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The Effect of Institutional Investors' Distraction on Financial Statements Comparability[1]

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INTRODUCTION

Considering that institutional shareholders, due to their access to information resources and effective involvement in the company's policies and strategic decisions, can effectively guide operations to prevent management's opportunistic behavior, the indifference or lack of institutional shareholders attention as the weak monitoring mechanism and less demand for reliable reporting can affect the quality and comparability of information. Based on the governance role of common institutional shareholders through supervisory and control mechanisms, their flexibility in deciding to sell shares and leave the company, influencing company policies, reducing the incentive to manipulate profits, and increasing the incentive to voluntarily disclose information, due to the presence of high the duration and access of these owners to the company's confidential information, the asymmetry of information about the company's

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confidential information will decrease and the quality of information reporting will increase and will increase the comparability of financial statements. On the other hand, due to the limited attention of institutional shareholders to some invested companies, the passive approach of institutional shareholders, the failure to apply the same supervisory and control power over industrial companies, gaining informational advantage and confidential information from some industrial companies, and as a result, Compared to other companies in the same industry, the comparability of financial statements will decrease. Based on this, this research aims to investigate the effect of institutional investors' distraction on the financial statements comparability of companies listed on the Tehran Stock Exchange.

MATERIALS AND METHODS

To test the hypotheses of the research, multiple regression has been used using Eviuse software. The statistical population of this research is the 123 companies admitted to the Tehran Stock Exchange during the years 2012-2021 (10-year period). Which were selected by purposeful sampling.

RESULTS AND DISCUSSION

The results of the research hypothesis test showed that institutional shareholder causes an increase and deviation of institutional shareholder's attention causing a reduction of financial statements comparability. So With the increase in the ownership percentage of institutional shareholders, the comparability of financial statements also increases, which is caused by the monitoring mechanism of institutional shareholders on accounting procedures and reporting quality, and this result also indicates the rule of the logic of the hypothesis of effective supervision by institutional shareholders. Deviation of attention (lack of attention or neglect) of institutional shareholders to some companies due to their scattered ownership and their limited attention, lack of influence on company policies and the reduction of demand for reliable information from neglected companies and their common information acquisition from the company - The above concerns neutralize the supervisory power of institutional investors, weaken the results of corporate governance, strengthen the passive and opportunistic approach of management, and as a result in low quality of reporting and comparability of financial statements, and perhaps this action of institutional shareholders (note excessive or deliberate deviation of attention to some other companies) is the result of the hypothesis of personal interests of institutional shareholders to take advantage of confidential information in the shadow of lack of transparency.

CONCLUSION

That is, the deviation of the institutional shareholder's attention, neutralizes the supervisory power of institutional investors, weakens the results of corporate governance, strengthens the passive and opportunistic approach of management, and as a result, results in low reporting quality and less comparability of financial statements, which is by the personal interests of institutional shareholders hypothesis. In such a situation, the authority and flexibility of managers in applying accounting procedures in line with personal interests also increase, which reduces the ability to compare information between companies with similar activities in the industry. Based on the results of the research, it is suggested that investors should not necessarily consider the presence of institutional shareholders in the selection of their portfolio due to the high supervisory power of institutional shareholders in improving the quality of financial reporting and the possibility of their attention being diverted towards some companies with normal returns. Rather, as much as the attention of institutional shareholders improves the quality of financial reporting, the deviation of their attention reduces the quality and reliability of financial reporting, which causes the cost of acquiring information from other channels for investors. Risk-taking investors are suggested to consider companies with active and more attentive institutional shareholders to choose a high-risk portfolio and try to obtain unusual returns. It is suggested to the audit committee of companies by holding several meetings during the financial period, to use institutional shareholders and other influential shareholders in terms of informed shareholders, resource

management, risk management, information management, and company performance management and prevent them from diverting their attention.

Keywords: Institutional Investors' Distraction, Financial Statements Comparability, Supervisory Power, Agency Theory.

JEL Classification: D82, G14, G32, G34.