The Relationship between Information Asymmetry and Mechanisms of Corporate Governance of Companies in Tehran Stock Exchange

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Abstract

This study aims to investigate some of the most important corporate governance mechanisms and information asymmetry in Tehran's stock exchange. The percentage of institutional investment, ownership concentration, type of auditors, and the independence of board members have been used as the corporate governance mechanisms, and also changes in the liquidity of the stock market have been used as an indicator for information asymmetry. The statistical population of this study is companies accepted in Tehran's Stock Exchange and research sample has been selected by using the systematic sampling Cup method and applying the conditions of research variables to 145 companies from 22 industries during 2008-2013. The research findings show that there is a negative and significant relationship between the percentage of institutional investments and the independence of board members, and bid-ask spread, and there is a positive and significant relationship between ownership concentration and the bid-ask spread. Also, the obtained results show that there is no relationship between the variables of the type of auditor and bid-ask spread.

1. Introduction

According to accounting standards, the main purpose of preparation of financial statements is revealing financial information and providing useful information regarding financial status and results of operations of the business...
units. Nowadays, hardly anyone can ignore the importance of transparency in financial reporting, because shareholders and creditors make their important investment decisions based on the financial information of corporations. They demand higher quantity and transparency in the information about the organizational performances. Complete and transparent disclosure of financial reporting can provide a secure condition and increase the confidence of the investors. Transparency has a positive impact on corporate performance and can protect the interests of shareholders. Obscure financial statements, will hide the amount of organizational debt, especially when the company is on the verge of bankruptcy. Therefore, transparency is very attractive for shareholders.

Efficient corporate governance mechanisms are vital for the proper functioning of capital markets and the whole economy and necessary to attract and retain public confidence. Proper corporate governance makes sure that firms can efficiently utilize their capital. Additionally, this makes sure that firms can consider benefits of a wide range of interest groups and also the community of workers in that firm and the board of directors are held accountable against shareholders and the company. When the corporate governance structure suffers from poor principals, conflicts between big and small investors will also increase.

2. Review of Literature

Genic et al (2005) investigated the information asymmetry during profit declaration and showed that profit declaration, according to the proposed transaction price gap index and does not cause significant changes in the volume of stock. A cross-sectional analysis has shown that it is partly related to the changes in the information asymmetry.

Kai et al (2008) investigated the asymmetric effects on the three main corporate governance mechanisms (the monitoring intensity the board of directors, market discipline (based on the use of anti-academic measures) and payment sensitivity for the performance for senior management). They found that firms with more information asymmetry tend to use lower board monitoring, market discipline, and have a higher performance of their senior management.

Ben Ali (2009) showed that the U.S. institutional investors in France, reduce agency costs and the demand for better and more useful disclosure and consequently, information asymmetry.

Gu & Hackbarthe (2013) over investigated the interaction between accounting transparency and corporate governance over 1990 to 2006 and stated that firms with strong corporate governance, continuously experience abnormal returns and increased transparency. They found supporting evidence regarding that corporate governance and transparency actually complete each other.

3. Research Hypotheses

1. There is a significant relationship between ownership percentage of institutional shareholders and bid-ask spread.
2. There is a significant relationship between ownership concentration and bid-ask spread.
3. There is a significant relationship between the type of auditor and bid-ask spread.
4. There is a significant relationship between independence of board members and bid-ask spread.

4. Materials and Methods

4.1. Type of Research Methodology

This research is practical in terms of purpose and is conducted by using the Multivariate Regression method and econometric models. Research hypotheses are tested based on the combined data and statistical analysis are
performed using Reviews 6 software. The statistical population is composed of listed companies in Tehran's Stock Exchange. The time domain is set for a period of 6 years, from the beginning of 2008 until the end of 2013.

5. Research Variable

5.1. Independent Variables

$CG_t$: Corporate Governance Mechanisms. The following four mechanisms have been used in this study:
1. Ownership percentage of institutional shareholders
2. Ownership concentration
3. Type of auditor
4. Independence of the board of director's members.

5.2. Control Variables

$SIZE_{it}$: Company size which is obtained from the logarithm of total assets.
$LEV_{it}$: Financial leverage of the company which is equal to company's total debts divided by its total assets.
$GO_{it}$: Opportunities for business growth which is calculated by market price divided by earnings per share.
$MBV_{it}$: The ratio of market value over the book value of the company's shares.

5.3. Specifying and Estimating the Model

The following models have been used to test the research hypotheses:

$$BID_{ASK_{it}} = \beta_1 + \beta_2 CG_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 GO_{it} + \beta_6 MBV_{it} + \epsilon_{it}$$

<table>
<thead>
<tr>
<th>Model</th>
<th>Type of Test</th>
<th>Test Statistic</th>
<th>Significance Level</th>
<th>Test Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>The first model</td>
<td>Chow test</td>
<td>3.5731</td>
<td>0.000</td>
<td>Conformation of the fixed effect model against the data integration model</td>
</tr>
<tr>
<td></td>
<td>Hausman test</td>
<td>5.8492</td>
<td>0.0030</td>
<td>Conformation of the fixed effect model against the random effect</td>
</tr>
<tr>
<td>The second model</td>
<td>Chow test</td>
<td>3.2341</td>
<td>0.000</td>
<td>Conformation of the fixed effect model against the data integration model</td>
</tr>
<tr>
<td></td>
<td>Hausman test</td>
<td>3.4536</td>
<td>0.0018</td>
<td>Conformation of the fixed effect model against the random effect</td>
</tr>
<tr>
<td>The third model</td>
<td>Chow test</td>
<td>4.0459</td>
<td>0.000</td>
<td>Conformation of the fixed effect model against the data integration model</td>
</tr>
<tr>
<td></td>
<td>Hausman test</td>
<td>3.3769</td>
<td>0.0007</td>
<td>Conformation of the fixed effect model against the random effect</td>
</tr>
<tr>
<td>The fourth model</td>
<td>Chow test</td>
<td>2.0648</td>
<td>0.000</td>
<td>Conformation of the fixed effect model against the data integration model</td>
</tr>
<tr>
<td></td>
<td>Hausman test</td>
<td>2.0846</td>
<td>0.9436</td>
<td>Conformation of the fixed effect model against the random effect</td>
</tr>
</tbody>
</table>
Based on the results listed in table 1, the fixed effects model is chosen as the first, second, and the third research model and the random effect model is chosen as the fourth research model.

The estimation results for the first model are presented in table 2. As it can be seen in table 2, the coefficient percent of institutional investors' ownership is negative and statistically significant. Thus the first research hypothesis is confirmed.

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Coefficient</th>
<th>t Statistic</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG</td>
<td>-0.4795</td>
<td>-3.2679</td>
<td>0.000</td>
</tr>
<tr>
<td>SIZE</td>
<td>-5.7531</td>
<td>-2.560</td>
<td>0.0076</td>
</tr>
<tr>
<td>LEV</td>
<td>-4.5415</td>
<td>-4.3657</td>
<td>0.000</td>
</tr>
<tr>
<td>GO</td>
<td>-0.3156</td>
<td>-2.7892</td>
<td>0.328</td>
</tr>
<tr>
<td>MBV</td>
<td>-0.4536</td>
<td>-1.3547</td>
<td>0.068</td>
</tr>
<tr>
<td>C</td>
<td>136.9852</td>
<td>1.7248</td>
<td>0.6589</td>
</tr>
<tr>
<td>F Statistic</td>
<td></td>
<td></td>
<td>2.8544</td>
</tr>
<tr>
<td>P-value</td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td></td>
<td>0.6532</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td></td>
<td></td>
<td>0.4452</td>
</tr>
</tbody>
</table>

Based on the results listed in table 1, the research model for ownership concentration is presented in table 3 along with the constant estimation effects and estimation results. As table 3 indicates, ownership concentration factor is positive and statistically significant. Thus the second research hypothesis for the companies is confirmed.

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Coefficient</th>
<th>t Statistic</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG</td>
<td>0.543</td>
<td>3.9854</td>
<td>0.0347</td>
</tr>
<tr>
<td>SIZE</td>
<td>-1.3451</td>
<td>-2.7845</td>
<td>0.1262</td>
</tr>
<tr>
<td>LEV</td>
<td>-4.4136</td>
<td>-9.4872</td>
<td>0.000</td>
</tr>
<tr>
<td>GO</td>
<td>-0.2715</td>
<td>-6.0354</td>
<td>0.3745</td>
</tr>
<tr>
<td>MBV</td>
<td>-0.3863</td>
<td>-2.0335</td>
<td>0.0427</td>
</tr>
<tr>
<td>C</td>
<td>58.2185</td>
<td>9.2487</td>
<td>0.0004</td>
</tr>
<tr>
<td>F Statistic</td>
<td></td>
<td></td>
<td>8.4756</td>
</tr>
<tr>
<td>P-value</td>
<td></td>
<td></td>
<td>0.0000</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td></td>
<td>0.4925</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td></td>
<td></td>
<td>0.3249</td>
</tr>
</tbody>
</table>

Based on the results listed in table 1, the research model for the type of auditor is presented in table 4 along with the random estimation effects and estimation results. As table 4 indicates, the coefficient of type of auditor is positive and not statistically significant. Thus the third research hypothesis for the companies is not confirmed.

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Coefficient</th>
<th>t Statistic</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG</td>
<td>1.2485</td>
<td>5.3645</td>
<td>0.3745</td>
</tr>
<tr>
<td>SIZE</td>
<td>-2.4875</td>
<td>-3.4518</td>
<td>0.0045</td>
</tr>
<tr>
<td>LEV</td>
<td>-5.1247</td>
<td>-8.5986</td>
<td>0.000</td>
</tr>
<tr>
<td>GO</td>
<td>-0.6584</td>
<td>-1.2349</td>
<td>0.0129</td>
</tr>
<tr>
<td>MBV</td>
<td>-0.9584</td>
<td>-0.34561</td>
<td>0.3459</td>
</tr>
<tr>
<td>C</td>
<td>129.2658</td>
<td>4.5687</td>
<td>0.000</td>
</tr>
<tr>
<td>F Statistic</td>
<td></td>
<td></td>
<td>7.3584</td>
</tr>
<tr>
<td>P-value</td>
<td></td>
<td></td>
<td>0.0000</td>
</tr>
</tbody>
</table>
6. Conclusion

This research was carried out in order to examine the impact of corporate governance mechanisms on information asymmetry in listed companies in Tehran's Stock Exchange during 2008-2013. The findings of the present study suggest that there is a negative and significant relationship between the percentage of institutional ownership and the independence of the board of the directors' members and bid-ask spread, and also there is a positive and significant relationship between ownership concentration and bid-ask spread. The obtained results indicate that there is no relationship between the variables of type of auditor and bid-ask spread. These results are in line with findings of Giang & Kim (2000), Ben Ali (2009), and Nasrallah et al (2011).

References