The relationship of information asymmetry, Institutional ownership and Stock Liquidity with Income Smoothing in Tehran Stock Exchange

Mansoreh Banam [1] , Alireza Mehrazeen [2]*

[1,2] *Department of Accounting, Neyshabur Branch, Islamic Azad University, Neyshabur, Iran.*

A R T I C L E   I N F O

A B S T R A C T

Objective: In this study relationship between information asymmetry, Institutional ownership and Stock Liquidity by Income Smoothing in Tehran Stock Exchange is expressed. **Methodology:** So of the study by 94 companies listed on Tehran stock exchange, that include 470 company - years 'that During is the years 2010 up 2014. Smoothing in this research using discretionary accruals (modified Jones model) are calculated. The difference between bids to buy and sell shares representative information asymmetry. In this study, multiple linear regression model using F and t tests were used to test the hypotheses and for analyzing the data used spss statistics tools. **Results:** The Research indicated that thare is not significant relationship between independent variables of Stock Liquidity and Institutional ownership and Income Smoothing. also the finding of study manifest a significant and direct relationship between information asymmetry and Income Smoothing. Firm size and financial leverage are control variables. **Conclusion:** Finally, Research had found not significant relationship between stated variables and Income Smoothing.

1. Introduction

Since according to financial statements have presented accounting standards will be prepared accrual basis, there is possibility in time of decision to manage and measure revenue and cost recognition and this may lead to income smoothing it's due the most important motivation for Income smoothing, valuable of companies depend on appropriate Income of that. In this case, Income smoothing, increase stock value in exchange and attract potential investors (Sheikh and Safarpur, 2007).
in a research that Jahanshad and his colleagues with title "A comparison on accounting variables in income smoother and non-income smoother firms by using Moses income smoothing behavior index. In duration of 2006-2011. have done, resulted shown the number of income smoothers companies 30% in beginning of eighties increase to 54% in middle of this decade. This rise shown the importance of income smoother companies in Iranian economy. They have investigated relationship between kind of economic stimulus due to understand different aspects behavior in income smoothing.
therefore, for better understanding of income smoothing in Iran survey information of asymmetry relationship, Stock Liquidity and institutional ownership with income smoothing to help of manager for identify effective factors on income smoothing.

1.2 the theoretical basis and A review of the research background
1.2.1 concept of income smoothing
The literature review related to manage earning, explain the researcher's attempts indicate this subject why the manager has manipulated income, how manage income and what's result of this The consequences of ? The answer is big part of empirical research in accounting and financial report.
Levitt, (1998), named some tools and income management method:
1-1Present unofficial digits of alterations
2-Record deliberate mistake in ledger and impossibility to correction of that.

3-Recognition and record the income before process completion.

1.2.2 information asymmetry

Information asymmetry accrue when one or few investors. They disposal some private information about value of the company (Brown and Hillegiest, 2007).

Information asymmetry, has various undesirable consequences such as reduce market efficiency, increase transaction costs weakness of market, low liquidity, overall increase transactions income in capital markets (Khoddami Pour and Ghadiri, 2011).

first information asymmetry hypothesis had raised in 1970 by 3 scientists named as Michael Spence , George Arthur Akerlof, Joseph Stiglitz.

1.2.3 Stock Liquidity

In most comprehensive definition, the market liquidity is ability of high volume trading, maximum speed minimum cost and price effect. Four aspect of liquidity have defined as: turn over, transaction speed, transaction cost, price effect (Karamanou and Vafeas, 2005).

1.2.4 Institutional ownership

Some researchers have classified institutional investors into two groups. According to them, the first group are investors that focus on short-term earnings and the second group include professional investors, who's relative advantage is in gathering and analysis of more data regarding future earnings which is not refelected in reported income. Thus, as the number of this type of investors increases in the capital market, the share prices will reflect more information regarding future returns and therefore information asymmetry logically should decrease (Thomas and Zhang, 2002).

Shareholders composition of various companies are different part of companies ownership belong to minority shareholders and individuals and different part of this ownership has provided to major shareholders, this group contrary to major shareholders due to contact with CEO and company manager and business strategies etc (Moradzadehfard et al., 2009).

According to paragraph No 27 Article of Iran's securities market roles (apporoved 28/6/86) institutional investors defined as:

Bank and insurance

Holdings, investment companies, Pension fund, financing corporate, investment funds registered with the Stock Exchange.

Substantire or legal person who has possession more than 5% or 5 bilion Rial of the nominal value.

Government organizations and public

1.2.5 A review of the research background

Table 1. Summary of results research accomplished: Internal researches and external researches

2. Materials and methods

Name of Author	Year of research	Research results
moradzadehfardatal	2010	The Relation of income management and institutional ownership: company flexibility to accruals management has reduced by increase in income management percentage.
maleknezhad	2013	The Relation reviews of income smoothing and stock liquidity: Result show that significant and negatively relationship between income smoothing and stock liquidity.
Babajani at al	2015	the Relation reviews of manage earnings and information asymmetry: index information asymmetry has affirmative impact on income management
Vayanos & Wang	2012	Information asymmetry impact on Return on Assets and liquidity: There is a significant relationship between information asymmetry or liquidity and Return on Assets.
Cormier at al	2013	The incidence of earnings management on information asymmetry in an uncertain environment: Some canadian evidence: There is a significant positive relationship between income smoothing and information asymmetry

According to theoretical foundations and review of research,describe hypotheses as below:

First Hypothesis: There is a significant relationship between stock liquidity and income smoothing.

Second hypothesis: There is a significant relationship between institutional ownership and income smoothing.

Third hypothesis: There is a significant relationship between information asymmetry and income smoothing.

The research model is as follow:

Income Smoothing $= \alpha_0 + \alpha_1$ Liquidity stock $+ \alpha_2$ Institutional ownership $+ \alpha_3$ Information asymmetry $+ \alpha_4 size + \alpha_5$ leverage $+ e$

Income Smoothing (the dependent variable) Liquidity stock (independent variable) Institutional ownership (independent variable Information asymmetry (independent variable)

Size= Company size (control variable) Leverage =Financial Leverage (control variable)

This research among the applied research as based objective with help of event follows approach and In this study, the comparative method to understand the study theoretical principal and from the inductive method To data collection and test hypotheses was used. In this study, data both library research and databases methods was used. In library method the articles used in this research through the Internet have been received. The data that are required to calculate variables, through the Tadbirpardaz, Rahavard Novin databases, financial reports provided by Tehran stock exchange and other data obtained through the site www. rdis.ir (site of the Stock Exchange rganization) is collected (Richardson, 2000).

In data analysis model, the information after collection and then processed by statistical methods as follows using spss software are analyzed and for creation use excel software (Copland, 1968).

2.1 Statistical Society

According to the purposes of research and study population, in this study, a census method is used, which means that sample of all members community are considered and their required indicators examined during the 2010 to 2014. So, due to research territory where the Tehran Stock Exchange, considered and given the research nature and also some inconsistencies among companies listed on the Tehran Stock Exchange, the member firms which have the following conditions, as the research community chosen: in the period under consideration do not have change financial period, and are not Investment companies, financial Intermediaries, banks& leasing, the financial information required especially, the notes accompanying the financial statements are available (Stolowy and Bereton, 2004).

due to mentioned limitations, a number of 470 years - The company has been selected as the study population that given to availability all information relevant to companies in this study, from all the companies of study

population (470 years), as a sample to test research hypotheses have been used.

2.2 Research variables

Table 2operational definition research variables and how to computing them.

Variable name	Variable type	how to computing	Source of data mining
Income Smoothing	dependent variable	$(DA_t = TA_t/A_{t-1} - NDA_t)$	Balance sheet
information asymmetry	independentvariable	$(AP - BP)/((AP + BP)/2)$	Tehran stock exchange information
Institutional wnership	independentvariable	Stock percentage belong to major shareholders	Tehran stock exchange information and The notes accompanying FinancialStatements
Stock Liquidity	independentvariable	Stock companies ranking has announced	Tehran stock exchange information
Company size	Control variable	Logarithm of total assets	Balance sheet
Financial Leverage	Control variable	Long-term debt-to-total assets ratio	Balance sheet

3. Discussion and results

3.1 Descriptive statistics

Since data analysis is usually with summarized statistics computing such as Mean and Standard deviation takes, so, In order to review and initial data analysis, the first the data related to descriptive statistics of the studied dependent and explanatory variables are presented in Table 3. When overview of the data analyzed in this study were obtained.

Table 3: Descriptive statistics of variables used in the study

Property Variable	Average	Middle	SD	Max	Min
Income Smoothing	0.14	0.14	0.15	0.68	-0.36
Stock Liquidity	197	200	98	420	2
Institutional ownership	0.51	0.51	0.28	0.9	0.06
information asymmetry	1.72	1.56	0.74	4	0.26
Company size	14.07	13.92	1.52	19.11	10.51
Financial Leverage	0.08	0.05	0.09	0.57	0

3.2 Hypothesis test results

Use ANOVA for significant regression test

Table 4: Model Summary

R	R Square	Adjusted R Square
0.126	0.016	0.005

Table 5: ANOVA

Model	Sum of Squares	df	F	Sig.

Regression	0.185	5	1.496	.002
Residual	11.454	464		
Total	11.638	469		

Covered the F statistic is significant at the level error of 5% so, The regression model is adequately (is less than error coefficient considered (0.05)).

Table 6: Check the normality of variables (Kolmogorov-Smirnov)

Z	Sig.
Kolmogorov-Smirnov	0.132

Table (6), the z statistic (0.132) , represents the normal distribution of residuals is meaningful.
independent predictor variables is default of regression analysis .Less than 10 in statistic is result of VIF test, hence infrastructure regression is accepted in this assumption.

Table 7: Collinearity Statistics

Variable	VIF
Stock Liquidity	1.443
Institutional ownership	1.008
information asymmetry	1.381
Company size	1.064
Financial Leverage	1.011

Independence evaluation of error components in the model is in next step .Durbin–Watson statistic value is (1.759) and the remain uncorrection have confirmed.
Coefficients results are as follows:

Table 8: Coefficients

Model	Unstandardized Coefficients		Standardized oefficients	t	Sig.
	B	Std. Error	Beta		
(Constant Model)	.050	.077	----	.653	.514
Stock Liquidity	.000	.000	-.061	-1.105	.270
Institutional ownership	-.010	.026	-.019	-.403	.687
information asymmetry	.024	.012	.111	2.045	.041
Company size	.005	.005	.047	.981	.327
Financial Leverage	.114	.087	.060	1.301	.194

Table (8), In third hypothesis, Beta coefficient is positive that represent significant connection between information asymmetry and income smoothing.

4. Conclusion

this study examines the relationship information asymmetry, Institutional ownership and Stock Liquidity by Income Smoothing. Therefore, in this study,eventually using of the information inserted in the text and the notes accompanying Tehran Stock Exchange and Rahavarde Novin software (470 years-company) for the test hypotheses during the 2010-2014 is used. According to test hypotheses the following results have been obtained:

Table 9: Results

hypothesis	P-Value	Test results
There is a significant relationship between stock liquidity and income smoothing.	.270	Hypothesis refusal
There is a significant relationship between institutional ownership and income smoothing.	.687	Hypothesis refusal
There is a significant relationship between information asymmetry and income smoothing.	.041	Hypothesisverification

Table 10: Related research

hypothesis	Test results	Related research
There is a significant relationship between stock liquidity and income smoothing.	Hypothesisverification	Maleknezhad (2012)
There is a significant relationship between information asymmetry and income smoothing.	Hypothesisverification	Ahmadpur et al(2013)
The incidence of earnings management on information asymmetry in an uncertain environment	Hypothesisverification	Cormier, D., Houle, S., Ledoux, M.J. (2013).

About first hypothesis rejection: during research period in companies which examined, increase or decrease stock liquidity doesn't have any effect on income smoothing by management. If the manager do income smoothing due to it absorb investors with minimum fluctuations, But unlike expections, Investors are real income more attention. Until the unreal income. and no change in stock liquidity.

Likewise, the second hypothesis has rejected due to theoretical definition. Although the most stock of Iranian company belongs to institutional shareholders. But presence of this group doesn't have any impact or income smoothing by management. Finally based on listed theoretical foundations, information asymmetry has undesirable result like market efficiency reduce, transaction costs increase, market weakness, low liquidity generally transactions profit reducing in capital market. Information asymmetry have presented in this topic and important impact of that on economical discussion.

the asymmetric information has a significant negative impact on the relationships between firm value and investment. Therefore in a position where information asymmetry is high, managers will make conservative estimates of market information. The information asymmetry can potentially lead to large errors or risks.

High information asymmetry create inefficient information this defective process'so 'isn't desirable because from company one negative point sent to market and company facing problem to absorb financial resources. With information asymmetry increase between company management and shareholders do the income smoothing by management for compensation of income decrease and low liquidity, so increase income smoothing due to information asymmetry.

4.1 Researd finding

Firm size and financial leverage are control variables. but finally, not found significant relationship between control variables and Income Smoothing.

4.2 Research limitations

1- Of course, any study due to 100% environmental conditions is not certainly and is faced with limitations. The first limitation that can be said is the most important limitation of this study, the characteristic of quasi-experimental research in social sciences is common. In other words the effect of other variables that their control is out of available researcher and the possibility of an impact on results are not ruled out. The results of current study can be generalized to the stock companies. Therefore generalization of results to out of stock companies should be done cautiously.

2- Information gathered in this study includes the companies listed in Tehran Stock Exchange during the period 2010 to 2014, the number of observations as to increase information and test results will be higher and consequently the validity of research results, may different results achieved by increasing the time period.

4.3 Suggested solutions
4.3.1 Suggestions for future researches

This research about board characteristic on income smoothing connection with knowledge and competence of members.

4.3.2 Proposals based on the results

practical suggestions with regard to the issue, decrease in stock of capital market, increase transaction costs, market weakness as the result of information asymmetry, present of significant relationship between information asymmetry and income smoothing is result of recent research, Inform to shareholders, analysts, financial investor, in decision, consider information asymmetry as the main point to increase income smoothing. Official and member of stock exchange can applies result of this research. In fact according to result percentage of establish rules to reduce information asymmetry and due to it reduce income smoothing.

REFERENCES

Brown, S. & Hillegiest, A. 2007. How disclosure quality affects the level of information asymmetry. Review of accounting studies 'vol. 12 '443–477.

Cormier, D., Houle, S. & Ledoux, M.J. 2013 . The incidence of earnings management on information asymmetry in an uncertain environment: Some canadian evidence. Journal of International Accounting Auditing and Taxation, 176 (13), 1-14.

Copland, R.M. 1968. Income Smoothing , Journal of Accounting Research, Vol. 6, PP. 101-116.

Jahanshad, A. & Amiri, S. 2013. A comparison on accounting variables in income smoother and non-income smoother firms by using Moses income smoothing behavior index . Quarterly managent accouning, year 6, Issue 16.

Karamanou, I. & Vafeas, N. 2005. The Association Between Corporate Boards, Audit Committees, and Management Earning Forecasts: An.

Levitt, A. 1998. the Numbers Game, Unpublished Remarks. Available At Http://Www. See. Gov / News/ Speeches / Spch220. Txt.

Maleknezhad , H. 2011. the Relation reviews of income smoothing and liquidity in Tehran Stock Exchange The first regional conference on new accounting issues , samangan.ac.ir , Spring 2012.

Mehrazeen, A. et al. 2009. An Evaluation of Alternative Accrual-Based Models for Detecting Earnings Management Journal of managent futures

reserch , Issue 82 , autumn, pp. 1-20 .

Moradzadehfard, M. et al. 2009. The Relation of income management and institutional ownership in Tehran Stock Exchange Quarterly the iranian accounting and auditing reveiew , Issue 5°.

Richardson, V. 2000. Information asymmetry and Earnings management. Reviewof Quantitative Finance and Accounting.Vol. 15, Pp. 325-247.

Sheikh, M. & Safarpur, M. 2007. Survey Investment Period Influence on Investment Company's Performance in Tehran Stock Exchange (period 1381-1385) Quarterly the iranian accounting and auditing reveiew , year 14, Issue 50.p 99.

Stolowy, H. & Bereton, G. 2004. A framework for the classification ofaccounts manipulations. International journal of accounting, 49.

Thomas, K. & Zhang, H. 2002. Valuerelevant properties of smoothed earnings, Columbia Business School, New York University of Illinois at Chicago, Chicago. Available at URL: http://www.ssrn.com.

How to Cite this Article:

Mansoreh B., Mehrazeen A., The relationship of information asymmetry, Institutional ownership and Stock Liquidity with Income Smoothing in Tehran Stock Exchange, Uct Journal of Management and Accounting Studies 4(3) (2016) 6–11.