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Market Reaction to Restatement and Distortion of Financial Information in Family-owned Companies[1]

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Research Paper

INTRODUCTION

High-quality accounting information plays a key role in designing mechanisms to reduce various agency problems among block shareholders, managers, and outside investors (Bashman and Smith, 2001; Healy and Palpo, 2001; Armstrong et al., 2010). Due to the expansion of family firms around the world, an increasing number of studies have investigated the relationship between family ownership and their controlling role in the quality of accounting information (e.g., Beh-Anwamahal, Wang, 2006; Chen et al., 2008; Cassino et al., 2008). 2010; Chen et al., 2014). However, the evidence from existing studies is not convincing. Additionally, little is known about whether and how family control affects investors' reactions to changes in accounting information quality (Ma et al., 2016). On the other hand, in Iran, the rate of renewal of financial statements is extremely high (Nikbakht and Rafiei, 2011). Not only is the large number of financial statement restatements a concern for regulators and other capital market participants, but it is also one of the most obvious types of poor accounting information quality (Kao et al., 2012).) and there is no need for researchers to use a model to identify low-quality companies in this regard (Dichau et al., 2010).

Nevertheless, in Iran, the rate of renewal of financial statements is extremely high and the structure of family ownership has grown significantly in recent years; But in Iran, there is no knowledge about the role of family control regarding the incorrect presentation of financial statements and the market's reaction to the re-presentation of financial statements in family companies compared to non-family companies; Therefore, the issue that the current research seeks to find an answer for is

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whether family control affects the amount of financial statement misrepresentation or not. Is the market reaction to a restatement of financial statements different in family firms than in non-family firms?

MATERIALS AND METHODS

The current research is based on the application goal and based on the correlation method with the regression approach, in which multivariate regression analysis based on time series, composite data, and logistic regression is used to test the research models. To collect data and information, the library method has been used. The data needed for the research to test the hypotheses and the research model were extracted from the audited financial statements of the companies and their other financial reports directly from the Kodal website. After collecting the data, they are linked and classified in an Excel spreadsheet and finally analyzed using Eviuse and Stata software.

The statistical population of the current research includes companies accepted in the Tehran Stock Exchange that have all the following conditions. It has been accepted in the Tehran Stock Exchange until the end of March 2020 and its fiscal year ends at the end of March; The financial information needed by the companies during the years 2007 to 2021 should be available; due to their different nature, they are not part of financial institutions, investment and banks; Therefore, after the collection, the number of 110 companies from the target society remained, which includes a total of 1540 companies during the 14 years under investigation.

RESULTS AND DISCUSSION

The findings of the research about the first hypothesis, the comparison of family-controlled and non-family-controlled companies in the distortion of accounting information showed that, compared to non-family companies, family companies are significantly less likely to distort their financial reports, by the notion that controlling families They have greater reputational concerns than non-family shareholders, which gives family owners a greater incentive to provide high-quality accounting information. In other words, family companies are more likely than other companies to engage in activities of providing false information. The results of the first hypothesis of the research are consistent with the results of Chen (2005); Coffey (2005) Anderson et al. (2009). This result shows that the behavior of family owners in Iran is not different from other countries and in family companies where family members have control over the company, they seek their short-term interests and try to determine the strategy of the company in such a way that in the short term Increase the return period of your investment. Especially in Iran's economic environment, where the market volatility is extremely high, this issue plays a more prominent role.

In other words, in Iran's economic environment, because the market volatility is high, family managers try to obtain good returns in the short term through decisions such as manipulating information in line with their interests.

The findings of the research about the second hypothesis, the investigation of the effect of the market's reaction to the restatements published by family and non-family companies showed that in a short window around the restatement announcements, after the restatement of the accounting, the family-controlled companies' investor reactions They generate much stronger returns as measured by higher negative cumulative abnormal return (CAR), larger abnormal return variance (ARV), larger abnormal trading volume (ATV) and higher abnormal bid and ask (ABAS). In other words, the effect of re-presenting financial statements on market reaction is stronger in family companies. Also, the results of the effect of the market reaction to the re-presentation of family and non-family companies in a longer window (up to 120 days after the announcement of the re-presentation) showed that companies with family re-presentation in a longer window compared to non-family companies have more market reaction. they experience This result indicates that investors are more sensitive to changes in previously published information in family companies. The reason for this is the role that family owners play in the management of companies. The test results of this hypothesis are in line with the results of Bajo's research (2005); De Fond, Hung, and Tresvant (2007), and Posner et al. (2015).

The findings of the research about the third hypothesis, the study of the effect of expropriation risk by the controlling shareholder on the relationship between family control and market reactions showed that stronger reactions of investors to the re-presentations of family companies are more obvious when the risk of expropriation by the controlling shareholders is higher. These findings suggest that following re-offering announcements, investors quickly readjust their views on controlling households' concern for reputation and foreclosure risk. Specifically, restatements reduce investors' perceptions of the reliability of accounting information and ultimately the credibility of controlling families. Indeed, significant increases in return variance, trading volume, and bid-ask spread in family re-offering firms are still visible 120 days after re-offering announcements; But these renewal effects do not exist for non-family renewal firms in the same period. This result is consistent with the findings of our research and colleagues (2016).

CONCLUSION

The research findings have two important implications. First; at the firm level, this study suggests that family-controlled firms should put more

effort than non-family firms to promote high-quality financial reporting to avoid severe penalties imposed by the market. Second; at the policy level, to maximize the benefits of accounting information in reducing market frictions and facilitating the development of a flexible stock market, regulators should take measures to encourage reliable reporting by all listed companies, as well as increase the market's perception of the trustworthiness of corporate insiders.

Keywords: Accounting Restatement, Distortion of Financial Information, Family Ownership.
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