

Effect of Financial Reporting Quality and Investment Opportunities and Dividend Based On Decision-Making Case Study: Insurance Companies in Iran

Fariba Safarzadeh,

Department of Financial Management, Pardis Fara University, Tehran, Iran

*Corresponding Author

Mehran Aflakparast

Department of Financial Management, Pardis Fara University, Tehran, Iran

ABSTRACT— Competition has created value and wealth in modern world for stockholders which is a major goals of individual investment. Investors have increased their quest for increasing their capital. Therefore, they are seeking investment opportunities to increase their wealth. They seek to answer this question that whether quality of financial report and investment opportunities is effective in reducing imposed effect on dividend policy and investment decisions. In order to test hypotheses, data of 108 insurance companies were gathered and used. Research variables were first defined and then, information needs of insurance websites were gathered. These data were used to test hypotheses. Regarding normality, data were analyzed by SPSS software in which descriptive statistics were used and Pearson correlation and regression analysis was used. Results showed that investment opportunities and quality of corporate financial reporting has significant relationship with dividend policy and investment decisions.

KEYWORDS: Investment Decision Makings, Dividend Policy, Investment Opportunities, Financial Reporting Quality, Insurance Company;

Introduction

Decision making about paying dividend and its amount is an important discussion in corporate management, because in this decision making, the amount of money that will be paid to investors and amount of money that accumulates for reinvestments is determined. Funding from internal resources i.e. not distribution cash profit is optimal for firm in one hand and it may change the plan of investors in insurance industry for providing part of costs in this sector, on the other hand. One of the issues in the financial management is dividend. News related to dividend and changes in dividend in relation to previous years is very important for investors such that many theories and views have been presented in this regard. In other words, changing dividend policy of firm gives this message to stockholders and investors that how the financial of firm is. Regarding dividend, various theories and views are presented. This is also important for managers and investors. Therefore, some part of managers' attention is dedicated to what they call it dividend policy.

Statement of the problem

In recent growing economy, investment managers are always seeking suitable investment opportunities in order to achieve the gain and also increase their wealth in long term. Financial markets are one of the circles that can stimulate the investment motivation. Now, insurance companies in our country are moving in this direction. Dividend is important in two aspects. In one hand, it is effective factor in investment of firms and reduces internal resources and increased the demand for external resources. On the other hand, most investors of insurance companies wants cash dividend; therefore, managers should balance their different interests and profitable investment opportunities in order to maximize wealth. Therefore, dividend decisions which are taken by managers of insurance companies are very sensitive and important. Attention to all factors and eliminations effective on dividend policies, in addition to maximizing the wealth of shareholders, provides the grounds for survival of firm in competition and increasing development (Anvari Rostami , 2004: 7). Dividend is a return than common shareholders receive against their investment in the firm. Each firm that does not pay the dividend of recent period is investing it again in order to create interest and therefore, to increase the capacity of firm for paying dividend in future. Foresight of groups who use financial statements has guided accountants to search better methods of interpreting financial information. Managers consider the results of future performance of business unit and capital absorption ability very important and satisfaction of shareholders depends upon their expected earnings. One of the best methods for interpretation of information is studying investment opportunities. Investment opportunities, in fact, shows the potential of investments by insurance companies. This means that the more their potential for investment in the future, the firm will have higher opportunities for investment. All people have a wealth which is gathered by presenting services in labor market. People often take decisions about investment in their life. For example, some employers decide that whether they invest their pensions in insurance companies or bonds. Others seek to maximize their saving through investment in other options (Ferdinand, Birch, 1999: 404). Careful study of investment opportunities and portfolio management

can lead to better management and increases the wealth of investor. In addition, it is expected that individuals, by studying investment basics, prevent the errors and decide by awareness. Financial reporting is one of important products of accounting system that its major goal is providing required information for economic decision making of users about performance evaluation and profitability of firm. Necessary condition for achieving this goal is measuring and presenting information such that it makes the evaluation of previous performance possible and affects the profitability and predictability of future activities of firm. Financial reporting is beyond financial statements and like other information tools including report of board of directors, cyclical reports and internet communication. Financial reporting is not only an end product, but it is a process consisted of several parts (Saghafi et.al, 1998: 230. Generally, this research seeks to answer following questions:

1. Is there significant relationship between dividend policy and investment decisions with effect of financial reporting quality?
2. Is there significant relationship between dividend policy and investment decisions in insurance companies with effect of investment opportunities?

Research conceptual model

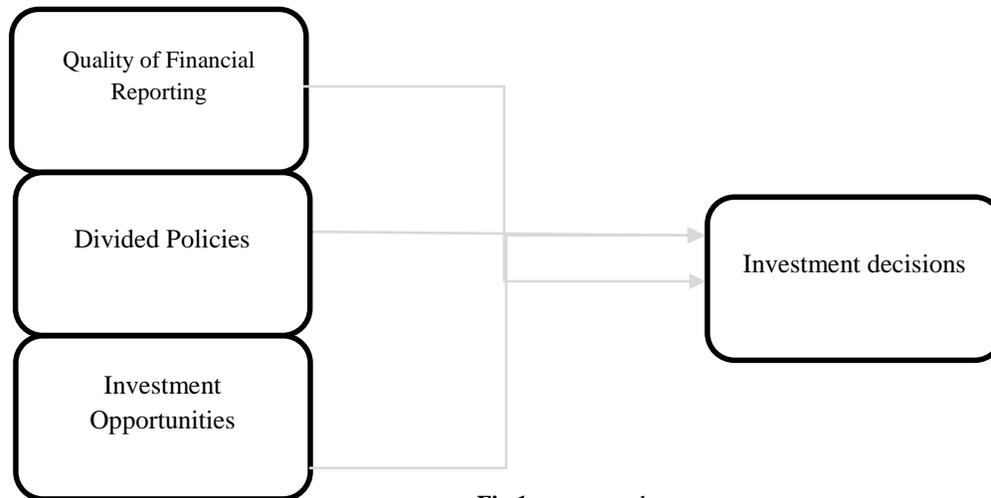


Fig 1-source: author

Importance and necessity of research

In today competitive world, creating value and wealth for shareholders in insurance companies is a major goal of each individual for investing in investment firm. Investors want to increase their capitals and maximize it. For this reason, they are seeking investment opportunities that creates more wealth for them. One way to increase wealth of shareholders is cash dividend of insurance company that most investors want dividend. Investors need tools and criteria for identifying and measuring potential value of investment opportunities. These criteria should be reliable such that investors can decide based on them and spend their capital in business activities. Here, accounting knowledge and financial management helps investors in their decisions. Regarding importance of financial reporting quality and investment opportunities from the view of insurance company managers, potential investors and other users of financial information, studying dividend policies with effect of financial reporting quality and investment opportunities for helping decision making is necessary.

Research hypotheses

First hypothesis: there is significant relationship between dividend policy and investment decisions with effect of financial reporting quality.

First sub hypothesis: there is significant relationship between dividend policies and investment decision makings in insurance companies with higher financial reporting quality.

Second sub hypothesis: there is significant relationship between dividend policies and investment decision making in insurance companies with lower financial reporting quality.

Second hypothesis: there is significant relationship between dividend and investment decisions in insurance companies with effect of investment opportunities.

Third sub hypothesis: there is significant relationship between dividend policies and investment decisions in insurance companies with higher investment opportunity.

Fourth sub hypothesis: there is significant relationship between dividend policies and investment decisions in insurance companies with lower investment opportunity.

Research background

Summary of conducted research is as follows:

Table 1: summary of research

	Name	Research title	Obtained results
4	Frank Forter & Wood (2008)	Dividend policy	They concluded that there is no logical model for dividend and studied effect of dividend on stock price. He believes that market expectations form based on the estimation of profit, investment opportunities and finance plans of firm and dividend has no role here.
5	Rodrigo S. Verdi (2006)	Quality of financial reporting & efficiency	Rodrigo research results includes 3 findings: 1) indices of financial reporting quality has negative relationship with very low investment or very high investments, 3) the relationship between quality of financial reporting quality and investment efficiency is stronger in firm with poor information environments.
6	Feng Chan (2010)	Quality of financial reporting & efficiency of private companies' investment in emergent markets	They concluded that quality of financial reporting quality has positive relationship with investment efficiency. He found that funding by bank increase & motivations for minimizing taxes is reducing. One goal of financial reporting quality is facilitating efficient allocation of capital. Results of his research confirmed his hypothesis that increasing financial transparency can reduce problem of lower investment and higher investment.
	Salehi et.al (2014)	Studying the effect of financial reporting quality on reducing effects of imposed dividend polices on investment decisions in insurance companies	Results indicate that quality of financial reporting quality has significant effect on reducing imposed effect of dividend policy on investment decision makings.
9	Naser Goorabi (2003)	Effect of cash flow on dividend and profit of each share	Results of hypothesis testing indicated lack of significant relationship between changes in cash flows and dividend per share & changes in profit per share.
10	Iskandar & Karami (2009)	Dividend policy	The result is that high or low dividend is not important. But its stability is important & shareholders seek company that can account its policies and plan.

Research methodology

This research is applied in terms of purpose and it is correlational in terms of classification.

Statistical population

Statistical population of this research is all insurance companies in Iran.

Sampling

Sampling was done with systematic elimination and samples were selected and studied from insurance companies in Iran.

Data gathering tool and method

Library method is used in all scientific researches. Numerical data for hypothesis testing was extracted from insurance companies' websites.

Data analysis method

Correlational researches are done by finding correlation coefficient. Excel software was used for classifying data and calculation of variables and finally, data were analyzed by SPSS 19 software. Research method is correlational. Pearson coefficient and regression were used for statistical tests that have lower standard error compared to other statistical methods.

Findings

We analyze findings of research:

First hypothesis: regarding tests and analyses done by regression and correlation, we concluded that there is positive correlation coefficient between two variables dividend and investment decisions with effect of financial reporting quality in insurance companies and its value is 0.260. this is average correlation coefficient and in fact, these variables cannot act independently and regarding adjustment coefficient which is 0.053, it indicates that%5.3 pf changes in investment decisions is dependent upon dividend policy and remained part relates to variables which are not considered in this research. Studies showed that regarding significance level, above hypothesis was confirmed and there is linear and positive relationship between dividend policies and investment decisions with effect of financial reporting quality. Results of first sub hypothesis: regarding tests and analysis done by regression and correlation, we concluded that since significance level is 0.954, above hypothesis is rejected and there is no relationship between dividend and investment decisions in insurance companies with higher financial reporting quality. Results of this hypothesis indicted that in firms with higher financial reporting, there is no relationship between dividend policy and investment decisions. It seems that higher quality of financial reporting absorbs investors and there is no need to spending resources of company for implementing dividend policies. Results of this hypothesis is consistent with research of Salehi et.al

(2014). Results of second sub hypothesis: regarding tests and analysis done by regression and correlation, we concluded that positive correlation coefficient exists between dividend policies and investment decisions of insurance firms with low financial reporting quality and its value is 0.299 which is average correlation and in fact, these variables cannot act independently and regarding adjustment factor which is 0.072 which shows that %7.2 of changes in investment decisions in firms with low reporting quality is dependent upon dividend policies and remained part relates to other variables. Regarding significance level, above hypothesis is confirmed and there is linear and positive relationship between dividend policy and investment decisions in firms with low financial reporting quality. It seems that in firms with lower financial reporting quality, dividend policies have attracted investors and influences their decision. Results of this hypothesis is consistent with research of Salehi et.al (2014). Results of *Second hypothesis*: regarding tests and analysis done by regression and correlation, we concluded that positive correlation coefficient exists between dividend policies and investment decisions of insurance firms with low financial reporting quality and its value is 0.302 which is average correlation and in fact, these variables cannot act independently and regarding adjustment factor which is 0.074 which shows that %7.4 of changes in investment decisions is dependent upon dividend policies and remained part relates to other variables. Above hypothesis is confirmed and there is linear and positive relationship between dividend policy and investment decisions with investment opportunities.

Third sub hypothesis: regarding tests and analysis done by regressions and correlation, we concluded that since significance level is 0.892, above hypothesis is rejected and there is no relationship between dividend policies and investment decisions in insurance companies with higher investment opportunity. Results of this hypothesis indicated that in insurance companies with higher investment opportunities, there is no relationship between dividend policy and investment policy. It seems that higher investment opportunity absorbs investors and there is no need to spending resources of firm for implementing dividend policies. Results of this hypothesis are consistent with Salehi et.al (2014) results. Results of fourth sub hypothesis: regarding tests and analysis done by regression and correlation, we concluded that positive correlation coefficient exists between dividend policies and investment decisions of insurance firms with low financial reporting quality and its value is 0.260 which is average correlation and in fact, these variables cannot act independently and regarding adjustment factor which is 0.053 which shows that %5.3 of changes in investment decisions in firms with low reporting quality is dependent upon dividend policies and remained part relates to other variables. Regarding significance level, above hypothesis is confirmed and there is linear and positive relationship between dividend policy and investment decisions in firms with low financial reporting quality. It seems that in firms with lower financial reporting quality, dividend policies have attracted investors and influences their decision. Results of this hypothesis is consistent with research of Salehi et.al (2014).

Conclusions:

Results of this research indicated that by considering investment opportunities and quality of financial reporting for insurance companies, there is significant relationship between dividend policy and investment decisions. This is while results showed that in firms with higher financial reporting quality and investment opportunities, there is no significant relationship between dividend policy and investment decisions and higher financial reporting quality and investment opportunities absorbs investors. But in firms with low financial reporting and low investment opportunities, there is significant relationship between dividend policy and investment decisions and in firms, dividend policy influences decisions of investors. Results of research is consistent with Salehi et.al research (2014).

Suggestions

-it is suggested to investors, shareholders and managers that they consider investment opportunities and financial reporting quality and pay special attention to these cases in their decision making.
-it is suggested to all shareholders and market activists in insurance industry that they consider other factors like risk, efficiency, size of insurance firm and other effective factors for investors' decisions for careful evaluations.

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