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DETERMINATION OF THE RELATIONSHIP BETWEEN INSTITUTIONAL INVESTORS AND INFORMATION ASYMMETRY IN TEHRAN STOCK EXCHANGE

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ABSTRACT
Institutional investors and information asymmetry are two important and controversial issues in the financial literature. In this study, the relationship among, institutional investors and information asymmetry of the firms listed in Tehran Stock Exchange has been investigated. This research is applied in terms of goal and the statistical population consisted of all firms listed in Tehran Stock Exchange. Ninety-seven firms were chosen as the studied population during time interval of seven years since 2006 to 2012. In this research, the stock purchase proposed price difference represents information asymmetry. The survey results also show that there is a negative and significant relationship between active institutional investors and information asymmetry.

KEYWORDS: institutional investors, active institutional investors, passive institutional investors, information asymmetry.

INTRODUCTION

The shareholders own some part of the firm ownership. This group relies mainly on the publicly available information (published financial statements). The other part of the ownership is on the hands of the main stockholders that are presented inner valuable information on the future landscapes and commercial strategies, by direct relationship with the firm. This inner valuable information that the main stockholders are presented can have significant effect on information symmetry in the capital market. Institutional investors receive inner valuable information on the long-term future landscapes and commercial strategies by direct relationship with the firm. Institutional investors are superior to other investors in production and process of the firm's information. Furthermore, they are more knowledgeable compared to others and this advantage of being knowledgeable could affect the firm liquidity (Agrawal, 2009). Coronet and colleagues (2008) believe that institutional investors, as the individuals that play a role in the corporate organizational structure, in addition to providing control mechanisms can limit managers' behavior. Because of possessing majority of the stock ownership, they have opportunities and abilities to supervise the managers. They may also put pressure on the managers and force them to manage income and profit, conversely, prevent opportunism and misusing by the managers. It is obvious that control and supervision of them can reduce the information asymmetry and difference in the price proposed for buy or sells the stocks that cause to elimination of the information asymmetry incorrect consequences such inappropriate rewarding of the mangers, increase the conflicts between the mangers and the stockholders and other benefactors and increase of the firm capital cost and generally speaking, reduce of the investors trust in the stock markets.

Whenever, the institutional investors own significant share of a firm's stock, they will encounter with difficulty in selling of their share or leaving the firm and their supervision role is more highlighted. Institutional investors are seeking direct relationship with the chief mangers of the firms in their stock portfolio and participate in the supervising activities and request greater disclosure. Disclosed information is checked exactly. Institutional investors are willing to provide accurate and timely information about the firm and continually securitize the firms to provide accurate and impartial information about future earnings (ibid). The auditing process causes to creditability, reduction of implicitness and transparency in information on the financial transactions and due to increase of financial transactions credit, a proper space is created for business and economic activities. It is obvious that by higher degree of audit process quality, the role and importance of the effectiveness and reliability of the financial reporting will be accredited. According to this fact that the auditors are responsible for credibility of the financial statements they can play a determinate role in determining of the financial statements transparency and quality of information disclosure mentioned in them. However, the auditors can be considered as a tool for control of transparency of the financial statements. On the other hand, several studies in the literature of accountancy show that achieving higher quality of accounting disclosure reduces information asymmetry. According to the above mentioned, in this study we try to investigate the information asymmetry in Iran capital market.

Importance and necessity of research

Nowadays, the fundamental role of accounting information in the financial markets is considered as the base for allocating capital. If the required information is asymmetrically distributed among individuals it would lead to different conclusions about the same subject. One of the reasons for the importance of asymmetry issue in the theory of accountancy is that the securities in the market are threatened by the asymmetry of information. Since, there is inter-organizational information and the transactions are confidential. In the capital markets, which a large number of people has confidential information or they have high advantages of information the probability of asymmetry or inequality increases. Furthermore, the extent of information asymmetry is directly related to the transaction costs rate.

So it should be pointed that in the capital market, most of the investors are common people that can access to information only by announcements published by the firms. Thus, the quality of distribution of information is more important than information that should be evaluated exactly. One of the important and key factors of decision making in the capital market is the firm's financial statements that represent information on financial conditions and operational activities in a financial period that is considered as the main base of the decision makings and pricing of the stock so that accuracy, reliability, predictability and adequate disclosures concerning to financial information have a direct correlation between decisions and evaluations.

Determination of the relationship between institutional investors and information asymmetry.
1-2- Determine the relationship between the level of active institutional shareholders and information asymmetry.
2-2- Determine the relationship between information asymmetry and passive institutional. shareholders.

METHODOLOGY

Field of study

Spatial domain

The spatial domain is all firms listed in Tehran Stock Exchange studied year since 2006 to 2012 for 7 years.

Topic scope of the research

Topic scope of the research is limited to investigation the relationship auditor tenure, institutional investors and information asymmetry of the firms listed in Tehran Stock Exchange.

Types of institutional investors

As defined by Bush, institutional investors involve large investors such as banks, insurance firms, investment firms, etc. that a large number of their operation depends on their shares.

Information asymmetry

Information asymmetry refers to a situation in which one of the parties has less information on the exchange of goods or on the market conditions. In other words, distribution of information among the users of the data is to be incomparable. In this study, the relative offered price difference is studied as a representative of information asymmetry. The behavior of the investors in the stock exchange influence manner of decision making, allocation of the monetary resources, pricing and evaluation of the firms output that rooted in the human psychology and leads the investors to make mistakes in shaping their expectations and as a result show specific behaviors in investment in the financial markets. The main cause of this behavior is information unreliability and lack of transparency. Such behavior causes the investors to react to the market when new information is published and it leads to changes in the volatility of stock prices and trading amount. In the past decade, national and international financial markets encountered with enormous financial crisis. A reason for this crisis was a lack of transparent and sufficient financial information. In the present changing environment, most of the investors pay attention to the importance of transparency of information in their strategies. Lack of information or unreliability of the information and asymmetrical distribution of information have been converted into a main problem in the financial markets.

The studies showed that a transparent disclosure improves the accuracy of the analysts' prediction on the next year's profits and also reduces information asymmetry in the capital market. Auditors are expected to have a positive impact on institutional investors as well as corporate reporting, and, ultimately reduce the information asymmetry in the capital market.

Problem Statement

Fama and Jensen (1983) believe that in most of the accountancy and financial management, the corporate governance is defined as "some control affairs that protect business stockholders benefits and leads to increase of their profit". Institutional investors receive inner valuable information on the long-term future landscapes and commercial strategies by direct relationship with the firm. Institutional investors are superior to other investors in production and process of the firm's information. Furthermore, they are more knowledgeable compared to others and this advantage of being knowledgeable could affect the firm liquidity (Agrawal, 2009). Coronet et al., (2008) believe that institutional investors, as the individuals that play a role in the corporate organizational structure, in addition to providing control mechanisms can limit managers' behavior. Because of possessing majority of the stock ownership, they have opportunities and abilities to supervise the managers. They may also put pressure on the managers and force them to manage income and profit, conversely, prevent opportunism and misusing by the managers.

The auditing process causes to creditability, reduction of implicitness and transparency in information on the financial transactions and due to increase of financial transactions credit, a proper space is created for business and economic activities. It is obvious that by higher degree of audit process quality, the role and importance of the effectiveness and reliability of the financial reporting will be accredited. According to this fact that the auditors are responsible for credibility of the financial statements they can play a determinate role in determining of the financial statements transparency and quality of information disclosure mentioned in them. However, the auditors can be considered as a tool for control of transparency of the financial statements. On the other hand, several studies in the literature of accountancy show that achieving higher quality of accounting disclosure reduces information asymmetry.

Research Objectives

The scientific objectives of the research

Determination of the relationship between institutional investors and information asymmetry

1-2- Determine the relationship between the level of active institutional shareholders and information asymmetry.

2-2- Determine the relationship between information asymmetry and passive institutional shareholders.

Variables Research

In this research in the first main hypothesis, the audit tenure and in the second hypothesis, institutional investors are independent variables and information asymmetry is dependent variable, interaction size, stock price, stock changes and the firm capital total market value logarithm are control variables. Asymmetry of information between the capital (stockholders) and representative (manger) will cause mental confusion. It causes to this concern that the representative seeks his personal profit in the owner of capital cost and according to the theory of representativeness the owner of capital and the representative conclude that both of them are profited. So, they follow arrangements that align their own interests of. One of these arrangements is independent auditor that is a monitoring tool to improve information about the firm's financial performance and increase information asymmetry. Research has shown that the structure of the audit firm influences quality of auditing. According to this research, the quality of the auditing in the institutes with more robust structure in using auditing procedures differs from other firms.

Quality of information

The quality of information depends on this extent that how financial statements reflect the firm's actual economic conditions. Financial statements audited by the independent auditors are an excellent tool to transfer of information. Independent auditor is the most qualified person to comment on properly preparing and presenting financial reports to economic unit. He is competent since does audit based on the auditing standards to be assured that the items mentioned in the financial statements have been prepared according to the accountancy standards. Furthermore, auditing offers credit to the claims of other person in the form of financial statements and so increase the reliance on the information used in economic decisions (Nikkhahazad, 2000).

Definitions and concepts of corporate governance

Corporate governance is originated from the Latin word of "Gvbernare" by the meaning of guidance that is used usually for guidance of a ship and implies that corporate governance requires guidance more than control. There are different methods for defining of corporate governance that range from focused and limited definitions on the firms and stockholders to comprehensive definitions and responses of the firms to numerous stockholders and individuals.

Corporate governance is process of monitoring and control to ensure that the firm complies with the interests of shareholders (Parkinson, 1994).

Wolfsan of World Bank (2000) has defined corporate governance:
“Corporate governance tries to establish fairness, transparency and responsiveness in the firm”.

And from the perspective of the stock market, corporate governance guidance is done for firm activities by chief management and board of directors (Tehran Stock Exchange, Corporate Governance, 2008). Among definitions of corporate governance, the definitions of Tricker, Megginson, Robert Mankz and Nell Mino of the more popular because more groups are focused. Extensive definitions show that firms are responsibility for entire community; future and natural resources (environmental).

The role of institutional investors in corporate governance

Numerous groups have influence on corporate governance. In the meantime, investors, especially institutional investors play an important role. In Great Britain four main types of institutional investors are pension funds, life insurance firms, investors’ securities and investment fidelity funds. In theory, the status of institutional investors in corporate governance is very complex. From one perspective, institutional investors are representing another strong corporate governance mechanism that can monitor the firm’s management. Because they can have a significant influence and also they can align the management interests with shareholders’ interests.

The different systems with contrasting functions and approaches can be seen in the advanced economies called internal (inside) and external (outsider) systems. Identifying an optimal corporate governance system requires the identification of economic variables such as level of the capital market development and quality of the institutions and some specific conditions related to the firm (such as productivity and technology). In some studies it has been concluded that when the markets development level is less than defined threshold the inside corporate governance system will act independent on technology productivity in all firms active in economic, thus when the markets development level of a country is more than the threshold, both internal and external systems will depend on technology productivity. Some studies show that if large-scale investments, the significant part of the cost differences between the two systems will be represented. These studies show that inside system will be optimal corporate governance system that small scales of investment are used and outsider system is defined as optimal when uses large scales of investment. The research shows that by the growth of technology the external system is emphasized. Difference in corporate governance systems in the advanced economies is due to differences in legal procedures and methods to be used by policy makers. Many studies in the academic literature have been done about the effects of economic, financial, and management strategies on corporate governance to determine what aspects of the distinction between internal and external systems provides some concepts like control, governance and equity capital markets. In countries where inside corporate governance system is used (such as France, Germany and Italy), a high level of concentration of ownership, capital markets and high levels of conflict of interest can be seen. In contrast, countries with outsider corporate governance system (such as the UK and the US) are based on the rule of distribution of governance and availability of liquidity in capital markets is very high. The markets in these countries are actively involved in the management of conflicts of interest in the firm is extremely low.

Theoretical Foundations of information asymmetry

Information asymmetry

Information asymmetry is a condition that one of the parties has less information on the items or market conditions, in other words, information distribution among all users of information is not the same (Davani and Moeinin, 2011). One of the reasons for importance of information asymmetry in the accountancy theory is that the stock markets experience threats resulted from information asymmetry. This is because there is inter-organizational information and transactions are confidential.

Even if the stock price could reflect all information in the market completely, such as extracting the information from the firm accountancy procedure and the decisions made by the management for disclosure of information, yet it is likely that the inner-organizational forces have more information than those outside the organization. Where this situation is seen the individuals use the advantage of having information and acquire more benefits (Scott, 20009).

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Explain the relationship between institutional investors and information asymmetry

Institutional investors represent one of the most powerful corporate governance mechanisms that can supervise the firm management. Because they also affect the firm's management, have significant influence management's interests with the interests of shareholders. Ownership concentration in the hands of institutional investors control agency problems and improves protection of the interests of investors (Stoll, 1998).

Coronet et al., (2008) believe that institutional investors, as the individuals who play a role in the corporate organizational structure in addition to offering control mechanisms can limit the behavior of managers. Because by possessing the majority stock ownership opportunities they have the ability to monitor managers. It is obvious that control and supervision of them can reduce the information asymmetry and difference in the price proposed for buy or sells the stocks that cause to elimination of the information asymmetry incorrect consequences such inappropriate rewarding of the mangers, increase the conflicts between the mangers and the stockholders and other benefactors and increase of the firm capital cost and generally speaking, reduce of the investors trust in the stock markets.
As stated in the financial literature, the difference between the sales prices of shares is composed of three parts:

1) The cost of the order
2) Cost of inventory
3) The cost of adopting inconsistent or incorrect selection costs

Order processing costs include costs that a trader will be incurred in the transaction. Stock inventory cost includes expenditure that is incurred due to the inventory. Incorrect selection cost is the cost that the trader is incurred due to transaction with the individuals aware of the undisclosed information. Usually when information asymmetry is high, this part of the cost is considered as important component of the difference in the proposed price for purchase of the stock. Karen and his colleagues (2008) believe that high stock held by the institutional investors, the proposed price difference for purchase of stock is reduced and this is due to continuous control of the institutional investors on the market and also information advantage.

LITERATURE REVIEW

1. Jiang and Kim (2000) concluded that firms with high institutional ownership information related to future profits in the stock price are reflected faster. In fact, by increase of the level of institutional ownership in the firm, the less information asymmetry between managers and other interested parties will be on the market.
2. Sergeys (2002) investigated the relationship between institutional ownership, difference in proposed price for selling and buying of the stock and interest. He concluded that the relative price difference between the buying and selling of stock to be significantly correlated with the level of institutional ownership. He believes that this condition is related to information asymmetry in the market.
3. Frank (2004) studied the relationship between the difference in proposed price to selling and buying of stock and institutional investor. His research showed that there is a negative relationship between the difference in the price of selling and buying of stock and institutional investor. The evidence showed that the shares with institutional ownership centralized leads to fewer sales. He recommends that it is due to limitation of the institutional investors in the commercial affairs that causes to reduction of the proposed price to selling and buying of stock.
4. Asiglo and *et al.*, (2005) with a selection of 828 firms from 1500 S & P that were active in the New York Stock Exchange and in 2000 had more than 10 million dollars income investigated the influence auditors' fees on the proposed price to selling and buying of stock. After control of other determinant factors on proposed price to selling and buying of stock they concluded a positive relationship between accountancy fee and proposed price to selling and buying of stock and also incorrect selection cost. These results are consistent to the results of the Richardson (2004) research that showed the likelihood of agreement on the quality of accountancy with the auditors by auditing fee in the firms with weak corporate governance is high.
5. Karen *et al.*, (2008) believe that the high stock held by the institutional investors the less proposed price to selling and buying of stock will be. This is due to continuous control of the institutional investors on the market and also information advantage. In other words, according to the efficient supervision assumption (divergence of the profits), the institutional investors supervise management decisions implicitly by collecting information and pricing and explicitly by arraignment of the correct performance of the firm.

Data collection

Theoretical foundations information of the research was collected by library method by use of books and articles in both English and Persian languages and because of reliability of the financial reporting of the firms listed in Tehran Stock Exchange, these reports were used as the main the source for information gathering. These reports include basic financial statements of the studied firms which were gathered by referring to the site of research management, development and Islamic studies in the address of www. Rdis.ir received for the years 2005-2010 and also to gather information asymmetry information the exchange archival information was used. To test the hypotheses and data analysis, software Excel 16 and also SPSS statistical software were used.

Data distribution

The first step to begin the process of hypothesis testing is data normalization. To check data normality, the assumptions were formulated as follows:

Normal distribution of data: H0
Data are not normally distributed: H1
To test the above hypothesis Kolomogrov -Smirnov test was used that results are shown in table (4-1).

Table 4- Results of Kolomogrov –Smirnov test

Variable	Symbol	Z statistics	Z (P-Value)
Information asymmetry	SPREAD	0.866	0.458
Institutional stockholder	INSOWN	3.441	0.000
Active institutional stockholder	ACIWST	2.578	0.000
Passive institutional stockholder	NACIWST	2.619	0.000
Systematic risk	BETA	1.511	0.068
Firm size	SIZE	0.975	0.400
Growth opportunities	MTB	3.972	0.000
Financial leverage	LEV	1.035	0.291
Firm return	RET	2.818	0.000

According to high significance level of statistics Z from acceptable error level for variables of information asymmetry, systematic risk, firm size and financial leverage, the results of test (K-S) show that the mentioned variables have been distributed normally.

First main hypothesis results

The first main hypothesis states that:

There is a relationship between institutional investors (passive and active) and information asymmetry.

The first main hypothesis can be tested in two sub-hypotheses. So that the institutional investors are divided into two groups and in each hypothesis its relationship with information asymmetry can be tested.

4-5-1-1 first secondary hypothesis test results

The first secondary hypothesis states that:

There is a relationship between active institutional stockholders and information asymmetry.

To test the secondary hypothesis, multivariate regression model was used:

$$SPREAD_{i,t} = \alpha + \beta_1(ACIWST_{i,t}) + \beta_2(BETA_{i,t}) + \beta_3(SIZE_{i,t}) + \beta_4(MTB_{i,t}) + \beta_5(LEV_{i,t}) + \beta_6(RET_{i,t}) + \varepsilon_{i,t}$$

The first secondary hypothesis regression model results are shown in table (4-2).

Table (4-2): The first secondary hypothesis results

Variable	Symbol	Coefficient(Beta)	T statistics	p-value	Egen-value	Status index
Constant value	**α**	-	4.128	0.000	-	-
Active institutional stockholder	**β1**(ACIWST)	-0.155	-4.051	0.000	0.905	1.105
Systematic risk	**β2**(BETA)	0.127	3.376	0.001	0.905	1.069
Firm size	**β4**(SIZE)	-0.081	-2.066	0.039	0.848	1.179
Growth opportunities	**β5**(MTB)	0.229	6.169	0.000	0.957	1.045
Financial leverage	**β6**(LEV)	0.103	2.816	0.005	0.980	1.021
Firm return	**β7**(RET)	-0.027	-0.721	0.471	0.973	1.028
Regression model total	F	P-Value	D-W			
	14.257	0.000	1.898	R2=0.113 AdjR2=0.105		

According to the results of the first secondary hypothesis provided in table (4-2), the significance level of statistical F (0.000) is less than the acceptable level of error (5%) and the regression model is significant. The Durbin Watson statistics (1.89) ranges 1.5 to 2.5. Thus, there is no correlation between the elements of the model error. The correlation between the independent variables shows that the egen-values are large and close to one and the status index is less than 15. Much lower status and larger egen-value close to one it is more suitable for regression predictions.

Given the low level of significance (P-Value) of the t-statistic from the coefficient error acceptance for β1, the results show a negative and significant relationship between active institutional investors and information asymmetry. So, the first secondary hypothesis of the research cannot be rejected at 5% error level. Also, the results of the research show that among control variables in the model, there is positive and significant relationship between variables of systemic risk, investment opportunities and financial leverage and information asymmetry and there is a negative and significant relationship between the firm size and information asymmetry. No significant relationship between stock returns and information asymmetry is observed. The coefficient of determination and the adjusted coefficient of determination show that independent and control variables entered in the regression model could explain 11.3% of the variability.

Table (4-3): The second secondary hypothesis results

Variable	Symbol	Coefficient(Beta)	T statistics	p-value	Egen-value	Status index
Constant value	α	-	2.768	0.006	-	-
Active institutional stockholder	β_1(ACIWST)	0.056	-1.474	0.141	0.937	1.067
Systematic risk	β_2(BETA)	0.141	3.705	0.000	0.925	1.081
Firm size	β_4(SIZE)	-0.061	-1.981	0.041	0.884	1.131
Growth opportunities	β_5(MTB)	0.245	6.557	0.000	0.969	1.032
Financial leverage	β_6(LEV)	0.091	2.462	0.014	0.969	1.013
Firm return	β_7(RET)	-0.027	-0.716	0.475	0.972	1.029
Regression model total	F	P-Value	D-W			
	11.647	0.000	1.906	R^2=0.094 AdjR^2=0.105		

Second main hypothesis results

The second main hypothesis states that:

There is a relationship between passive institutional investors and information asymmetry.

There is a relationship between active institutional stockholders and information asymmetry.
To test the secondary hypothesis, multivariate regression model was used:

$$SPREAD_{i,t} = \alpha + \beta_1(NACIWST_{i,t}) + \beta_2(BETA_{i,t}) + \beta_3(SIZE_{i,t}) + \beta_4(MTB_{i,t})$$
$$+ \beta_5(LEV_{i,t}) + \beta_6(RET_{i,t}) + \varepsilon_{i,t}$$

The second secondary hypothesis regression model results are shown in table (4-3).

According to the results of the second secondary hypothesis provided in table (4-3), the significance level of statistical F (0.000) is less than the acceptable level of error (5%) and the regression model is significant. The Durbin Watson statistics (1.906) ranges 1.5 to 2.5. Thus, there is no correlation between the elements of the model error. The correlation between the independent variables shows that the egen-values are large and close to one and the status index is less than 15. Much lower status and larger egen-value close to one it is more suitable for regression predictions.

Given the low level of significance (P-Value) of the t-statistic from the coefficient error acceptance for β1, the results show a negative and significant relationship between passive institutional investors and information asymmetry. So, the second secondary hypothesis of the research cannot be rejected at 5% error level. Also, the results of the research show that among control variables in the model, there is positive and significant relationship between variables of systemic risk, investment opportunities and financial leverage and information asymmetry and there is a negative and significant relationship between the firm size and information asymmetry. No significant relationship between stock returns and information asymmetry is observed. The coefficient of determination and the adjusted coefficient of determination show that independent and control variables entered in the regression model could explain 9.4% of the variability.

Summary of hypothesis testing

Summary of research hypotheses test results is presented in Table (4-4).

Table (4-4): Summary of hypothesis testing results

			Result	
Hypothesis		Explanation	Accepted	Rejected
1	Secondary H1:	There is a relationship between the active institutional stockholders and information asymmetry	Negative relationship	
	Secondary H2:	There is a relationship between the passive institutional stockholders and information asymmetry		

Suggestions based on hypothesis test results

1) the investors and creditors are recommended to pay special attention to the negative relationship between information asymmetry in making investment decisions.

2) the investors and creditors are recommended to pay special attention to the negative relationship between active institutional stockholders and information asymmetry in making investment decisions.

3) the effect of differences in industry on the results is controlled.

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