SURVEYING THE RELATIONSHIP BETWEEN OWNERSHIP CONCENTRATION AND COSTS OF STICKY IN TEHRAN STOCK EXCHANGE

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Abstract

The main purpose of this study is surveying the relationship between ownership concentration and costs of sticky in Tehran stock exchange. The population of this study are the companies that accepted at Tehran stock exchange in 2005 and had not this characteristics: Banks, credit institutions and other financial institutions, other financial intermediation, Investments, Monetary intermediations. Because of it may be due to the nature of their activity, this study investigated the relation component varies to such agencies may not apply to others. During fiscal year of 2004 – 2012 have not be changed or altered activity. To observe comparability their financial period was end of March and their data be available in Stock Exchange. So, with considering this situation, 72 companies were selected as sample. In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used. The results Durbin Watson Test shows the test distribution is Normal. So we can use Regression to test the hypothesis of the research. In order to determine the relationship between the variables of the study, the SPSS tool has been used. Finings shows that it means that there is not significant relationship between public and administrative costs of sticky and ownership concentration at companies that accepted in Tehran stock exchange during 2004-2012. And also, that there is significant relationship between sales costs of sticky and ownership concentration at companies that accepted in Tehran stock exchange during 2004-2012.

Key Words: *ownership concentration, costs of sticky, Asymmetric cost behavior*

INTRODUCTION

Understanding how the major institutions of an economy, like the legal system, civil liberties or political rights affect firm behavior and therefore economic development is crucial for policy makers as well as business professionals. Nowadays it is widely believed that the private sector is the main engine for economic growth. Therefore, one of the major tasks of governments is forming an institutional environment that helps firms exploiting their growth potentials. Two key

factors of firm growth are access to a functioning capital market and a well-developed and stable system of civil and political rights (Balsmeier and Czarnitzk 2010).

Costs are caused by resources. Therefore, to understand cost behavior one has to focus on how the underlying resource levels change in response to activity changes (Cooper and Kaplan 1992). Research in international accounting has focused on how differences in country level factors influence the behavior of earnings reported by firms in different countries. Because costs are a major component of earnings, insights into cost behavior can contribute to better understanding of the properties of both realized earnings and analysts' earnings forecasts. Recent research in cost accounting documents that many costs are "sticky" they rise to a greater extent in the case of sales increases than they fall for equivalent sales decreases. Anderson et al. (2003) attribute this phenomenon to deliberate resource commitment decisions by managers facing adjustment costs, such as hiring and firing costs for labor resources. Existing research has identified the main firm-level drivers of asymmetric cost behavior, including the magnitude of adjustment costs, managerial incentives and managerial optimism and pessimism, and has documented the impact of these firm-level factors on the degree of cost stickiness. In this paper, we argue that because firms interact with the environment of the country they operate in, country-level characteristics are likely to have an important effect on managers' operating decisions, leading to substantial differences in asymmetric cost behavior across countries (Banker et al, 2013).

Asymmetric cost behavior is far broader than a (naive) prediction that "costs are sticky." It constitutes a new way of thinking about cost behavior (and, by extension, earnings behavior). While the traditional view of cost behavior envisions a mechanistic symmetric relation between costs and concurrent activity, modeled as fixed and variable costs, this new way of thinking is rooted in an explicit recognition of the role of deliberate managerial decisions in short-run cost behavior.

ABJ's theory of asymmetric cost behavior builds on two observations about costs. First, many—but not all—costs arise because managers make a deliberate decision to commit resources. Second, although many resource commitments can be changed in the short run, doing so is costly—it entails incurring resource adjustment costs, such as severance payments to dismissed workers, training costs for new employees, installation and disposal costs for capital equipment. The interaction of deliberate managerial discretion and resource adjustment costs introduces complex dynamics in the choice of resource levels. In particular, managers have to consider not only current activity, as in the traditional model, but also past resource levels, because they affect adjustment costs incurred in the current period, along with expected future sales, which affect future adjustment costs. Resource commitment decisions are further influenced by managers' incentives and behavioral biases (Banker and Chen, 2012).

The greater the extent to which ownership of a company is concentrated, with large blocks of shares held by a few shareholders, the greater the incentive of the company's owners to monitor and control managerial actions. Shareholders' incentive to monitor is small when shareholders own few shares of stock--ownership are diffused--or when their investments are well diversified. While all shareholders bear the cost of monitoring, shareholders benefit from monitoring to the extent of their ownership. Owners of large blocks (whose investments are not diversified) have the greatest interest in monitoring. Shleifer and Vishny (1997) argue that ownership concentration can serve as a substitute for weak investor protection rights.

Since the 90s, careful observation of ownership structures across the world showed that dispersed shareholdings are much less frequent than expected and we observe instead a high degree of ownership concentration (La Porta et al., 1999).

La Porta et al. (1998) argue that "with poor investor protection, ownership concentration becomes a substitute for legal protection, because only large shareholders can hope to receive a return on their investment." By contrast, investors are willing to take minority positions and finance companies in countries where legal rules are extensive and well enforced (Burkart and Panunzi, 2006).

Ownership concentration (ensuring better monitoring), and managerial equity holdings (increasing managerial effort and decreasing perquisite consumption), were supposed to lead to better firm performance. An important empirical literature examining this prediction mainly focused on the relationship between managerial ownership and firm value. Following Stulz (1988) who predicted a concave relationship, several papers, including Morck et al. (1988), McConnell and Servaes (1990), Hermalin and Weisbach (1991), Holderness et al. (1999) found that low levels of managerial ownership increase firm value but at higher levels of managerial ownership firm value decreases. The results of these single-equation studies were interpreted as the evidence of managerial entrenchment beyond some threshold of insider ownership (Grosfeld, 2006). The main purpose of this study is surveying the relationship between ownership concentration and costs of sticky in Tehran stock exchange.

METHOD

The population of this study are the companies that accepted at Tehran stock exchange in 2005 and had not this characteristics:

- Banks, credit institutions and other financial institutions
- Other financial intermediation
- Investments
- Monetary intermediations

Because of it may be due to the nature of their activity, this study investigated the relation component varies to such agencies may not apply to others.

During fiscal year of 2004 – 2012 have not be changed or altered activity.

To observe comparability their financial period was end of March.

Their data be available in Stock Exchange.

So, with considering this situation, 72 companies were selected as sample.

In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used. The results Durbin Watson Test shows the test distribution is Normal. So we can use Regression to test the hypothesis of the research. In order to determine the relationship between the variables of the study, the SPSS tool has been used

RESULTS

H1: There is a significant relationship between public costs of sticky and ownership concentration.

This hypothesis have three sub-hypotheses. Table 5 shoes the results.

Table 5: Regression results of hypothesis 1

	D.W= 2.211		Sig=0.022	
Variable	Coefficient	t	sig	result
Constant value	14.111	14.111	.000	Confirm
Sale	-1.687	-1.687	.090	Reject
Adjusted Sales	-0.244	-0.244	.807	Reject
Ownership concentration	0.710	0.710	.478	Confirm

R^2=0.025

To evaluate the independence of errors, we used Durbin Watson test. It was 2.211. So, we can conclude that the error terms in different periods are independent. Also, the sig is 0.022, the regression model was significant and confirmed the linearity assumption of model.
The Estimated p-value is 0.478 in Confidence level of 95% that less than 5%. We can reject H_1 and accept H_0. It means that there is not significant relationship between public costs of sticky and ownership concentration at companies that accepted in Tehran stock exchange during 2004 - 2012.

H2: There is a significant relationship between administrative costs of sticky and ownership concentration.
This hypothesis have three sub-hypotheses. Table 5 shoes the results.
Table 5: Regression results of hypothesis 2

	D.W= 2.196		Sig=0.005	
Variable	Coefficient	t	sig	result
Constant value	1.234	15.327	.000	Confirm
Sale	-0.036	-2.10	.045	Confirm
Adjusted Sales	0.000	-0.081	.935	Reject
Ownership concentration	0.003	0.851	.935	Reject
R^2=0.033				

To evaluate the independence of errors, we used Durbin Watson test. It was 2.196. So, we can conclude that the error terms in different periods are independent. Also, the sig is 0.005, the regression model was significant and confirmed the linearity assumption of model.
The Estimated p-value is 0.935 in Confidence level of 95% that less than 5%. We can reject H_1 and accept H_0. It means that there is not significant relationship between administrative costs of sticky and ownership concentration at companies that accepted in Tehran stock exchange during 2004

H3: There is a significant relationship between sale costs of sticky and ownership concentration.
This hypothesis have three sub-hypotheses. Table 5 shoes the results.
Table 5: Regression results of hypothesis 3

	D.W= 2.142		Sig=0.020	
Variable	Coefficient	t	sig	result
Constant value	0.955	11.172	.000	Confirm
Sale	-0.095	-3.042	.003	Confirm
Adjusted Sales	0.001	-0.0597	.551	Reject
Ownership concentration	0.012	2.663	0.008	Reject
R^2=0.033				

To evaluate the independence of errors, we used Durbin Watson test. It was 2.142. So, we can conclude that the error terms in different periods are independent. Also, the sig is 0.020, the regression model was significant and confirmed the linearity assumption of model.
The Estimated p-value is 0.008 in Confidence level of 95% that less than 5%. We can reject H_0 and accept H_1. It means that there is significant relationship between sales costs of sticky and

ownership concentration at companies that accepted in Tehran stock exchange during 2004-2012.

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