

Modeling Factors Affecting the Gap between the Book Value and the Market Value of the Tehran Stock Exchange Firms¹

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Research Paper

INTRODUCTION

We can consider the book value of a firm as a beginning point in valuation, and after it is affected by many various factors, we could reach the market value of the firm that is observable and can be measured. In order to limit our research area to factors that have an effect on this gap, we focus on accounting, finance and economics in Iran. The first step to investigating this gap should look at the book value of equity, which is the foundation of a stock price in the stock market and is measured and recognized in financial statements by accounting principles. Value relevance research assesses how well accounting amounts reflect information used by equity investors. value relevance literature's studies in Iran show that the book value of equity explains lower variation in stock market values on the Tehran Stock Exchange firms compared to earnings and other accounting factors. Investors for decision making about selling or buying a stock, considering many factors to valuation as well as accounting information. Decision making about sell or buying a stock is in classical and behavioral finance. The influence of macro-economic factors that are the context of investors' decisions depends on the extent of them.

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Research literature in Iran shows that inflation and foreign currency exchange rate are the most common factors that have an effect on the capital market in Iran. Besides these, economic sanctions are one the unusual factor that is specific to Iran's economic environment and has a very powerful effect on investors' decision. Since today all of the research that have been taken, investigate the relation and effect of each three domain on the capital market and there is no research that considers these three domains with their effect simultaneously on the capital market in Iran. The purpose of this research is to reach an integrated model that could explain factors of each domain that affect the gap between the Book value and the Market value of the Tehran Stock Exchange firms. So, we interview 16 experts in accounting, finance and economic domain in Iran and obtain a qualitative model of factors that affect the gap between the book value and the market value of the Tehran Stock Exchange firms.

METHODS

In this research, the grounded theory method (Strauss and Corbin, 1998) is used to collect and analyze data. This research is in the category of Foundational research in terms of purpose, and in the category of non-experimental field and qualitative research in terms of strategy. Strauss and Corbin (1998) introduced inductive production procedures of theory in a qualitative method, relying on accurate and regular data analysis. Various models of this theory have been proposed by experts. In this study, the systematic method of Strauss and Corbin (1998) has been used to analyze the data through a regular coding procedure in three stages: open, axial, and selective with a focus on the logical paradigm or visual representation of evolving theory. In this research, we interview 16 experts in accounting, finance and economic domain in Iran. Using grounded theory, we obtain a qualitative model of factors that affect the gap between the book value and the market value of the Tehran Stock Exchange firms.

RESULTS

The designed model of this research has 39 categories. These categories include causal conditions, intervening conditions, contextual conditions, strategies, and consequences. The categories belong to the three areas of accounting (15 categories), finance (11 categories) and economics (12

categories). The core category of this research that has been chosen based on the experts' opinions is the gap between the book value and the market value. In the causal condition in the accounting domain, we have historical cost, Management incentive and information manipulation, firm characteristics, and industry characteristics, in the finance domain behavioral biases, Speculators, and mistakes in using financial models, in the economics domain chronic inflation, currency fluctuations, fiscal deficit, Excessive increase in liquidity. In intervening conditions in the accounting domain, we have Incomplete IFRS implementation, Absence of necessary conditions for measuring fair value, Laws and Regulations Governing Accounting including tax, in the finance domain a shortage of experts in the market, emphasis on cyberspace and press in the capital market, in economics domain narrative economic and economic events. In strategies in the accounting domain, we have the application of IFRS Standards, disclosure of fair value in annual reports, revaluation, in the finance domain use of financial models in the correct way, encouraging indirect investments in the capital market, prevention in Government intervention in the market, in economics domain reform in tax law, optimal use of liquidity available. In the contextual condition in the accounting domain, we have political and economic forces influence the development of accounting standards, the costs and benefits of IFRS implementation, in the finance domain Operational features of the capital market, Prescriptive Pricing, in economics domain sanctions, competitive markets, Government financing through the stock market. In consequence in accounting, the domain reduces the gap between the book value and intrinsic value, in the finance domain moves the price toward intrinsic value in the economic domain proper functioning of the capital market.

CONCLUSION

In spite of the overlap between many concepts in experts' opinions with the research literature, encouraging indirect investments in the capital market, application of IFRS Standards, and optimal use of liquidity available, are among the accomplishments of this research that help to

change the gap between the book value and the market value of the Tehran Stock Exchange firms.

Keywords: Accounting, Book Value, Economics, Finance, Market Value.

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