THE RELATIONSHIP BETWEEN CONSERVATIVE POLITICS AND FINANCIAL PERFORMANCE AT COMPANIES LISTED ON THE TEHRAN STOCK EXCHANGE

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Abstract

This study is a Correlational research and the types of research is descriptive. The population of this study are the companies that accepted at Tehran stock exchange during the resent 10 years. They were includes 458 companies in 37 industry groups.A sample survey was conducted by the elimination method. To collecting data with considering companies situation, 112 companies were selected as sample from 19 industry groups. In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used. The results K-S Test shows the test distribution is Normal. So we can use Multi Regression (Chow Test, Hausman Test, Panel data) to test the hypothesis of the research. In order to determine the relationship between the variables of the study, the SPSS tool has been used. Findings show that hypothesis one and three have confirmed H_1 and hypothesis two has rejected H_1. The p-value in hypothesis one is 0.0006, it means than there is a relationship between return on assets and companies' conservative net income at Companies listed on the Tehran Stock Exchange. The p-value hypothesis two is 0.1314, it means than there is not relationship between return on equity and companies' conservative net income at Companies listed on the Tehran Stock Exchange.The p-value hypothesis three is 0.0291, it means than there is a relationship between Q-Tobin measure and companies' conservative net income at Companies listed on the Tehran Stock Exchange.

Keywords: financial performance, return on assets, return on equity, Q-Tobin measure, conservative politics,

INTRODUCTION

Accountants must use their judgment to record transactions that require estimation. The number of years that equipment will remain productive and the portion of accounts receivable that will never be paid are examples of items that require estimation. In reporting financial data, accountants follow the principle of conservatism, which requires that the less optimistic estimate be chosen when two estimates are judged to be equally likely. For example, suppose a manufacturing company's Warranty Repair Department has documented a three-percent return rate for product X during the past two years, but the company's Engineering Department insists this return rate is just a statistical anomaly and less than one percent of product X will require service during the coming year. Unless the Engineering Department provides compelling evidence to support its estimate, the company's accountant must follow

the principle of conservatism and plan for a three-percent return rate. Losses and costs - such as warranty repairs - are recorded when they are probable and reasonably estimated. Gains are recorded when realized (Vazifeh Damirchi et al, 2010: 10).

Accounting conservatism is traditionally defined by the adage "anticipate no profit, but anticipate all losses" (Bliss, 1924). Anticipating profits means recognizing profits before there is a verifiable legal claim to the revenues generating those profits. Conservatism does not imply that all revenue cash flows should be received before profits are recognized. Thus the issue is one of verifiability. In the empirical literature the adage is interpreted as representing "the accountant's tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses" (Basu, 1997, p. 7). Conservatism is the asymmetry in the verification requirements for gains and losses. This interpretation allows for degrees of conservatism: the greater the difference in degree of verification required for gains versus losses, the greater the conservatism. Using "conservatism" to describe conservatism's income statement effect for a particular period was popularized by conservatism's critics. That usage does not fit with conservatism itself. Conservatism reserves the use of the term for the balance sheet and for income or earnings cumulated since the firm began operation.

Prior literature defines accounting conservatism as the asymmetric verifiability of accounting gains versus losses, i.e., the verifiability threshold for gains is greater than that for losses (Watts, 2003), while an *official* definition in the *FASB Statement of Financial Accounting Concepts No. 2* states that conservatism is "a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are considered." To develop a *political uncertainty hypothesis*, Ramanna and Roychowdhury, (2010) argue that in an election year, uncertainty about the election outcome and consequent changes in public policy can have an effect on conservatism for two reasons.

First, political uncertainty increases the uncertainty about the future cash flows of assets that are already in place (Brogaard and Detzel, 2012).

Second, Julio and Yook (2012) find that rising political uncertainty leads firms to increase cash holdings and reduce corporate investment before elections – firms defer investments until political uncertainty is resolved.

Watts (2003) provides a number of intuitive explanations for the beneficial implications of conservative accounting, in particular from a contracting perspective. His main argument is that conservatism constrains opportunistic behavior and offsets biases introduced by self-interested parties.

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Empirical finance often requires proxies for variables of interest. However, proxies must be chosen carefully since inappropriate proxies can cause a hypothesis to be spuriously rejected or accepted. Indeed, the need for proxies results in joint tests of the stated hypotheses and the validity of the chosen proxies. Ideally, proxies would originate from a theoretical framework that justifies their use under reasonable assumptions that have empirical support. Following this ideal, we provide a theoretical framework to highlight an endogeneity problem with using Tobin's q to measure firm performance (Dybvig and Warachka, 2012).

The Tobin q has been employed particularly by manufacturing firms to explain a number of diverse corporate phenomena. These have entailed (a) cross-sectional differences in

investment and diversification decisions, (b) the relationship between managerial equity ownership and firm value, (c) the relationship between managerial performance and tender offer gains, investment opportunities and tender offer responses, and (d) financing, dividend, and compensating policies (Chung and Pruitt, 1994).

It is a statistic that might serve as a proxy for the firm's value from an investor's perspective. By definition, it is the ratio between the market value of the firm's assets and the replacement value of those assets calculated as follows:

q= (MVS + MVD)/RVA

Where:

MVS = Market value of all outstanding stock

MVD = Market value of all debt

RVA = Replacement value of all production capacity (Chung and Pruitt, 1994).

General managers must make sure the capital they employ is used productively. Capital is relatively mobile. If it isn't used productively, it will eventually move on to where it can generate a competitive return. ROA provides a measure for assessing the overall efficiency with which farm assets are used to produce net income from operations. It also is indicative of management's effectiveness in deploying capital, because it is certainly possible to be efficient and yet poorly positioned in terms of how capital is being utilized. Return on assets, as an absolute dollar amount, is calculated as net farm income plus farm interest expense minus the estimated value of any unpaid operator labor and management used in the farming operation. That absolute dollar amount is converted to a rate of return on assets (ROA) by dividing by the average total value of farm assets. Return on assets is probably the single best overall measure of operating performance. It ties together the results of operations with the resources used to produce those results. It is also relatively easy to interpret. But what action should be taken to correct a poor return on assets? Everything the manager did both right and wrong in operating the business is reflected in the return on assets, which makes the appropriate corrective action difficult to determine without more information. The fact that financial measures are interrelated can help solve this dilemma (Purdue Extension, 2011).

Debt is an important component of the capital structure of many farm businesses. Debt provides needed resources to take advantage of profit opportunities. When used productively, debt can leverage equity capital in a way that is very beneficial financially. But financial leverage is impartial and unforgiving. Debt works just as well to the detriment of a farm business when it is used unproductively, as it works to benefit a farm that is managed wisely.

General managers need to know whether and to what extent financial leverage is working either for or against their farm business. The rate of return on equity (ROE) provides useful information about the performance of debt in the capital structure. ROE is calculated by dividing net farm income minus the estimated value of any unpaid operator labor and management by average total farm equity (net worth). ROE should exceed ROA for farms that borrow money. If ROE doesn't exceed ROA, it means that borrowed capital isn't earning enough to pay its cost. Alternatively, ROE may be well above ROA and may indicate potential to benefit from additional investments in the farm (Purdue Extension, 2011).

ANALYTICAL FRAMEWORK OF RESEARCH

General analytical framework model is estimated as follows.

$$AFE = \alpha_0 + \beta i * Independen\ tVariable + \varepsilon$$

$H_0 : \beta i = 0$

Model is not significant

$H_1 : \beta i \neq 0$

Model is significant

And the models used in this study is formulated as follows:

The first model corresponds to the first hypothesis:

$$E_{i,t} = \beta_0 + \beta_1 ROA_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M/B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t}$$

The second model corresponds to the second hypothesis:

$$E_{i,t} = \beta_0 + \beta_2 ROE_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M/B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t}$$

The third model corresponds to the third hypothesis:

$$E_{i,t} = \beta_0 + \beta_3 Q_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M/B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t}$$

METHODOLOGY

Correlational research methodology used in this study and the types of research is descriptive.

The population of this study are the companies that accepted at Tehran stock exchange during the resent 10 years. They were includes 458 companies in 37 industry groups.

A sample survey was conducted by the elimination method. To collecting data with considering companies situation, 112 companies were selected as sample from 19 industry groups.

In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used. The results K-S Test shows the test distribution is Normal. So we can use Multi Regression (Chow Test, Hausman Test, Panel data) to test the hypothesis of the research. In order to determine the relationship between the variables of the study, the SPSS tool has been used.

RESULTS AND CONCLUSION

1- Descriptive Results

Table 1 shows the Descriptive Results of variables.

Variable	Mean	SD
Companies' conservative net income	2.09	0.76
Return on assets	13.06	12.91
Return on equity	35.38	50.42
Q-Tobin measure	0.23	0.90

Dummy variable returns negative stock	0.33	0.47
Stock returns	0.63	1.35
contrasting of Dummy variable returns negative stock and stock return	-0.35	0.61
Financial leverage ratio	0.61	0.21
Growth opportunities	2.27	1.06
The value of stock market	11.64	0.77
Firm size	5.85	0.60
Logarithm of annual sales	12.82	2.38
Systematic risk	0.08	0.40

According to table 1 the Companies' conservative net income 2.09; Return on assets 0.13.06; Return on equity 35.38 and Q-Tobin measure 0.23 have mean. The highest mean has shown in Return on equity and lowest mean has shown Q-Tobin measure.

2- Hypotheses results

A) Hypothesis 1 results

The first hypothesis was; there is a relationship between return on assets and companies' conservative net income at Companies listed on the Tehran Stock Exchange. The statistical way of analysis this hypothesis is two ways, H_1 is acceptance of hypothesis and H_0 is rejecting of hypothesis.

We have used the model (1) to estimate this hypothesis according to the panel data and if the β_1 coefficient was significant at a confidence level of 95% will be approved.

$$E_{i,t} = \beta_0 + \beta_1 ROA_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M/B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\begin{cases} H_0 : \beta_1 = 0 \\ H_1 : \beta_1 \neq 0 \end{cases}$$

To confirm the suitability of panel data method, we have used Chow Test and to determining fixed effects or random effects in order to better estimate, we have used Hausman Test. The results of these tests are presented in.

Table 2 Chow Test and Hausman Test results

Test	Statistic	Statistic	df	P-Value
Chow	f	12.9531	533.111	0.000
Hausman	χ^2	42.7650	10	0.000

According to Chow test result P-Value in 95% confidence level is 0.000, and H_0 has rejected, it means that we can be used panel data method. Also, according to Hausman test results P-Value was less than 0.05 and accepted H_1.Therefore, it is necessary to estimate the model using fixed effects.

According to table 3 Jarque-Bera, Breusch-Pagan, Durbin-Watson and Ramsey test results show that model's linearity has confirmed and the model is not specified error.

Table 3: Test results concerning the statistical assumptions of the model (1)

Ramsey		Durbin-Watson	Breusch-Pagan		Jarque-Bera	
$P-Value$	F	D	$P-Value$	F	$P-Value$	χ^2
0.1364	3.3313	1.86	0.0001	3.8036	0.4465	1.8542

According to the above table the model will like this:

$$E_{i,t} = -4.3645 - 0.0063ROA_{i,t} + 0.0278DR_{i,t} + 0.0472RET_{i,t} - 2.9888DR * RET_{i,t}$$
$$+ 0.0007Lev_{i,t} - 0.0222M/B_{i,t} - 0.4811MV_{i,t} + 0.3850Size_{i,t} + 0.6000LnSales_{i,t}$$
$$+ 0.0071Beta_{i,t} + \varepsilon_{i,t}$$

Table 4: The first hypothesis results of the study with using of fixed-effects.

Dependent variable: companies' conservative net income				
Variable	Coefficient	T-Test	P-Value	Relation
Fixed component	-4.360	-5.517	0.0000	Negative
Return on assets	-0.006	-3.467	0.0006	Negative
Dummy variable returns negative stock	0.028	-0.500	0.6168	Meaningless
Stock returns	0.047	1.913	0.0562	Meaningless
contrasting of Dummy variable returns negative stock and stock return	-2.988	-0.0006	0.9995	Meaningless
Financial leverage ratio	0.007	0.007	0.9943	Meaningless
Growth opportunities	-0.022	-1.449	0.1479	Meaningless
The value of stock market	-0.481	-7.904	0.0000	Meaningless
Firm size	0.385	3.491	0.0005	Positive
Logarithm of annual sales	0.600	13.999	0.0000	Positive
Systematic risk	0.007	0.211	0.8328	Meaningless
R^2 = 0.9296	F=58.22		p-value= 0.000	

According to table 4 considering the significant whole model, the p-value (0.000) was smaller than 0.05 and the model is confirmed. Determination of coefficient model also indicate that 92.96 percent of the companies' conservative net income variable are debated by the variables in the model.

The second hypothesis was; there is a relationship between return on equity and companies' conservative net income at Companies listed on the Tehran Stock Exchange. The statistical

way of analysis this hypothesis is two ways, H_1 is acceptance of hypothesis and H_0 is rejecting of hypothesis.

We have used the model (2) to estimate this hypothesis according to the panel data and if the β_1 coefficient was significant at a confidence level of 95% will be approved.

$$E_{i,t} = \beta_0 + \beta_2 ROE_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M/B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$\begin{cases} H_0 : \beta_1 = 0 \\ H_1 : \beta_1 \neq 0 \end{cases}$$

To confirm the suitability of panel data method, we have used Chow Test and to determining fixed effects or random effects in order to better estimate, we have used Hausman Test. The results of these tests are presented in.

Table 5 Chow Test and Hausman Test results

Test	Statistic	Statistic	df	P-Value
Chow	f	12.7657	533.111	0.000
Hausman	χ^2	42.4510	10	0.000

According to Chow test result P-Value in 95% confidence level is 0.000, and H_0 has rejected, it means that we can be used panel data method. Also, according to Hausman test results P-Value was less than 0.05 and accepted H_1.Therefore, it is necessary to estimate the model using fixed effects.

According to table 6 Jarque-Bera, Breusch-Pagan, Durbin-Watson and Ramsey test results show that model's linearity has confirmed and the model is not specified error.

Table 6: Test results concerning the statistical assumptions of the model (1)

Ramsey		Durbin-Watson	Breusch-Pagan		Jarque-Bera	
$P-Value$	F	D	$P-Value$	F	$P-Value$	χ^2
0.1635	2.7689	1.85	0.0003	3.3097	0.3895	1.6458

According to the above table the model will like this:

$$E_{i,t} = -4.5952 - 0.0003 ROE_{i,t} + 0.0247 DR_{i,t} + 0.0515 RET_{i,t} - 0.0084 DR * RET_{i,t} + 0.1889 Lev_{i,t} - 0.0244 M/B_{i,t} - 0.4787 MV_{i,t} + 0.5072 Size_{i,t} + 0.5468 LnSales_{i,t} - 0.0022 Beta_{i,t} + \varepsilon_{i,t}$$

Table 7: The first hypothesis results of the study with using of fixed-effects.

	Dependent variable: companies' conservative net income			
Variable	Coefficient	T-Test	P-Value	Relation
Fixed component	-4.5952	-5.7808	0.0002	Negative

Return on equity	-0.0003	-1.511	0.1314	Negative
Dummy variable returns negative stock	0.0247	0.440	0.6595	Meaningless
Stock returns	0.0515	2.066	0.0393	Meaningless
contrasting of Dummy variable returns negative stock and stock return	-0.0084	-0.1903	0.8491	Meaningless
Financial leverage ratio	-0.1889	2.196	0.0285	Meaningless
Growth opportunities	-0.0244	-1.580	0.1147	Meaningless
The value of stock market	-0.4787	-7.792	0.0000	Meaningless
Firm size	0.5072	4.872	0.0000	Positive
Logarithm of annual sales	0.5072	13.769	0.0000	Positive
Systematic risk	-0.0022	-0.067	0.9465	Meaningless
R^2 = 0.9283	F=57.1096		p-value= 0.000	

According to table 7 considering the significant whole model, the p-value (0.000) was smaller than 0.05 and the model is confirmed. Determination of coefficient model also indicate that 92.83 percent of the companies' conservative net income variable are debated by the variables in the model.

The third hypothesis was; there is a relationship between Q-Tobin measure and companies' conservative net income at Companies listed on the Tehran Stock Exchange. The statistical way of analysis this hypothesis is two ways, H_1 is acceptance of hypothesis and H_0 is rejecting of hypothesis.

We have used the model (3) to estimate this hypothesis according to the panel data and if the β_1 coefficient was significant at a confidence level of 95% will be approved.

$$E_{i,t} = \beta_0 + \beta_3 Q_{i,t} + \beta_4 DR_{i,t} + \beta_5 RET_{i,t} + \beta_6 DR * RET_{i,t} + \beta_7 Lev_{i,t} + \beta_8 M / B_{i,t} + \beta_9 MV_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} LnSales_{i,t} + \beta_{12} Beta_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$\begin{cases} H_0 : \beta_1 = 0 \\ H_1 : \beta_1 \neq 0 \end{cases}$$

To confirm the suitability of panel data method, we have used Chow Test and to determining fixed effects or random effects in order to better estimate, we have used Hausman Test. The results of these tests are presented in.

Table 8 Chow Test and Hausman Test results

Test	Statistic	Statistic	df	P-Value
Chow	f	12.8646	533.111	0.000
Hausman	χ^2	46.3981	10	0.000

According to Chow test result P-Value in 95% confidence level is 0.000, and H_0 has rejected, it means that we can be used panel data method. Also, according to Hausman test results P-

Value was less than 0.05 and accepted H_1.Therefore, it is necessary to estimate the model using fixed effects.

According to table 9 Jarque-Bera, Breusch-Pagan, Durbin-Watson and Ramsey test results show that model's linearity has confirmed and the model is not specified error.

Table 9: Test results concerning the statistical assumptions of the model (1)

Ramsey		Durbin-Watson	Breusch-Pagan		Jarque-Bera	
$P-Value$	F	D	$P-Value$	F	$P-Value$	χ^2
0.1799	2.5363	1.86	0.0001	3.7619	0.6521	1.3398

According to the above table the model will like this:

$$E_{i,t} = -5.0928 - 0.0630Q_{i,t} + 0.0273DR_{i,t} + 0.0567RET_{i,t} - 0.0183DR * RET_{i,t} + 0.1298Lev_{i,t} - 0.0273M/B_{i,t} - 0.4235MV_{i,t} + 0.5151Size_{i,t} + 0.5350LnSales_{i,t} + 0.0098Beta_{i,t} + \varepsilon_{i,t}$$

Table 10: The first hypothesis results of the study with using of fixed-effects.

	Dependent variable: companies' conservative net income			
Variable	Coefficient	T-Test	P-Value	Relation
Fixed component	-5.0928	-6.2644	0.0000	Negative
Return on equity	-0.0630	-2.1884	0.0291	Negative
Dummy variable returns negative stock	0.0273	0.4890	0.6250	Meaningless
Stock returns	0.0567	2.2859	0.0227	Meaningless
contrasting of Dummy variable returns negative stock and stock return	-0.0183	-0.4166	0.6771	Meaningless
Financial leverage ratio	-0.1298	1.4655	0.1434	Meaningless
Growth opportunities	-0.0273	-1.7598	0.0790	Meaningless
The value of stock market	-0.4235	-6.3568	0.0000	Meaningless
Firm size	0.5151	5.0646	0.0000	Positive
Logarithm of annual sales	0.5350	13.6718	0.0000	Positive
Systematic risk	-0.0098	0.2895	0.7723	Meaningless
R^2 = 0.8944	F=57.39		p-value= 0.000	

According to table 10 considering the significant whole model, the p-value (0.000) was smaller than 0.05 and the model is confirmed. Determination of coefficient model also indicate that 89.44 percent of the companies' conservative net income variable are debated by the variables in the model.

Findings show that hypothesis one and three have confirmed H_1 and hypothesis two has rejected H_1. So, we can say that:

The p-value in hypothesis one is 0.0006, it means than there is a relationship between return on assets and companies' conservative net income at Companies listed on the Tehran Stock Exchange.

The p-value hypothesis two is 0.1314, it means than there is not relationship between return on equity and companies' conservative net income at Companies listed on the Tehran Stock Exchange.

The p-value hypothesis three is 0.0291, it means than there is a relationship between Q-Tobin measure and companies' conservative net income at Companies listed on the Tehran Stock Exchange.

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