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## Article

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
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# THE IMPACT OF DIRECT BENEFITS OF CONTROL ON THE PRICE INFORMATIVE VALUE OF VOLUNTARY INFORMATION DISCLOSURE: AN EMPIRICAL STUDY OF THE IRANIAN PUBLIC LISTED COMPANIES

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## ABSTRACT

*This paper seeks whether the voluntarily information disclosed by public companies listed on the TSE where the institutional blockholders possess the Direct Benefit of Control (DBC) is useful and relevant information as a proxy for presenting true financial picture. We assumed that the relevant voluntary disclosure indicates more transparency. We chose the annual reports of all public companies listed on the main board of TSE in 2009. Two types of indices were constructed, an index for the extent of voluntary disclosure (VD), and an index for the price informative voluntary disclosure (PID). The results show that the institutional blockholders meet the needs of market for information by disclosing a lot of information (VD) but with less-relevant content in order to cover up their perks' consumptions. The blockholders would like to show the market is efficient with no information asymmetry however such transparency is not genuine. This paper may contribute to the literature whereas the presence of blockholders shall increase the extent of voluntary disclosure (VD) but the transparency may decline.*

 *Price informative, voluntary disclosure, direct benefits of control, blockholders*

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## **INTRODUCTION**

Voluntary disclosure, i.e., information in excess of mandatory disclosure, in the process of globalization of the financial markets has received recently considerable attention in the accounting literature (Cooke, 1989; Meek *et al.*, 1995; Botosan, 1997; Sengupta, 1998; Chua & Gray, 2002; Haniffa & Cooke, 2002; Eng & Mak, 2003; Akhtaruddin *et al.*, 2009; Hussainey *et al.*, 2009; Al-Akra *et al.*, 2010; Othman, 2010; Eugene *et al.*, 2011). Voluntary disclosure however so far got little attention in emerging economies where the regulatory bodies normally prescribe minimum disclosure requirements but do not restrict companies in any way from providing additional and relevant information.

When a company has dispersed ownership, the voluntary disclosure of information is mainly constrained by the direct and indirect costs. But in a company with equity blockholdings voluntary disclosure of information is affected by not only the direct and indirect costs but also by a potential risk. The risk of blockholders' penetration in firm's policy by which they prefer to blur and reduce the amount of information voluntarily disclosed. This can cause information asymmetry and offers the blockholders a unique opportunities for preferring own interests and more importantly to consume the advantages of minority shareholders.

If blockholders in public companies are seeking for maximization of their wealth, it goes through improving share prices which is an obvious benefit called share benefits (SB). If priority is the maximization of share prices, a large owner must enhance the extent of voluntary disclosure (Botosan, 1997). Blockholders who wish better share prices must release higher VD with mainly price informative content which represents the performance of companies. The future expected cash flow that contributes to the share prices depends on the performance of company and market will make its assessment based on the relevant information (PID) so blockholders inevitably should avoid any perquisites consumptions.

Theoretically, better share prices goes against perks consumption by blockholders as perquisites outlays affect performance of companies. Therefore, the DBC consumptions in the public companies with blockholders is not easily visible or even traceable as blockholders try to cover up their low performance (Zingales, 1994; La Porta *et al.*, 1998 and Makhija & Patton, 2004).

The objective of this paper therefor is to represent two complex issues in the emerging stock markets with the dominance of blockholders. First, the existences of information asymmetry by which few insiders is being aware invaluable information. Insiders try to take it in advance in a doubtful and uncompetitive manner. Second, the direct benefits of control outlays the resources of a public company and helps blockholders to change only their outlook of huge block

ownership but the substance. This is legally impossible and unique but it's a routine practice for controlling institutional stockholders in Iran.

This study is to contribute to the existing literature about the role of institutional blockholding as a major corporate governance mechanism in explaining the new dimensions of voluntary disclosure, PID variability. The institutional blockholders expropriate minority shareholders by their direct benefits of control (DBC) and lower PID voluntary disclosure. Informative disclosures help investors better understanding a company's critical success factors, competitive environment and the framework within which decisions are made as well as its strategy to ensure sustainable results (FASB, 2001). Therefore, it is assumed that the blockholders tend to disclose much more information which is less relevant in order to consume perks at the expense of minority stock holders.

This study is organised as follow: section two reviews the literature, section three represents the research framework, section four discusses the methodology, chapter five interprets the operational results and the last section summarises the findings.

## **1. LITERATURE REVIEW**

The confiscations of properties left by the Royal family and the nationalization of large corporations and public companies following the Islamic Revolution in 1979 enlarged the State's presence and activity in every sector of the economy, either through regular government agencies or public institutions such as charity foundations in Iran. The uncertainty over business dealings after the Revolution and no true financial picture of public companies listed on the TSE affected investors' confidence level. These factors continued to stifle the Tehran Stock Exchange (TSE) until the Iranian second economic reform program was approved by the Parliament. According to the program, the government is committed to become a free market country with dispersed ownership and to sell out its blockholdings in confiscated firms to private investors through the TSE.

According to a report by the World Bank (2001), the Iranian economic reform strategy is aimed at developing a competitive economy by moving toward a market-based allocation of resources, and by undertaking legal and institutional changes to pave the way for the development of private sector participation together with public enterprise sector reform. Many economists believe that the legal and other governing institutions could not keep pace with the faster speed of shift for the privatization of public companies on the TSE. As a result, much of the legal and judicial efficiency are still underdeveloped. This has resulted in lacking of protection for the minority shareholders where tend to breed direct and indirect benefits for block shareholders. One of the main such benefits is direct benefit of

control (DBC). The direct benefit of control (DBC) is a potential advantage for any types of equity blockholdings.

The DBC gives blockholders a unique opportunity to consume easily perks at the expense of minority shareholders. Barclay and Holderness (1989, 1992) claim that large blockholders always trade at a premium over ordinary exchange prices. These premiums depend on the value of DBC. If the main objective of a blockholder is the consumption of DBC, the extent of relevant voluntary information must be reduced. Makhija and Patton (2004) find that institutional blockholders with perquisites consumption lower the extent of voluntary disclosure in their annual reports. Since controlling shareholders seriously divert corporate wealth, its performance will be affected (Zingales, 1994; La Porta *et al.*, 1998; Makhija & Patton, 2004). Thus, perks consumption by a blockholder can easily be seen through its price sensitive information disclosure (PID) such as information about the expected future cash flows that shows performance. Low performance is a direct consequence of DBC consumption and PID shows this consumption.

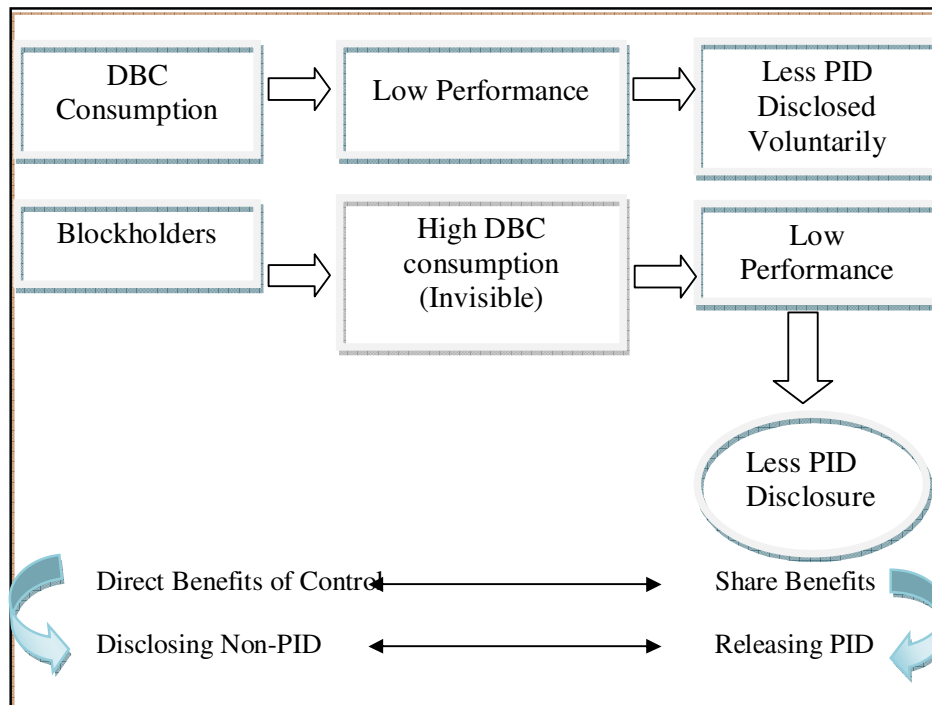
According to Lins and Servaes (2000), the lower transparency by diversified firms in an emerging market, results in a higher level of asymmetric information that may allow controlling shareholders to easily consume more advantages of minority shareholders. They judge that the better transparency, the lower the likelihood for controlling shareholders to extract direct benefits without incurring legal penalties or damaging their reputations.

In Iran, blockholders can firstly enjoy two choices, protecting their own interests by expropriating minority shareholders through lowering the level of information voluntarily disclosed. Second, improving share prices for share benefits (capital gains) that requires price sensitive information to be disclosed voluntarily. An increase in the price informative value of voluntary disclosure will lead to lower information asymmetry which in turn encourages more liquidity, lowers the cost of capital and raises share prices (Botosan, 1997; Sengupta, 1998; Luez & Verrechia, 2000).

An evidence of controlling shareholders with DBC consumptions in an emerging market with non-reliable monitoring mechanisms and weak legal institutions can easily be seen in the privatization of the Iranian Saipa Corporation, the biggest automobile manufacturer in the Middle-East. The ownership of all Iranian public companies had been handed over to the State organizations and Charity foundations after the Islamic revolution in 1979. But later over the Iranian third Economic Reform Program in which the provision of the privatization act was approved by the Iranian parliament in 2006, the State was required to sell its huge blocks in public companies on the TSE to investors from private sector.

Among the Iranian public companies' IPOs, the Saipa's IPO represents the worst incident and harmful effects of DBC undertaken by the blockholders. It was a controversial IPO according to the parliament members. With regard to the evidences leaked out, before public announcement for the Saipa's IPO, the directors on board of Saipa wished to buy the shares back. The directors of Saipa founded an investment company named Saipa Investment Company (SIC) that listed on the TSE. Just less than 2 percent of SIC was sold to the public through the TSE but Saipa held more than 98 percent of the SIC's share. After a short time, the SIC founded a few other subsidiaries to make a group of companies to cover up the DBC. It includes the Saipa's Employees Investment Company (SEIC), RENA, Setareh Taban (ST), Tejarat Electronic Taban (TET) and EImen Joush (EJ). Over the IPO of the Saipa, the SIC in an indirect way owned the Saipa back, via the subsidiaries while Saipa held almost 98% of SIC. Due to the DBC of blockholders, the ownership of the Saipa still remained in the control of Saipa itself and the State's endeavour for fragmenting its huge ownership through privatization of public companies was unfruitful.

Figure 1. The relationship between the DBC, VD and PID



Modigliani and Perotti (1997) judge that in an environment with poor legal protection for minority shareholders, the value of control rights is generally greater than the value that controlling shareholders hope to gain by selling out their shares. To protect such investors a combination of legal and economic institutions has been established. To do that, they have defined two approaches, the legal approach and the ownership concentration approach. The legal approach includes investor protection for shareholders, capital market regulation, accounting rules, and enforcement of laws against expropriation and corruption (Shleifer & Vishny, 1997). Investor protection differs among countries, common law countries like the US and the UK offer strong investor protection. Civil law countries like France however, offer less protection to investors. La Porta *et al.* (2000) find that countries with common law have larger and more liquid capital markets with low information asymmetry. Similarly, countries with civil law systems that provide weak protection for investors tend to have smaller and less liquid markets with high information asymmetry.

The ownership concentration approach combines control and cash flow rights but still provides potential opportunity for large investors to expropriate small investors. According to Jensen and Meckling (1976) and, Guedhami and Pittman (2005) concentrated ownership mitigates managerial expropriation but it engenders a new form of agency problem, the expropriation of minority shareholders by controlling shareholders. More importantly, Dyck and Zingales (2004) find that blockholders in civil law countries, in which investors have less protection, enjoy much more disproportionate benefits of control. Concentrated ownership therefore, plays an important role in corporate governance, especially in countries with poor investor protection i.e. countries that accommodate more expropriations and corruptions.

The ownership concentration approach is negatively related to the quality of legal protection and as La Porta *et al.* (1998) judge, solid legal systems and concentrated ownership are overlapping. In fact, La Porta *et al.* (1999) and Dyck and Zingales (2004), find that ownership concentration is a response to poor investor protection.

When controlling shareholders consume perks, they must have strong motives to conceal information about diverting corporate resources by releasing less-relevant information about it. This is consistent with that finding of an empirical study by Guedhami and Pittman (2005) that controlling shareholders have stronger motives to conceal firm performance when they are diverting more corporate resources.

More relevant disclosure will lead to firms becoming better known to outsiders, thereby moderating the amount of direct benefits of control (DBC) that controlling shareholders enjoy to the detriment of the remaining shareholders. Guedhami and Pittman (2005) judge that high-quality disclosure should lower the likelihood that controlling shareholders can extract private benefits without incurring legal penalties or damaging their reputations.

Generally, the nature of agency problem in a market can be determined by its ownership structure, whether dominant conflict is between managers and shareholders or between controlling and minority shareholders.

When ownership is dispersed, shareholder's control tends to be weak because of poor shareholder monitoring. The inadequacy of shareholder monitoring is due to the so-called free-rider problem. A small shareholder would not be interested in monitoring because he/she would bear a considerable amount of monitoring costs, but only share a small proportion of benefit. If all small shareholders behave in a similar way, no monitoring of managerial efforts would take place. In the US and the UK, where corporate ownership is relatively dispersed, the major mechanisms for shielding shareholders from expropriation by incumbent managers are legal protection and the market for corporate control. Fama and Jensen (1983) judge that where share ownership is widely held, the potential for conflicts between principal and agent results in a greater information disclosure as a signal by agents to principals that they act in the best interests of them.

On the other hand, when ownership is concentrated, large shareholders play better role in monitoring of management. But the fundamental problem under concentrated ownership is how to protect minority shareholders against the expropriation of controlling shareholders. The separation of ownership and control in public firms with blockholders causes potential conflicts between minority and large shareholders. That's the expropriation of minority shareholders by large owners through their direct benefits of control (Jensen & Meckling, 1976).

When the direct benefits of control (DBC) are not transferable, the agency problem is reduced to the traditional conflict of interest between manager and shareholders. But when there is substantial amount of direct benefits for large blockholders to expropriate, the agency problem exists between minority and controlling shareholders (Shleifer & Vishny, 1997; La Porta *et al.*, 1999; Claessens *et al.*, 2002; Makhija & Patton, 2004). The moral hazard problem is the perquisites consumption by large shareholders through their direct benefits of control (DBC).

Given the situation the common problem is that availability of substantial amounts of direct benefits (DBC) for large blockholders to expropriate generates information asymmetry. Heflin and Shaw (2000) judge that ownership concentration results in a greater proportion of informed traders in a market. This engenders information asymmetry that shows one group (blockholders) is armed with greater information rather than another group (minority shareholders).

Reducing information asymmetry by releasing more relevant information (PID) can make the extraction of corporate resources to be easily detected by minority shareholders. Guedhami and Pittman (2005) are convinced that accounting transparency can play an effective role in alleviating the agency conflict between minority investors and controlling shareholders, since the expropriation of

corporate resources by controlling shareholders depends on the direct benefits of control remaining hidden. Jensen and Meckling (1976) also judge that a reduction in information asymmetry contributes to the lower levels of perquisites consumption for blockholders.

Jiang *et al.* (2011) investigated the impact of different classes of ownership concentration on information asymmetry by corporate voluntary disclosures in New Zealand. They attempted to extend this stream of research by incorporating three mutually exclusive ownership structures and considering the interactive relationship between such ownership structures and corporate voluntary disclosures. Their results revealed that ownership concentration in general is significantly positively associated with bid-ask spreads (proxy for information asymmetry) observed around annual report release dates. They also claimed that finding supports the adverse selection costs and more importantly this effect is found to be most pronounced for companies with financial institutions and management-controlled ownership. When voluntary disclosure is taken into account, the findings illustrate that voluntary disclosures significantly decrease information asymmetry risk associated with ownership concentration. They asserted this impact is particularly pronounced for firms with management controlled ownership structures. Their findings also highlighted the magnitude of corporate disclosures under concentrated ownership structures especially management-controlled ownership structures in reducing information asymmetry and enhancing market efficiency in New Zealand.

Tang (2011) examined companies with two different categories of shares which entitle their holders to identical cash flow and voting rights but that are available to mutually exclusive sets of investors:

- A) Shares to domestic investors.
- B) Shares to foreign investors.

He claimed that, Price differences between types A and B shares are higher in firms with a greater disparity in the disclosures that they make to domestic and foreign investors. This association according to Tang (2011) is more pronounced when the cost/benefit of information transfer is higher/lower. The results of his study suggested that disclosure disparity creates meaningful differences in investors' average information precision across A and B shares and thus influences the cross sectional variation in price differences.

Meca and Sanchez (2010) applied meta-analysis to a sample of 27 empirical studies to clarify the association of board independence and ownership concentration and voluntary disclosure. The authors examined whether variations in results are stemming from the differences in the corporate governance system, the investor protection rights and the measurement of the governance variables. Their findings showed that the positive association between board independence and voluntary disclosure only occurs in those countries with high investor

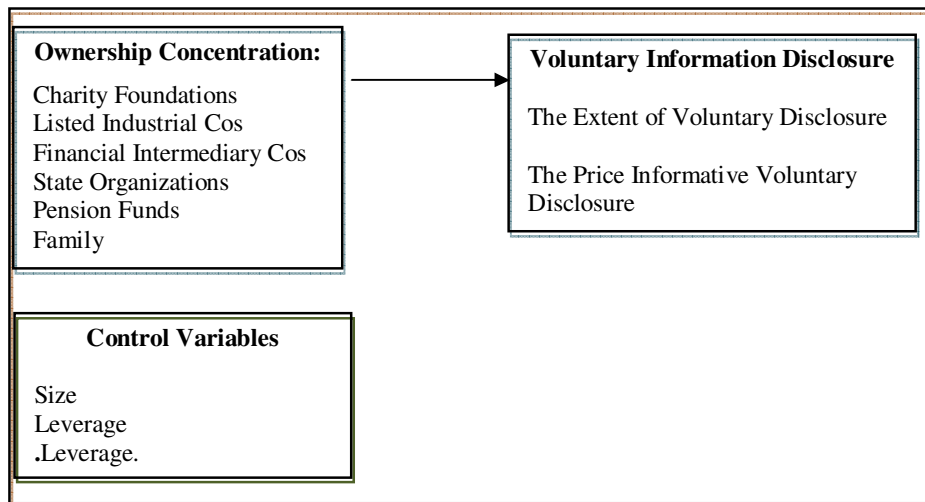
protection rights. Their findings also emphasize the need to consider the legal and institutional setting explicitly when analyzing the effect of corporate governance on voluntary disclosure.

Doidge (2004) studied the private benefits of control in cross-listed and non-cross listed firms in the US. He found that, Non-US firms that cross-list on U.S. exchanges have voting premiums that are 43% lower than US firms. The difference in voting premiums is statistically significant after controlling for firm and country characteristics in firms from countries that provide poor protection to minority investors. When a US listing is announced, both the high and low-voting classes benefit, although the low-voting class benefits relatively more. The findings of his study support the weakness of legal systems in Non-US firms when the cross-listing in the US improves the protection afforded to minority investors and decreases the private benefits of control. Considering all merits and disadvantages of controlling shareholders, it seems that a trade-off between advantages and disadvantages of blockholdership is existing whereas a reliable protective system can preserve minority shareholders immune against DBC consumptions of controlling shareholders.

## 2. RESEARCH FRAMEWORK

Based on the literature review, an integrative model is generated (see Figure 2). It considers the impact of ownership structure on the voluntary information disclosure while non-governance factors of size and leverage are control variables.

Figure 2. The Research Framework



## **2.1 Hypotheses Development**

In Iran, charity foundations have so far been popular and trustworthy by which they can easily sell out their shares in public companies listed on the TSE. It is predicted that they would release informative information (PID) in order to attract public confidence. Thus the following hypotheses are suggested:

*H1<sub>a</sub>: There is a positive association between proportions of equity held by charity foundations and the extent of voluntary disclosure.*

*H1<sub>b</sub>: There is a negative association between proportions of equity held by charity foundation and the price informative value of voluntary disclosure.*

Listed industrial company as a blockholder in a company results in releasing higher extent of voluntary information (Raffournier, 1995). Kocenda (2002) was convinced that industrial companies in order to exploit economies of scale required a sound corporate governance system that might lead to greater transparency. Cooke (1992) found that Japanese manufacturing companies regardless of their listing status disclosed more information than non-manufacturing firms. He suggests, apart from historical and other country-specific reasons, this fact originates from the international exposure on manufacturing sector. He finds a similar phenomenon in Switzerland, where industrial companies are more internationally-oriented. Listed companies normally avoid DBC consumption and provide greater voluntary information disclosure. Based on these discussions H2a-b are developed:

*H2a: There is a positive association between proportions of equity held by listed industrial companies and the extent of voluntary disclosure.*

*H2b: There is a positive association between proportions of equity held by listed industrial companies and the price informative value of voluntary disclosure.*

Financial intermediary companies have a good reputation for seeking the confidence of their investors. It is through enhancing transparency and avoiding DBC consumption. These companies according to Cornelli *et al.* (1996) are more in the public eye compared to others and pursue short-term capital gains rather than participation in the expropriation of minority shareholders. Portfolio companies in New Zealand according to Adams and Hossain (1998) disclose more voluntary information. Makhija and Patton (2004) also find that the extent of voluntary disclosure is positively related to investment funds ownership but only at low levels of shareholdings. The price informative voluntary information disclosure is therefore an easy measurement to achieve public's confidence. So this study seeks to test the following hypotheses:

*H3<sub>a</sub>: There is a positive association between proportions of equity held by financial intermediary companies and the extent of voluntary disclosure.*

*H3<sub>b</sub>: There is a positive association between proportions of equity held by financial intermediary companies and the price informative value of voluntary disclosure.*

A state organization as a large owner in a company is interested in using its controlling rights to enhance VD and PID voluntary disclosure, by which can affect the public perception and in turn influence share demand and supply for higher share prices (SB). A state organization pursues economic goals such as maximizing its shares prices in future auctions and social goals such as boosting investors' confidence. State agencies shall thus be interested in using its controlling power to enhance the price informative voluntary disclosure in order to affect public perception about its listed companies, to influence in turn share prices. In Singapore, Eng and Mak (2003) find that the government equity ownership increases moral hazard and agency problems. Thus, the government linked companies (GLCs) disclose more voluntary disclosure to mitigate these problems. Thus the following sub-hypotheses are suggested:

*H4<sub>a</sub>: There is a positive association between proportions of equity held by state organizations and the extent of voluntary disclosure.*

*H4<sub>b</sub>: There is a positive association between proportions of equity held by state organizations and the price informative of voluntary disclosure.*

Pension funds have used their controlling shares to extract the direct benefits (DBC). They would avoid releasing relevant voluntary information in order to hide their DBC consumption. According to Iskandar and Chamlou (2000), the pension funds used their controlling shares to extract direct benefits at the expense of minority shareholders. Thus the following hypotheses are suggested:

*H5<sub>a</sub>: There is a positive association between proportions of equity held by pension funds and the extent of voluntary disclosure.*

*H5<sub>b</sub>: There is a negative association between proportions of equity held by pension funds and the price informative value of voluntary disclosure.*

Family blockholders are well-informed compared to their minority shareholders. They protect their own interests by being quite secretive, they would therefore prefer less-informed minority shareholders by releasing least information. Family-controlled companies, in Hong Kong and Singapore according to Chau and Gray (2002), lower the level of voluntary information disclosure. Chen and Jaggi (2000) also find that the level of corporate disclosure tends to be lower in family controlled companies compared to non-family controlled companies. Thus the following sub-hypotheses are suggested:

*H6<sub>a</sub>: There is a negative association between proportions of equity held by a family and the extent of voluntary disclosure.*

*H6<sub>b</sub>: There is a negative association between proportions of equity held by a family and the price informative value of voluntary disclosure.*

### **3. RESEARCH DESIGN**

This paper aims to investigate whether the existence of blockholders affects the level of voluntary disclosure (VD) and price informative disclosure (PID) in the Iranian emerging market. Therefore, two linear multiple regression analyses were conducted to determine the impact of independent variables on dependent variable. In each model R<sup>2</sup> has used to determine explanatory power of the dependents by each independent variables. This section involves research design of the study and focuses on processes of constructing the indices of voluntary disclosure (VD) and the level of its relevancy (PID) for different types of industries listed on the TSE.

#### **3.1 Voluntary Disclosure Items**

Mandatory disclosure refers to those items and information that is required by the Securities and Exchange Commission or standard setters from the accounting profession. Discretionary or voluntary disclosure refers to information made available at the discretion of a company (Gray *et al.*, 1993). Based on previous studies regarding the extent of voluntary disclosure (Botosan, 1997; Arifin, 2001; Phua, 2003; Makhija & Patton, 2004; Ghazali & Weetman, 2006; Akhtaruddin *et al.*, 2009; Hussainey *et al.*, 2009; Al-Akra *et al.*, 2010; Othman, 2010; Eugene *et al.*, 2011), by matching annual reports against the country-specific disclosure requirements (mandatory ones), voluntary disclosure items were derived.

#### **3.2 Data Collection**

The source of data for independent and control variables were annual reports which published by the listed companies for year ended March 22, 2009 released on the TSE website. The voluntary disclosure index was also based on the information that listed companies provided in their annual reports. However, in order to determine the price informative value of voluntary disclosure (PID), a questionnaire was built up regarding the importance of voluntary disclosure items with respect to their effects on shares prices (Appendix A represents the proportion of price informative value of voluntary disclosure). The questionnaires with letters explaining the nature and purpose of research were sent to most of stock brokers of the Tehran Stock Exchange (TSE). According to the former TSE General Secretary (Abdotabrizi, 2003), stockbrokers are classified as financial analysts in Iran.

#### **3.3 Population and Sampling**

This study involved all 200 public companies listed on the first board of TSE for the year ended March 22, 2009, the Iranian fiscal year.

### 3.4 The Regression Analysis

Multiple regression is an extended model of bivariate correlation. The outcome of regression is an equation that represents the best prediction of PID from several dimensions of independent variable of ownership concentration. The regression can be applied when independent variables have a relation to each other. In other words it can be used when independent variables are correlated. Dependent variable must be continuous variable while independents can be either continuous or categorical (Coakes *et al.*, 2010). To investigate the effect of controlling shareholders on voluntary disclosure and also its relevancy two linear multiple regression analyses were conducted to test the association between the dependent variables of the extent of voluntary disclosure (VD), price informative (PID) and the independent variables of ownership concentration where size of company and leverage were control variables.

The analysis of the extent of voluntary disclosure (VD) was based on the following multiple regression model:

$$\text{VOVD} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{LEV} + \beta_3 \text{FABL} + \beta_4 \text{INBL} + \beta_5 \text{FIBL} + \beta_6 \text{SOBL} + \beta_7 \text{PFBL} + \beta_8 \text{CHBL}$$

Where: VOVd = the extent of voluntary disclosure;  $\beta_0$ = regression intercept; SIZE= Firm size (as a control variable); LEV= Leverage (as a control variable); FABL= Family blockholding; INBL= Industrial listed blockholding; FIBL= Financial intermediary blockholding; SOBL= State organizations blockholding; PFBL= Pension fund blockholding; CHBL= Charity blockholding;  $\beta_i$  = parameters to be estimated;  $i = 1, \dots, 8$ .

The analysis of the price informative voluntary disclosure (PID) was based on the following multiple regression model:

$$\text{VOPID} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{LEV} + \beta_3 \text{FABL} + \beta_4 \text{INBL} + \beta_5 \text{FIBL} + \beta_6 \text{SOBL} + \beta_7 \text{PFBL} + \beta_8 \text{CHBL}$$

Where: VOPID= the price informative voluntary disclosure;  $\beta_0$ = regression intercept; SIZE= Firm size (as a control variable); LEV= Leverage (as a control variable); FABL= Family blockholding; INBL= Industrial listed blockholding; FIBL= Financial intermediary blockholding; SOBL= State organizations blockholding; PFBL= Pension fund blockholding; CHBL= Charity blockholding;  $\beta_i$  = parameters to be estimated;  $i = 1, \dots, 8$ .

### 3.5 Voluntary Disclosure (VD) Index

An important issue concerning a broad voluntary disclosure list is the problem of distinguishing “not-disclosed” versus “not-applicable” items. So the applicability of items to each type of industry should be considered. In order to determine the maximum expected voluntary disclosure items (scores) for each type of industry, it

was referred to their annual reports to identify common not-applicable items with respect to the disclosure norms of each industry. Clearly, not-applicable items would be omitted from the maximum expected score of each type of industry. It prevents a company from being penalised for non-disclosure of not-applicable items.

The list of not applicable items for each type of industry is presented in Appendix B. The voluntary disclosure (VD) index for a company is the ratio between the total actual score of voluntary disclosure awarded to a company, to the maximum voluntary disclosure score that a company expected to earn regarding its type of industry (TVD/MVD). The value of the VD index can range from 0 to 1. Higher values of the VD index indicate higher extent of voluntary disclosure.

### **3.6 The Price Informative Voluntary Disclosure (PID) Index**

To construct index for the price informative voluntary disclosure (PID) only informative information that disclosed voluntarily in annual reports were considered. They were voluntary disclosure items which perceived by stockbrokers very important to fairly important (mean 4 to 5) in terms their effects on share prices. To determine price informative index, the total actual price informative score of each company divided on the maximum price informative score that a company according to its type of industry was expected to earn (The total actual PID score/maximum expected PID score). In order to determine the maximum expected price informative score for each type of industry, it was referred to their disclosure norms with respect to the voluntary disclosure items which perceived by stockbrokers fairly important to very important (mean above 4). They are presented in Appendix C. Similarly, the maximum expected Non-PID scores were determined.

## **4. RESULTS**

### **4.1 The Voluntary Information Disclosure**

It represents the dependent variable that is the voluntary information disclosure in terms of voluntary disclosure and price informative disclosure indices across six different types of equity blockholdings. The blockholders involve Listed Industrial Companies, Pension Funds, Financial Intermediary, State Organizations, Charity Foundations and Family. The results for overall sample as well as six different types of equity blockholdings are presented in Table 1.

Table 1. The Descriptive Statistics on VD Index and PID Index

TYPE OF OWNERSHIP	Voluntary Disclosure Index (VD)				Price Informative disclosure Index (PID)			
	DESCRIPTIVE STATISTICS				DESCRIPTIVE STATISTICS			
	Mean	Std. deviation	Min	Max.	Mean	Std. deviation	Min.	Max.
Listed Industrial Companies	0.41	0.22	0.09	0.97	0.38	0.23	0.05	0.96
Pension Funds	0.29	0.05	0.21	0.35	0.24	0.05	0.17	0.29
Financial Intermediary	0.31	0.13	0.09	0.82	0.27	0.14	0.06	0.81
State Organizations	0.40	0.25	0.09	1.0	0.38	0.27	0.05	0.99
Charity Foundations	0.34	0.13	0.17	0.72	0.31	0.14	0.10	0.66
Family	0.23	0.13	0.04	0.54	0.19	0.12	0.02	0.49
overall	0.33	0.18	0.04	1.0	0.29	0.19	0.02	0.99

Table 1 depicts the voluntary information disclosure (VD) index. It shows that VD index has the highest average score through listed industrial companies with 0.41 where, the lowest score is observed for family with a mean value of 0.23. This shows that companies own by listed industrial companies record relatively higher extent of voluntary disclosure average score compared to the others. Results also show that companies owned by state organizations have the highest score of VD index with maximum 1.00.

This table also shows that PID index compared to VD index, has decline. The highest score of average again belongs to listed industrial companies with 0.387 and the lowest score to family with an average score of 0.191. The most active blockholder for PID is state organizations with minimum disclosure of 0.057 and maximum of 0.990.

Multiple regression analysis has also been done to declare the rate of explanatory power of each variable (see table 2).

Table 2. Multi regression analysis

INDEPENDENT VARIABLE		DEPENDENT VARIABLE OF VD AND PID	
		VD	PID
Family	Sig.	-0.03	-0.05
	t-statistic	(-0.25)	(-0.43)
Listed Industrial co.	Sig.	0.27**	0.21*
	t-statistic	(2.29)	(1.66)
Pension Funds	Sig.	-0.02	-0.03
	t-statistic	(-0.33)	(-0.46)
Financial Intermediary	Sig.	0.23*	0.11
	t-statistic	(1.70)	(0.84)
State Organization	Sig.	0.20**	0.11
	t-statistic	(1.82)	(0.95)

INDEPENDENT VARIABLE		DEPENDENT VARIABLE OF VD AND PID	
		VD	PID
<b>Charity Foundation</b>	Sig.	0.13**	0.09
	t-statistic	(1.27)	(0.88)
<b>Company Size</b>	Sig.	0.23***	0.25***
	t-statistic	(2.99)	(3.12)
<b>Leverage</b>	Sig.	0.07	0.00
	t-statistic	(0.94)	(0.00)
<b>Constant</b>	Sig.	-0.54***	-0.46**
	t-statistic	(-2.70)	(-2.19)
<b>Adjusted R-squared, %</b>		25.6	18.5
<b>F-statistic</b>		5.56***	4.00***

Note: Significant coefficients in bold and t-statistics in parentheses are shown.

\*\*\*p < .01, \*\*p < .05, \*p < .10

Based on the statistical analysis some of the designed assumption have been accepted while others have been rejected. Hypotheses H1a, H2a, H2b, H3a, H4a and have been failed to reject and H1b, H3b, H4b, H5a, H5b, H6a and H6b rejected.

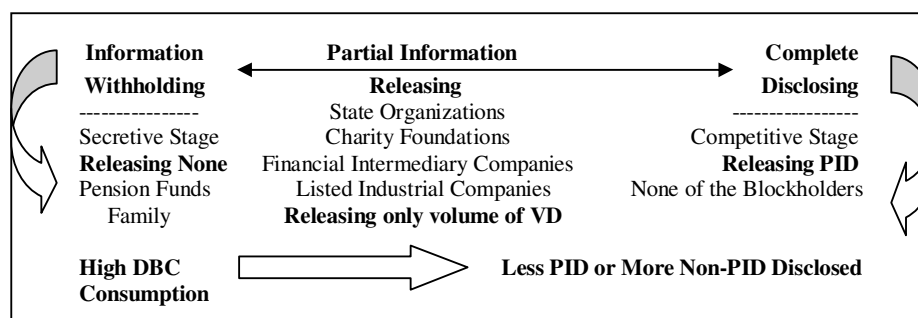
#### 4.2 FINDINGS

According to the results, none of the dimensions of independent variable of ownership concentration is significant to explain the PID voluntary disclosure. The independent variable of blockholders of listed industrial companies, financial intermediary companies, charity foundations and state organizations are significant but only for the VD which is the less-relevant voluntary information disclosure.

The blockholders appear to deceive investors with providing market with a lot of information without giving much consideration for its relevancy. They want to be seen as transparent companies but in essence they avoid releasing relevant information (PID). Blockholders know the potential role of information and avoid to be seen either at the “secretive stage” [by withholding any types of information (VD) or at the “competitive advantage stage” [by providing market with relevant and price sensitive information (PID) that will reveal their consumption of direct benefits of control (DBC)]. They prefer to stay always at the middle of the line that is at “partial information release stage” to send signals to potential investors that they are doing their fair share of information disclosure. The companies were hoping that the increase in information disclosure (VD) would be interpreted as a good sign and this would impact positively the supply and demand of their shares. Companies satisfy the needs of market for information by disclosing a lot of information (VD) but with less-relevant content in order to play a safe game.

The figure 3 represents the real scenario happening in the public companies listed on the TSE. It sounds that the public companies which consume a lot of perquisites would not want to reveal relevant information (PID) as more relevant disclosure could put them in jeopardy and at the same time upsets the minority shareholders. This would damage the image of a listed corporation. If the public companies do not release any information, they would be seen as holding information from the public. The only solution is by offering much but less-relevant information. In that way, the public companies would always remain in the safe part of information disclosure line with the volume of VD disclosure but relevancy values whereas in the literature, the higher extent of voluntary disclosure pronounced as transparency and higher quality of financial information.

Figure 3. The information disclosure line in Iran



The findings of this study may support the previous study by Eng and Mak (2003), that the government equity ownership increases moral hazard and agency problems in Singapore, so voluntary disclosure is a means of mitigating these problems. El-Gazzar (1998), Haniffa and Cooke (2002), and Phua (2003) also judge that huge institutional ownership concentration release higher level of voluntary disclosure. Since the consumption of perquisites results in low performance, listed companies with low performance need to disclose relatively higher VD to hide their perquisites consumption.

## CONCLUSION

In Iran, the behavior of institutional blockholders can be explained by the fact that there are no substantial private investors in the market and the institutional blockholders owns almost 80% of public companies' shares. The blockholders therefore, advocates potential investors and tries to boost the public's confidence by disclosing higher extent of voluntary information. With regard to none of the blockholders are significant to explain the PID voluntary disclosure, market receives a lot of information but relevant. Blockholders look transparent with

releasing VD but in reality they avoid releasing useful information (PID). The blockholders hope that the higher VD brings along higher liquidity. The observation is in line with the finding made by Zandi *et al.* (2010) that the Iranian stock market in which low transparency comes with low level of public confidence results in the reluctant behaviour of investors from the private sector to buy shares. Blockholders look like giving out more information to improve public's confidence but in fact they failed.

Blockholders try to fulfill the forms of disclosure but not the substance, when there is an opportunity for a large consumption of DBC. The government can discourage the DBC consumption by putting substantial disclosure requirements which mainly involves price informative information (PID). This will help to minimize if not eradicate entirely the DBC consumption. If blockholders were forced to disclose relevant information (PID), the perquisites consumption would decline. In addition, once corruption is proven to happen in Iran, then measures would be introduced to curb the practice.

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APPENDIX A (\* Voluntary Disclosure Items Which Ranked by Experts PID.)

Rank the level of importance for the following voluntary disclosure items regarding their effects on the shares prices.							
	Example	THE IMPORTANCE OF VD ITEMS TO BE DISCLOSED.					
NO	VOLUNTARY DISCLOSURE ITEMS	UNIMPORTANT	SLIGHTLY IMPORTANT	MODERATELY IMPORTANT	FAIRLY IMPORTANT	VERY IMPORTANT	IMPORTANCE PERCENTAGE
	<b>THE COMPANY BACKGROUND INFORMATION</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
1	The Plan and Photo of the main Site and Subsidiaries in detail.					/	95
2	The Corporate Goals / Mission.						
3	...						
4	...						
<b>B</b>	<b>GOVERNANCE REVIEW:</b>						
1	Biographical Profile of the Board of Directors.						
2	The Board Composition.						
3	...						
4	...						
<p><b>Thank you for completing the above questionnaire.</b>  <b>Your response is highly appreciated and your information invaluable.</b></p>							

APPENDIX B – Not Applicable Items for All Industries	
NOT APPLICABLE ITEMS FOR THE X INDUSTRY.	
1. Future products in the World and Local Market.	2.The Value-Added Statement.
3.The brand management.	4.The BEP Analysis.
5...	6...
7...	8...

APPENDIX C - The Expected Price Informative Items	
The Price Informative Items (PID) for Y Industry	
1. The Corporate Goals / Mission.	
2. Actions taken to achieve the Corporate Goals during the year	
3. ...	
4. ...	