

M., et al (2012) examined the relationship between institutional ownership and institutional ownership concentration with relevance of accounting information value in Tehran Stock Exchange. The results indicated significant relationship between institutional ownership and institutional ownership concentration and relevance of accounting information value. But, direction of these relationships is different. The enhancement of institutional ownership increases the relevance of the profit and Loss Statement Information’s value but reduces relevance of balance sheet information’s value. However, increasing institutional ownership concentration reduce the accounting information quality contained in the Profit and Loss Statement and consequently the value of the Profit and Loss Statement but the relevance of the information’s value contained in the balance sheet increases.

Darabi and Jafari (2012) in a study evaluated the effect of the clauses of independent auditor's report on the financial reports transparency of the vehicle and parts manufacturing companies accepted in Tehran Stock Exchange from 2001 to 2009. The results showed that the independent auditor reports enhance commenting legal inspector to Assembly. Independent auditor's report clauses in the vehicle and parts manufacturing firms accepted in Tehran Stock Exchange is decreased from 2004 to the end of 2010, every year over the previous year in respect of the same subject. The report also caused the decision of company's annual general assembly to eliminate the audit reports clauses and the Board of Directors had attempted to remove clauses of the audit report. The results of this study indicated that the clauses of independent auditors' report makes clear financial reports in the automotive and manufacturing companies accepted in the Tehran Stock Exchange.

Fakhari and Hussaini (2011) showed that the presence of institutional investors in corporate increases monitor of the performance of managers and reduces information symmetry and increased institutional investors ownership in the companies reduces the differences about the bid price of buying and selling stocks. On the other hand, if the convergence of interests between institutional investors, management and earnings will be managed, the gap of prices will be increased. It could be beneficial to study about role of institutional investors in companies because they are important in Iranian state economy. This study was descriptive-correlation based on regression analysis by using sectional data from actual firm’s information. Multivariate regression model was used to test the relationship between institutional investors and the differences about the bid price of buying and selling stocks. The hypothesis testing implies a negative and significant relationship between institutional investors and the differences about the bid price of buying and selling stocks. These findings may be useful for policy makers and investors in exchange for voluntary disclosure.
requirements and attending to the supplementary information about the structure and composition of investors.

Ahmadpoor et al (2010) examined the impact of corporate governance and audit quality on the cost of debt financing (borrowing). This empirical research showed that existing major institutional shareholders in composition of shareholders and their efficient monitoring have significantly decreased the effects on the cost of member sample companies’ debt while audit quality does not have this type of effect.

Nikoomaram and badavare nahandi (2009) identified and analyzed the factors affecting the choice of reporting quality. Target population of the research was firms listed in Tehran Stock Exchange from 2007 to 2010. The univariate tests results of research hypotheses indicated a positive relationship between financial reporting quality and performance of management and profit margin as well as a negative relationship between financial reporting quality and the competition in the product market, conservatism of management, measurement, capital-intensive activity, operating cycle and the complexity of activities of company’s environment. However, no relationship was observed between quality of financial reporting and growth opportunities, ownership concentration, board structure, ownership, board members, management honesty and the financial levers. The patterns are based on multivariate tests could predict the quality of financial reporting to provide future financial periods. These patterns are based on normal probability distribution and estimates probability of high quality financial reporting for the next financial period.

Methodology

The method used in this study is a Correlation of descriptive investigations and the study is a retrospective investigation (using past data) which is conducted based on the information contained in the financial statements of listed companies in Tehran Stock Exchange and Board report to the General Assembly. Required data is extracted from books, Persian and Latin Specialized Magazines, articles, media, and in some cases the relevant studies (the library method). Rahavarde Novin database software and Exchange site were used to collect data. Also, information about variable number of clauses of the audit report and the corporate governance is extracted from explanatory notes to the financial statements and the reports of the Board of Directors separately. Multivariate linear regression technique is used and the research hypotheses are tested by using synthetic data.

The combined data is used to estimate the regression model. First, the appropriate estimation method is selected to distinguish the effects of the common methods (compilation) and Limer F test is used for fixed effects. After selecting the fixed effects method, the next step is to identify the presence of fixed effects and random effects. For this purpose, a Hausman test is used to decide on the use of fixed or random effects. In the Hausman test, if the null hypothesis not to be rejectable, the random effects method will be preferred, and will selected as more appropriate and more efficient method. Otherwise, the fixed effects method is efficient. Also, due to combined nature of the data, it is possible that the variance anisotropy problem occur. In the present study, the White test is used to identify anisotropy variance. The regression model is estimated to test the statistical assumptions. Then, statistics F to test significance of pattern, and statistics T is used to test significance of the regression coefficients. Also, Excel and EViews software’s are used to calculate and prepare data and for final analysis.

Research hypotheses

This study investigates the relationship between ownership concentration and accuracy of financial reporting in order to achieve the objectives. Accordingly, four hypotheses are formulated:

H1. There is a significant relationship between ownership concentration and accuracy of financial reporting.
H2. There is a significant relationship between institutional ownership and accuracy of financial reporting.

H3. There is significant relationship between concentration of ownership and quality of the audit report.

H4. There is a significant relationship between institutional ownership and quality of the audit report.

**The statistical population and the research sample**

Statistical population of this study with respect to the objectives is companies listed in Tehran Stock Exchange. The systematic elimination method was used for the sampling. So that all companies of the statistical population that has following next conditions were selected as sample:

a. The companies should not to be in list of banks, financial intermediation, leasing and insurance companies

b. They should not have any activity change or fecal year change from 2007 to 2012 fecal years.

c. The end of the company’s fiscal year should be consistent on March 29.

d. Companies are Stock Exchange membership from the beginning to the end of the study.

e. All those required data should be available from 2007 to 2012.

Given the above conditions, 164 firms (984 firm-years) were selected. And their financial data was used in the analysis.

**Procedure of the research**

To test the research hypothesis 1 and 2, following model was used:

$$ FRP_{ij} = b_0 + b_1 OC_{ij} + b_2 IO_{ij} + b_3 SIZE_{ij} + b_4 MTB_{ij} \quad \text{model (1)} $$

In which:

- The dependent variable: $FRP_{ij}$: Financial reporting accuracy that achieved the absolute value of the annual adjustments to net income (Di Angelo, 1981).
- The independent variables:
  - $OC_{ij}$: Concentration of ownership which is the sum of equity of real or legal persons who hold more than 10 percent of the company's share (Astami. Emita. Tower, 2006).
  - $IO_{ij}$: Institutional ownership is the percentage of shares held by state-owned and public companies from capital stock of these companies including insurance, financial institutions, banks, public companies and other parts of the state (Kazemnejad, 2010).
- Control variables:
  - $SIZE_{ij}$: Logarithm of total assets.
  - $MTB_{ij}$: Tobin’s Q ratio. This is very similar to the ratio of market value to book value per share. To calculate this ratio, market value of equity is divided by book value of total equity rights (Hirschey & Wichern 1984).

Also, in order to test hypotheses 3 and 4 of the following model is used:

$$ ARQ_{ij} = b_0 + b_1 OC_{ij} + b_2 IO_{ij} + b_3 SIZE_{ij} + b_4 MTB_{ij} \quad \text{model (2)} $$

In which:

- $ARQ_{ij}$: auditor's report quality in the present study is the number of condition clauses contained in the audit report (Palmros, 1986). Other variables were described above.
Findings of the study

Descriptive Statistics

Table 1 indicated descriptive statistics of tested variables. In this table, variables, mean, median, standard deviation, minimum and maximum values are given. As Table 1 shows, the mean and median values are close to each other and represents that the parameters have a normal distribution.

<table>
<thead>
<tr>
<th>Variable</th>
<th>FRP</th>
<th>OC</th>
<th>IO</th>
<th>ARQ</th>
<th>SIZE</th>
<th>MTB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.3748</td>
<td>0.6777</td>
<td>0.4228</td>
<td>1.4923</td>
<td>5.8494</td>
<td>1.8209</td>
</tr>
<tr>
<td>Median</td>
<td>0.0500</td>
<td>0.7050</td>
<td>0.3292</td>
<td>1.0000</td>
<td>5.7635</td>
<td>1.5067</td>
</tr>
<tr>
<td>Maximum</td>
<td>19.8800</td>
<td>0.9893</td>
<td>0.9900</td>
<td>10.000</td>
<td>8.0560</td>
<td>19.7292</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>4.2912</td>
<td>-8.9050</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.3401</td>
<td>0.2008</td>
<td>33.4956</td>
<td>1.8447</td>
<td>0.6317</td>
<td>1.8106</td>
</tr>
<tr>
<td>Observations</td>
<td>984</td>
<td>984</td>
<td>984</td>
<td>984</td>
<td>984</td>
<td>984</td>
</tr>
</tbody>
</table>

Inferential statistics

The results of the first and second hypotheses testing

As mentioned above, the combined data is used in this research. When combined data was used, before fitting and estimating the regression model, F Limar test and the Hausman test were used. According to the Table 2, the error of p-value is less than 5% in both F-Limar and the Hausman test. So, the fixed effects method was accepted. Based on the results obtained in Table 2, estimated study pattern, the statistic F (3/203) and the error obtained for that is (0000/0) which is lower than error level of 0/01. So, according to the reliability level of 0/99 it can be concluded that in general, the research model fit well and is highly significant. Furthermore, the adjusted coefficient of determination obtained for the model is (0/275), which it can be concluded that the independent variables explain more than 27% of the variation in the dependent variable. Also, the Durbin-Watson statistic (2/197) represents verification of error components independence in regression fitted model, which indicates the absence of autocorrelation between the components of the models disturbing.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficients</th>
<th>Std. Error</th>
<th>Statistic</th>
<th>Prop</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.6571</td>
<td>0.2179</td>
<td>-3.0144</td>
<td>0.0027*</td>
</tr>
<tr>
<td>OC</td>
<td>0.2895</td>
<td>0.0922</td>
<td>3.1404</td>
<td>0.0017*</td>
</tr>
<tr>
<td>IO</td>
<td>-0.0996</td>
<td>0.0432</td>
<td>-2.3037</td>
<td>0.0215**</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.1498</td>
<td>0.0332</td>
<td>4.5078</td>
<td>0.0000*</td>
</tr>
<tr>
<td>MTB</td>
<td>0.0010</td>
<td>0.0027</td>
<td>0.3627</td>
<td>0.7169</td>
</tr>
<tr>
<td>R-squared</td>
<td>Adjusted R-squared</td>
<td>Durbin-Watson statistic</td>
<td>F-statistic</td>
<td>Prop (F-statistic)</td>
</tr>
<tr>
<td></td>
<td>0.2750</td>
<td>2.1970</td>
<td>3.2028</td>
<td>0.0000</td>
</tr>
<tr>
<td>Effects Test (Cross-section F)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Hausman Test</td>
</tr>
<tr>
<td>Statistic</td>
<td>1.2940</td>
<td></td>
<td></td>
<td>10.464</td>
</tr>
<tr>
<td>Prob.</td>
<td>0.0136</td>
<td></td>
<td></td>
<td>0.0333</td>
</tr>
</tbody>
</table>
As Table 2 shows the coefficient of $\beta_1$ (0.2895) is positive and statistically significant at the 1% level of error which indicates the positive and significant relationship between ownership concentration and accuracy of financial reporting. Thus, the first hypothesis of the study is confirmed. Given the significant and positive effect it can be concluded that companies with higher ownership concentration have more accuracy of financial reporting. Also, according to Table 2, the coefficient of $\beta_2$ (-0.099) is negative and is significant at the 5% error level, and negative coefficient of $\beta_2$ indicates that institutional investors are not actively involved in decision-making and effective supervision of the company management, thus leading to a decrease in the accuracy of financial reporting. So the second hypothesis of the study is confirmed at the level of 5% error. Well as the control variables, firm size ($\beta_3$) in 1% error level had positive significant correlation with the accuracy of financial reporting and will lead to increased accuracy of financial reporting. In other words, we can say that the bigger companies have higher accuracy of financial reporting.

The results of third and fourth hypotheses test of study

As it is shown in Table 3, p-value of Limar F test and Hausman test both are less than 5% error, and therefore the fixed effects method will be accepted. Thus, model 2 of study was conducted by using fixed effects. Given the results in Table 3 Estimated study's pattern, according to the statistic F (9.268) and the error obtained equals (0.000) is less than the error 01/0 , thus ensuring 0.99 level can be expressed in the research model fit well and are highly significant. Furthermore, the coefficient of determination adjusted for the pattern is obtained (0.587) and it can be concluded that the independent variables explain more than 58% of the variation in the dependent variable. Also, the Durbin-Watson statistic (1.780) represents verification of error components independence in regression fitted model which indicates the absence of autocorrelation between the components of the models disturbing.

Table 3. The results of third and fourth hypothesis testing

<table>
<thead>
<tr>
<th>ARQij = $\beta_0 + \beta_1 OCij + \beta_2 IOij + \beta_3 SIZEij + \beta_4 MTBij</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistical indexes Variables</td>
<td>Coefficients</td>
</tr>
<tr>
<td>C</td>
<td>-2.2786</td>
</tr>
<tr>
<td>OC</td>
<td>1.1442</td>
</tr>
<tr>
<td>IO</td>
<td>0.2318</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.5076</td>
</tr>
<tr>
<td>MTB</td>
<td>-0.0357</td>
</tr>
<tr>
<td>R-squared</td>
<td>Adjusted R-squared</td>
</tr>
<tr>
<td>0.6570</td>
<td>0.5780</td>
</tr>
<tr>
<td>Effects Test (Cross-section F)</td>
<td>-</td>
</tr>
<tr>
<td>Statistic</td>
<td>8.2550</td>
</tr>
<tr>
<td>Prob.</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

As Table 3 shows that the coefficient of $\beta_1$ (1.1442) is positive and statistically significant at the 5% level of error which indicates the positive and significant relationship between ownership concentration and quality of the audit report. Therefore, the third hypothesis of the study is confirmed. In other words, it can be concluded that companies with higher ownership concentration, have better quality of the audit report. Also, according to Table 3, the coefficient of $\beta_2$ is positive, and equal to 0.2318 at the 5% error level which is not significant looking for a better quality audit.
Conclusion

In the present study, relationship between concentration of ownership and accuracy of financial reporting was examined. The results of this study, by using a statistical technique “combined data” were estimated. The results showed a positive and significant correlation between ownership concentration and accuracy of financial reporting and the quality of the audit report. Concentrated ownership makes the block owners, amend managers' behavior about poor earnings report, they have a lot of motivation and ability to monitor their managers actively. Furthermore, Block holders have long-term incentives to invest in their companies, and seeking to create value for the company. Therefore, the selection of auditors will have greater quality that improves the quality of the financial statement audit and financial reporting will have higher accuracy. Generally, according to the results of first and third hypothesis testing, this active surveillance hypothesis is confirmed.

Also, the results showed a negative relationship between institutional shareholders and accuracy of financial reporting and suggest that institutional investors do not have effective monitoring on the behavior of managers and thus they are not seeking to limit opportunistic behavior of managers. So, institutional investors have incentives beyond the quality of reported earnings and according to the results of research they are following their own interests. Thus, the results confirm the personal interest’s hypothesis.

References


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