

Extended Abstract

An Investigation of the Earnings Quality of Family Firms and Non-family Firms in Tehran Stock Exchange

Dr. M. Namazi

M. Mohammadi

Shiraz University

Introduction

This study aims at examining earnings quality of family firms and non-family firms in the Tehran Stock Exchange (TSE) to determine whether earnings quality of family firms and non-family firms are significantly different or not. In effect, it demonstrates important differences between family firms and non-family firms in corporate profitability and value, which is important for shareholders, via an empirical method, and expands the boundaries of accounting and financial knowledge in this growing field.

Research hypothesis

Following the literature in this area (e.g., Anderson and Rybe, 2003 and Wang, 2006), the main hypothesis of this research is: In TSE, earnings quality of the family firms and non-family firms is different.

In approaching this hypothesis, the following subhypotheses are expressed:

1- In family firms, earnings quality based on the "net operating cash to net income" would be different from non-family firms.

2- In family firms, earnings quality based on the "standard deviation of the operating income to the standard deviation of the operating cash" would be different from non-family firms.

3- A significant relationship exists between earnings quality based on the "cash operating to net income" with the family percentage ownership.

4- A significant relationship exists between family ownership and earnings quality based on the "standard deviation of the operating income to the standard deviation of the operating cash".

5- The average stock returns of the family firms and non-family firms are different.

Methods

In this study, companies are regarded as family firms when: 1) at least 20 percent of the shares, individually or collectively, belongs to family members, or 2) at least one member of the firm, by-law or ancestral relatives, is the member of the board or executive director and actively participates in the board and 3) at least two generations of the family are involved in controlling the company.

Non-family firms are those firms that maintain none of the conditions expressed for the family firms.

Given the preceding definition, 39 family firms and 76 non-family firms among companies listed in the Tehran Stock Exchange were identified, during 2002-2007.

To collect data, archival method and Tehran Stock Exchange databases were utilized. To obtain the required information, weekly and monthly reports from the stock exchange, and Sahra, Tadbir Pardaz and Rahavard Novin Softwares were also employed. Consequently, Panel data, regression analysis was performed, and this was exerted by SPSS16 and EVIEWS6 software.

Results

Data relating to the first and second hypotheses indicate that no significant difference exist between earnings quality of the family firms and non-family firms.

The third and fourth hypothesis analysis reveal a significant relationship between the percentage of the family ownership and earnings quality. And the fifth hypotheses indicates that there is not a significant difference between stock returns of the family firms and non-family firms.

Conclusion and discussion

Based on the first and second hypothesis, family and non-family

firms earnings quality have no significant difference at the level of 95% confidence.

Based on the third and fourth hypotheses, no significant relationship was observed between control variables and earnings quality; but a significant relationship between earnings quality and family ownership percentage was confirmed. According to the definition of family firms, in the first and second hypotheses, the relationship between family ownership and earnings quality was not confirmed, but with measuring the relationship, it was clear that a significant relationship exists between these two variables. In the fifth hypothesis, possible differences between stock returns of the family and non-family firms were investigated. In this hypothesis, stock returns was defined as "the difference in stock prices in a period to its prior period plus any dividends". After investigating existing stock returns of the family and non-family firms, no difference in stock returns of the family and non-family firms was found at the level of 95% of confidence.

Keywords: Family Firms, Non-family Firms, Earnings Quality, Stock Return, Family Ownership.