Investigating Asymmetric Ratcheting Effect on Budgeted Earnings in Tehran Stock Exchange

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Abstract: Asymmetric ratcheting effect occurs when an unfavorable (favorable) budget variance causes an increase (decrease) in next period’s budget. The current study aims to investigate the existence of this effect on budgeted earning in Tehran stock exchange. We assume that the forecasted earning, which the firms listed in TSE are obligated to disclose, is the reflection of internal budget of the firm and the determined performance. By this disclosure, firms give their controlling instrument to capital market. Statistical sample includes 325 firms listed on TSE during 1386 to 1392. The results reveal that deviation from budgeted earning has a significant effect on the next period’s budget and unfavorable deviation effect is more than the favorable one.

Keywords: budgeted earnings per share, budget variance, forecasted earnings per share, ratcheting effect.

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The Role of Financial Reporting Quality in Mitigating the Constraining Effect of Dividend on Firms' Investment

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Abstract: The current study aims to examine the role of financial reporting quality in mitigating the constraining effect of dividend on firms' investment of listed companies in Tehran Stock Exchange in their life cycle stages. In this regard, 110 firms were selected as the research sample for the period of 2006-2011. The panel data model is used to test the hypothesis. The results show that higher quality financial reporting mitigated the constraining (negative) effect of dividends on firms' investment. Companies were divided into growth, maturity and decline stages with Park and Chen (2006) model and the results show that higher quality financial reporting mitigated the constraining (negative) effect of dividends on firms' investment in maturity stage. However, no effect was observed on relationship between dividend and firms' investment in growth and decline stage.

Keywords: dividend, financial reporting quality, investment decisions, life cycle stages.

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The Effect of Managerial Overconfidence on the Conservatism with Respect to the Role of External Monitoring

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Abstract: This study investigates the effect of managerial overconfidence on both conditional and unconditional conservatism considering the role of external monitoring. Data is collected from a sample of 197 firms listed in Tehran Stock Exchange over the period 2004 to 2012. Two measures are used for managerial overconfidence: excess asset growth and debt to equity ratio above the industry median. Unconditional conservatism is measured using an accrual-based measure and the difference between cash flow skewness and earnings skewness (Givoly and Hayn [2000]). Conditional conservatism is measured using Basu’s [1997] asymmetric timeliness measure. The findings indicate that both of managerial overconfidence measures have a significant negative effect on both conditional and unconditional conservatism. In addition, the results indicate that external monitoring significantly mitigates the effect of managerial overconfidence on unconditional conservatism.

Keywords: conditional conservatism, external monitoring, managerial overconfidence, unconditional conservatism.

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A Review and Content Analyzing of Iranian Auditing Research: Two Recent Decades

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Abstract: As the research conducted in the area of auditing has grown over the past two decades in Iran, research field area has also increased. Typologies of research topics in a specific area are necessary because they lead to organization of knowledge. They are also very useful for understanding the relationships between the research topics, leading to the analysis of the main topics, their time evolution, etc. This article provides a content analysis of audit research over the past two decades. We use a content analysis of 118 articles from 16 academic journals publishing auditing research, from 1999 to 2012 with 16 major themes (Lesage & Wechler, 2012). Our results indicate that no research has been done on some topics and diversity in subcategories is limited. Due to the diversity of the research conducted, Lesage & Wechler’s research shows more variety than the Iranian research and thematic function of the period (2009-2012) is similar to the modern period. Also sample data is poor in some of the researches and the methodology used is not various enough.

Keywords: accounting referee journal, auditing research, content analysis, literature review, typology.

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Design and Analysis of Manager-Shareholder Strategy Game: An Application of Game, Earnings Management and Corporate Governance Theories

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Abstract: Conflict and cooperation are the main features of organizations and human’s behavior which are revealed in contraction with others. To maximize their utilities and cooperation maintenance, managers and shareholders take action to apply earning management and corporate governance, or due to any reason (and maybe morally) they decide not to do them. The current paper aims to analyze the conflict between managers and shareholders in Tehran Stock Exchange, using game theory to find an equilibrium point in which the manager and shareholder are the main players, being satisfied across increasing their benefits. The hypotheses are analyzed by using pool data of 87 firms existing in TSE, over the years spanning 2007 to 2012. The first hypothesis and the second to fifth hypotheses are analyzed by using the Best Response function and Mann-Whitney test, respectively. By analyzing the result of the game, it is cleared that strong corporate governance strategy and intense earning management strategy don’t guide the players to equilibrium in utilities. Moreover, "strong corporate governance - slight earning management" strategy profile is a weekly dominant Nash Equilibrium.

Keywords: best response, corporate governance, earnings management, game theory, Nash equilibrium.

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An Analysis of the Relationship between Financial Distress Risk and Equity Returns

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Abstract: The current research aims to examine the systematic and unsystematic relationship between financial distress risk and equity returns based on the Black-Scholes-Merton probability of default measure of financial distress risk in the TSE from 2001 to 2012. This research integrates the theory of financial distress into modern asset pricing theory and examines a particular financial distress phenomenon from the theoretical capital market perspective. We use the portfolio formation method for the monthly data. Findings show that returns of financially distressed stocks are lower than sound stocks, thereby the investors are not rewarded by higher returns for bearing that risk. Also, we found that B/M and Size effects are statistically independent from financial distress risk, but the effect of idiosyncratic volatility is observable.

Keywords: equity returns, financial distress, idiosyncratic volatility, systematic risk.

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Investigating the Relationship between Corporate Governance Mechanism and Cash Holding

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Abstract: This study aims to investigate the relationship between corporate governance mechanism and firm cash holding using a sample of firms listed in Tehran stock exchange over the period 2007 to 2013. The role of corporate governance is guide and control the firm in reducing agency conflict between management and shareholders. An example of deviation of the shareholders’ interests is an inappropriate management of cash resources. In this research, we used debt reliance, chief executive officer tenure, ownership concentration, chief executive officer duality, board independent and institutional ownership for evaluating corporate governance. The research hypothesis is tested using panel data regression model. Our result indicates a negative significant relationship between the institutional ownership, board independent and debt reliance with cash holding. Also our findings show no significant relationship between ownership concentration, chief executive officer duality and chief executive officer tenure with cash holding.

Keywords: agency conflict, cash holding, corporate governance.

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