

*Full Length Research Paper*

# **Necessity for reengineering the qualitative characteristics of financial reporting arrangement in the reduction of information asymmetry: An evidence of Iran**

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This study is focused on the qualitative characteristics arrangement in Iran with its special environment, to determine the weight and importance of each component of qualitative characteristics upon the perception of the three main engaged groups in financial reporting to include, professional members, users and preparers of accounting information from qualitative characteristics preferences and offering suitable rearrangement of these qualities to improve financial reporting quality and reduce the level of information asymmetry in Iran. To test the three main hypotheses of the study which were formed upon a theoretical framework, aided by a survey research, a suitable questionnaire was developed with some questions about the current qualitative characteristics condition in providing Iran's current financial reports and the standards' setting process and its deficiencies. Collected data were tested by Kruskal-Wallis, Post Hoc and Friedman ranking statistical methods. The results of the study revealed that respondents among seven investigated qualities were less satisfied by inadequate disclosure, insufficient consideration of cost-benefit and lack of sufficient reliability of the information. They were also relatively satisfied with the comparable, timeliness and conservative manner that was used to present information. On the other hand, while from providers' viewpoint, lack of adequate disclosure, sufficient reliability and consideration of cost benefit constraint leads to an increase of information asymmetry, respectively, from the users' viewpoint, not presenting timely with adequate disclosure and sufficient reliability are the main factors that reduce the level of transparency, thereby producing wide spread information asymmetry among contributors in those markets. However, professional members are complaining more of inadequate disclosure, lack of sufficient reliability and also relevance. In the end, the profession members (especially auditors), when compared to two other investigated groups, are less satisfied with the current financial reporting in accordance with those qualitative characteristics. This finding in some aspect is in accordance with the past finding by Mirshekary and Saudagaran (2005).

**Key words:** IASB/FASB common conceptual framework, qualitative characteristics arrangement, information asymmetry, preparers' and users' perception of accounting information.

## **INTRODUCTION**

Continuous development of capital markets and expanding of the stockholding culture, led regulatory

bodies in most counties, to plan and improve efficiency of these markets which control and handle the main part of the social economic resource. The abuse of the inside information with all of its regulatory efforts still exists in most countries. Hence, market regulatory bodies in most countries prescribe rigid laws and heavy penalty for those whom are willing to deal with this information, and also,

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they have imposed multiple forces on the accounting system of timeliness preparation and releasing of financial information to resolve this problem.

On the other side, intensifying the competition and wide spread of globalization and financial fraud in recent decades make apparent deficiencies for the traditional accounting systems to process and handle its duty, and thus, the accounting profession is encountered with troublesome attitudes which seem to be non-terminable. Unfortunately, moving towards issuing standards with high details to handle these problems upon the rule based standard setting has yielded no outcome, but a much more complexity in the standard setting process which is currently in distress of multiple complexity. Thus, the FASB, by turning their attention to the traditional dilution approach of the standards, has recently discussed that we have encountered some unwanted phenomena of "standard overload" and "information overload" in financial reporting. These expressions reflect the concerns of the foremost professional bodies' leaders about the future of the current accounting standard setting process and its probable consequences. Hence, in July 2005, IASB and FASB began a joint project to revise and improve their conceptual frameworks and issue a new coherent common conceptual framework. Redefining the major users of the accounting information, objectives of financial reporting and elements of the financial statements and also, rearrangement of the qualitative characteristics is the significant agendas of this project (Connell, 2007).

## RESEARCH PROBLEM

Accounting system as a formal source of collecting, summarizing and reporting of financial information of companies' activities has a critical role to provide useful information for different and entitled users in the capital market (Alattar and Al-Khater, 2008). By releasing the accounting information, besides the increases of transparency in capital markets, the uncertainties are also reduced and a fair and true view of the companies' management activities is made. So, all the contributors in the capital markets are willing, and they demand its disclosure. Moreover, the efficiency of the capital markets is also highly dependent on the presentation of that information (Salehi, 2008a). Thus, upon its significant effect on the activation of the capital market, most of the countries have tried to regulate and improve its rules and principles and various professional bodies all over the world, by forming a suitable conceptual framework that seeks to improve its reporting process which is harmonic with the purpose of financial reporting and its basic objects.

However, deficiencies in the current traditional financial reporting system can be seen apparently by expansion of business activities, rising commercial competition and production of new financial instruments. In most countries,

the accounting profession is forced to issue very detailed standards to reduce these problems. Replacing the rule based standard setting with principles based accounting standard setting causes practical implicational difficulty for the accounting standard. Upon that, some doubt arises about the usefulness of the current accounting standards setting process and the accounting profession which was encountered with standard overload. This case leads the main accounting professional bodies to improve the underlined postulates of accounting reporting. Hence, by recognizing that it is necessary to revise some parts of the accounting conceptual framework, in 2005, FASB and IASB decide to come in a common project to revise their conceptual frameworks and by redefining users groups, objectives of accounting reporting, elements of financial statements, rearrangement of the qualitative characteristics and issuance of a new common coherent conceptual framework. The last news of this project's progress states that from the two main objectives of financial reporting including, reporting about management stewardship duties and decision usefulness of information, the first one is abounded and reconciled in the second one. Also, because of the operational environment change and need to consider some other variables such as tradeoff between primary qualities characteristics, some new sort and arrangement of qualities characteristics by abounding old characteristics and adding new characteristics is proposed.

Moreover, upon its importance and considering, especially the operational environment of the Iranian companies, unchanged application and acceptances of such conceptual framework may not be desirable. Hence, this study focused on the qualitative characteristics which is the main part of the conceptual framework, and is willing to trace the viewpoint and perception of the main engaged groups in financial reporting about the importance and suitable arrangement of the qualitative characteristics in the current condition of the study's financial reporting, and respectively provide a better view of informational needs for various users in order to reduce information asymmetry and improve the quality of financial reporting. Particularly, this study intends to apply Obaidat's (2007) research method, about using qualitative characteristics to evaluate the usefulness of current financial reporting quality and describe gap perception areas between profession members, users and preparers of financial reporting, and thus perform a similar research in Iran with its special environment. In the end, it will provide a suitable condition to reduce information asymmetry. So, the main questions of the study are elaborated as follow:

Q<sub>1</sub>: Is there a gap among the perception of the three main engaged groups in financial reporting including professional members, providers and users of accounting information about the qualitative characteristics preferences? And if it is true, around which quality and areas of

reporting is this gap deeper?

Q<sub>2</sub>: Do the investigated qualitative characteristics, from the point of view of the respondents, have same rank and value?

Q<sub>3</sub>: What is the ranking of the investigated qualitative characteristics that will be used to improve construction of the accounting conceptual framework in order to reduce information asymmetry?

Q<sub>4</sub>: Is there any differences among the viewpoints of the three investigated groups including, professional members, providers and users about better arrangement of the qualitative characteristics?

As shown by Mirshekary and Saudagaran (2005), there is a weak level of consensus among bank loan officers, tax officers and auditor groups about the importance of qualitative characteristic arrangement. However, most of the users believe that a delay in publishing annual reports, lack of reliability of the information and lack of adequate disclosure are the main concerns with corporate financial reports in Iran. This case, besides leading the reduction of the level of transparency in markets, causes decreases in markets' efficiency by a wide spread of information asymmetry between contributors in those markets, which in the extreme manner leads to market failure (Hendriksen and Berda, 1992).

## OBJECTIVE OF THE STUDY

The main objective of this study is to apply the Obaidat's (2007) research method, about using qualitative characteristics to evaluate the condition of financial reporting, perform similar research in Iran with its special environment and in the end, provide guidance to improve construction of national conceptual framework with the aim of reducing information asymmetry areas. Weaknesses of conceptual framework and inability to match the needs of the real world users leads accounting to miss its critical role as a formal source of providing useful information to help contributors in making economic decision in the market. So being aware of the importance of any cases' effect and improving this construction is very convertible.

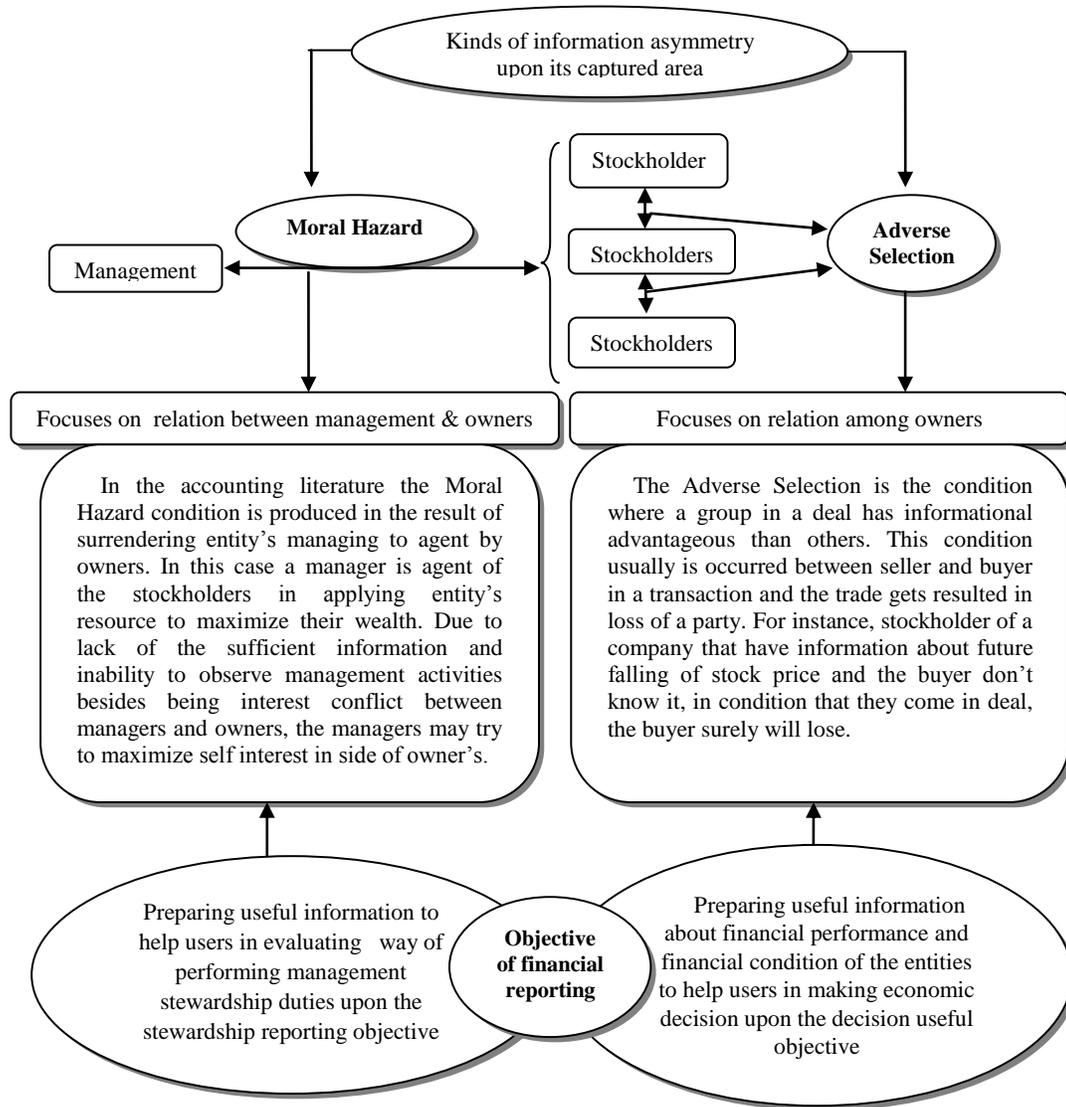
## LITERATURE REVIEW

The case of information asymmetry in financial reporting and its vast consequences has remarkable attention in recent years. The origin of this concept goes back to the 1970 decade when three researchers, whose names were Michael Spence, George Akerlof and Joseph Stiglitz discussed around this case which was later known as information asymmetry theory (Barkley, 2002). Upon this theory they consider a market condition in which sellers have more information about trade commodity than buyers. Certainly, in that position, trade prices of

commodity are not reflecting its fair and intrinsic value, depending on the level of informative awareness difference which are higher or lower than its' fair values. Information asymmetry in accounting literature upon its origin is divided into two groups (Scott, 1997). The first group is related to the case in which one party of the transaction, when compared to others, does not have sufficient information. Thus, a release of these information may change their decision. This case is known as hide information that is the causes of weak decision and occurrences of adverse selection condition. The second group of information asymmetry is related to the condition where one side does activities that the other groups are not aware of, while it has direct effect on the second side welfare. This kind of information asymmetry is known as hide activities which is the causes of the occurrences of moral hazard condition in accounting. Figure 1 shows this case in detail.

Upon the studies of Dembe and Boden, using the phrase "moral hazard" goes back to the 17<sup>th</sup> century where this phrase was widely used by insurance companies in England in the end of the 19<sup>th</sup> century. First time, this concept was used to imply the fraud and unethical behavior in the insurance contract. In the 1970 decade, this concept came in financial and economic literature. Pauly (1968), Peltzman (1975) and Holmstrom (1979) were the foremost whom used this concept in their studies about insurance industry. About the accounting literature, this concept focuses on the relation between managers and owners. Moral hazard accrues because the management effort to handle entity's resource is not visible by owners. So the accounting profession got obligated to provide necessary mechanisms and criteria for reporting and evaluating these activities. From two current objectives of accounting reporting, the second one is related to this case and focuses on reporting about a way of performing management stewardship (responsibility) duty (FASB, 2006).

While the moral hazard kind of information asymmetry discussions are about the relation between owners and management, the adverse selection kind focuses and deals with the relation among owners (stockholders). Upon that, if there was no adequate information about traded securities in markets, buyers of those stocks prefer not to pay much to those securities, while sellers are willing to sell their stock in high price. In financial literature, the abnormal "bid ask" price spread is supposed as the existence of information asymmetry between dealers. Also, the level of this spread reflects the level of information asymmetry among them. Stoll (1989) and Aitken and Frino (1996) showed that this distance and "bid ask" spread constitutes the main part of the transaction costs. By analyzing details of the bid ask spread, George et al. (1991) classified the spread of the "bid-ask" price in three distinct costs, which are presented in Figure 2. The difference and spread are constituted from three distinct costs.



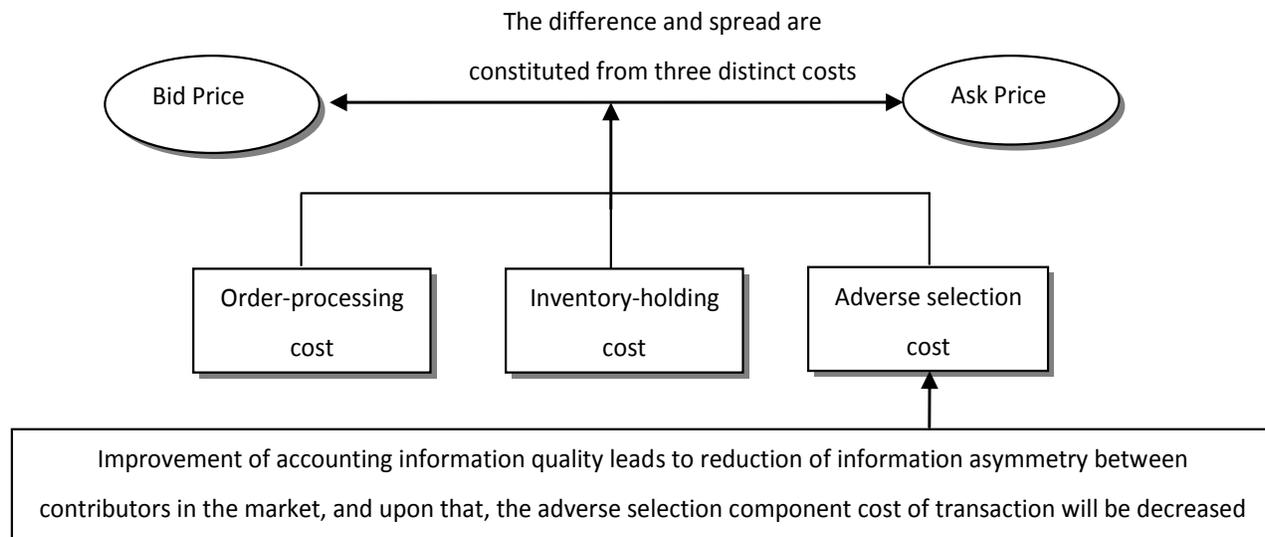
**Figure 1.** Kinds of information asymmetry and their relationships with accounting reporting objectives.

The study of Brockman and Chung revealed that adverse selection cost is the most important part of the “bid ask” spread in most of the markets regardless of their efficiency (Brockman and Chung, 1998). Particularly, in conditions where dealers suppose that they are dealing with informed and professional dealers, they increase part of the adverse selection cost to offset probable future losses (Callahan, 1997).

Generally, two distinct concepts of value and price has been used interchangeably, while their implying differences are accepted. The main difference of these two concepts is driven from market incompleteness and existence of information asymmetry. The analyses of information asymmetry and its origin and effects are shown in detail in Figure 3.

Upon that schematic model, ‘information gap’ occurs

when, from the market, the contributors’ viewpoint main performance data are not transferred sufficiently, whereas ‘quality gap’ shows that the information about performance criteria is not reliable as expected. Furthermore, the accounting profession has long faced the issue of an audit expectation gap, that is, the gap between the quality of the profession’s performance, its objectives and results, and that which the society expects (Salehi, 2008b). Also, management must explain its business objectives clearly so that investors could be able to determine whether the company has reached its anticipated goals or not, because if management did not do it, there would be an occurrence of ‘reporting gap’. However, the ‘understandable gap’ would occur only when management and investors evaluate the data by various methods. Lastly, accumulated results of all those



**Figure 2.** The component costs of “bid ask” price spread.

gaps cause the appearance of ‘perception gap’, which show that the desirability of the presented information for capital market is differently understood, and which finally leads to the creation of ‘value gap’ (Barzegar and Salehi, 2008). The value gap refers to the difference between the entity market value and the management perception of the inherent value of the entity’s stock. The larger the level of the mentioned gaps, the larger the level of the value gap, and upon that, a huge distance is seen between trade prices of enterprises stocks and its inherent values.

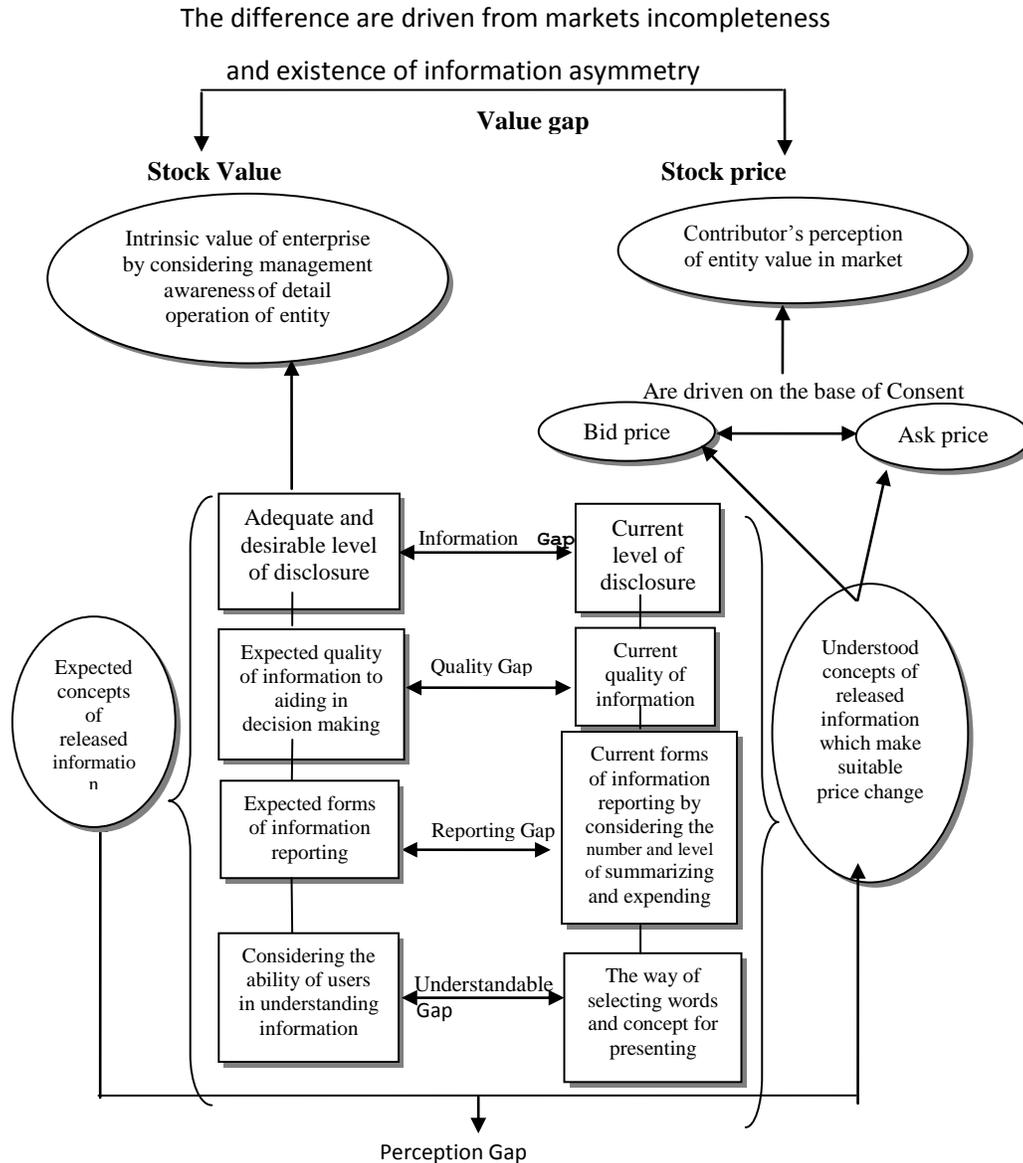
### Accounting profession efforts to handle and reduce level of information asymmetry

In order to reduce the level of information asymmetry among contributors in the market and achieve high level of market efficiency, a multiple force is imposed on accounting system for preparing and releasing sufficient and timely information to help contributors in the market make economical decision. In this regard, Zhou documented the direct effect of increasing accounting disclosure on reduction of information asymmetry in China (Zhou, 2004). Hence, accounting profession by producing conceptual framework and presenting qualitative characteristics, seeks to take out this duty.

In order to improve financial reporting quality and provide useful information to investors, all countries in the world have provided necessary regulations and have established professional authority bodies, which changed their structures and duties over time because of the environmental change. The Committee on Accounting Procedure (CAP), Accounting Principles Board (APB) and Financial Accounting Standards Board (FASB),

respectively had the duty of handling the accounting standard setting steering in the United States for a long time. APB, from its beginning in 1957, as an important standard setting body, was willing to provide conceptual postulates for its decisions and it had to work simultaneously on standards and concepts to be able to provide meaningful basic concepts for standards (Riahi, 2000). The motive of FASB in preparing the conceptual framework could also be seen in the engaged problem that its previous candidate, APB, experienced. Higson (2003: 62) presents the issue of conceptual framework in these words: “A conceptual framework could be seen as an attempt to operationalize the accounting theory. This could be done by either individuals or standard setters. Conceptual framework consists of various parts, in which objectives of financial reporting and qualitative characteristics are two main parts of it. However, in recent years, this conceptual framework is debated under accounting standards across the world.

The objectives of financial reporting have evolved over time. The issue of purpose of information to be disclosed in annual reports was initially recognized by Chambers (1996). For a long time in accounting history, the objective of financial reporting was to provide a mechanism for exercise of investors’ control over management coupled with another purpose of providing information for investment decision making by focusing on managerial needs as perceived by American Accounting Association (AAA, 1955). Later, the objective was on ‘measuring past performance’ with an emphasis on profit measurement, which had the management as the target user group. The study by Rice et al. (1973) revealed that 75% of the companies considered their overall purpose to be accountability for performance or stewardship. However, in recent years, the objectives of financial reporting have



**Figure 3.** The origin of differences between value and price, based on information asymmetry.

undergone a paradigm shift from exercise of control, past performance analysis and information for investment decision making and management to providing of information for decision making by a large body of user groups. As a result, the AICPA (1970) extended the objectives for financial reporting by emphasizing relevant economic information intended to be useful for enlarged user groups. At present, the Statement No. 4 of APB still dominates financial reporting. However, Sterling (1972) long back indicated that the ultimate objective of financial reporting was to provide useful information. Similarly, Zairi and Letza (1994) conclude that the purpose of the annual report is to convey information that is useful to those who have an active interest in the reporting organization. The Institute of Chartered Accountants in England

and Wales (ICAE & W) has remarked that the objective of corporate reporting is to communicate the economic measurements and information about the resources and performance of the reporting entity, useful to those having a reasonable right to such information (Oza, 1990). Particularly, formulation of the objective of financial reporting depends on considering the conflict of interest between contributors in the market. Specially, financial statements are driven from the interrelated effects of three groups including firms, users and profession. Various accounting professional bodies in the United States, the United Kingdom and Canada have made attempts to formulate the objectives of financial reporting to make accounting information relevant and useful. However, the objectives developed by the

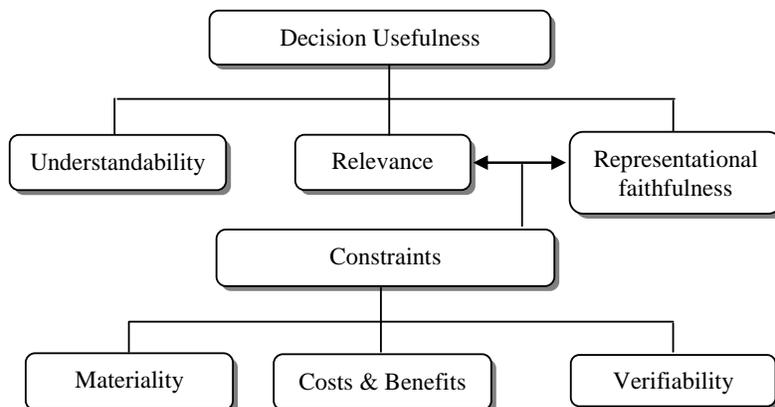


Figure 4. Last proposed arrangement of qualitative characteristics.

Trueblood have stood the test of times and have guided the standard setting bodies all over the world. FASB, while preparing its accounting objectives of conceptual framework, widely gained from this report. This report also presented seven qualitative characteristics, which should form an integral part of financial statement information and now, with the aid of other characteristics, constitute the second main part of FASB's conceptual framework. These qualitative characteristics aid FASB and give index for selecting rules and methods of disclosure.

### Toward common conceptual framework

In order to reduce the current deficiencies of conceptual framework and improve its construction, in July 2005, IASB and FASB started a new joint agenda project to revise their conceptual frameworks, and by redefining users of accounting information, the main objectives of financial reporting, elements of financial statements and rearrangement of the qualitative characteristics, constituted a new coherent common conceptual framework that best fits the current condition of business activities. Last released news about this project states that from the two main objectives of financial reporting including, reporting about management stewardship duties and decision usefulness of information, the first one is abounded and reconciled in the second one (FASB, 2006). Also, about rearrangement of the qualitative characteristics, some new sorts of these characteristics by reconciling co-equivalent parts and adding some new qualities are proposed, in which the last one is presented in Figure 4. However, it needs some more work in this area to complete this arrangement.

### Review of preceding researches

While academics and practitioners agree on the

importance of qualitative characteristics as an essential element of the conceptual framework infrastructure, in comparison to huge amount of studies in various accounting and financial reporting areas, there have been fewer studies traceable around conceptual framework, especially the qualitative characteristics area. One potential explanation to this case goes back to difficulties of making it quantitative and measuring it. In a study, which was done by the contribution of past members of APB and FASB about the level of implying qualitative characteristics mentioned in SFAC No. 2 in standard setting process, only the two characteristics including objectivity and cost benefit were recognized (Shabahang, 1995). In a similar study, Hudack and McAllister focused on the first issued standard of FASB and showed that board emphasis on relevance and reliability was approximately equal, but in those standards, which focused on disclosure by notes or other means, compared to reliability, more emphasis was given on relevance quality (Hudack and McAllister, 1994). In a study conducted by Kennedy et al. (1995), the importance of qualitative characteristic from the viewpoint of preparers, auditors and users of financial information was investigated. They documented that preparers and users of accounting information, when compared to auditors, gave more emphasis on relevance. In relation to reliability, there was no meaningful difference, although the auditors from the subset of reliability had more tendencies on objectivity characteristic. Generally, from the auditors' viewpoint, when compared to relevance, reliability has much more importance. Mirshekary and Saudagaran (2005) examined the perceptions and characteristics of users of corporate financial statements in Iran. They discuss that users believe that a delay in publishing annual reports, lack of reliability of the information, and lack of adequate disclosure are the main concerns with corporate financial reports in Iran. This finding is true to other developing countries in the Middle East and beyond.

ArabSalehi and Bagherpour (2009), by comparing the legal form of financial reporting with the actual one, seek

**Table 1.** Seven investigated qualitative characteristics.

<b>Reliability</b>	<b>Timeliness</b>	<b>Comparability</b>	<b>Cost-benefit</b>
Full disclosure	Relevance	Conservatism	-----

to determine financial reporting gap. The results of their study indicate that the Iranian investors, as well as, legal sources of information (financial, audit and TSE's reports), are widely using informal sources of information in their decision making process. Using the other sources of information, suggest that there is a gap between the legal and actual financial reporting models in Iran. This implies that the legal reporting system does not meet the needs of the users. The findings also show that the reporting gap is caused by some main factors, including: the inadequate disclosure of non-financial information in the financial statements, inability of the financial statements to provide on time information when we are seeing advances in technology, which facilitates access to more and real time information. Almutairi et al. (2006) studied the relation between audit quality and information asymmetry. By using data from 38 and 187 firm-years, in the period of 1992 to 2001, they documented that information asymmetry is negatively related to the employment of an industry specialist auditor and positively related to audit firm tenure. On the other hand, Bhattacharya et al. (2009) in a similar study evaluated the relationship between earnings quality and information asymmetry. They documented that poor earnings quality is significantly and incrementally associated with higher information asymmetry. Both innate and discretionary components of earnings quality contribute significantly to information asymmetry and further, poor earnings quality exacerbates information asymmetry around earnings announcements, especially for firms where earnings represent the principal source of information. Baydoun and Willet (2000) evaluated the usefulness of preparing and presenting of balance sheet upon current values and also value added statement in Muslim countries. On the bases of the study's finding, they suggest that balance sheet upon current values and also value added statements have the ability to meet Islamic economic objectives and responsibilities. In a study, Sulaiman (2001) showed that there was no difference between Muslim respondents' perception and other respondents' perception of financial information usefulness. Howkes et al. (2003) documented the gap in management accounting areas between accounting academics and practitioners in their study. Other studies should be added in this part.

Various researchers, such as Mirshekary and Saudagaran in 2005 and Obaidet in 2007, used and applied selective accounting and financial reporting qualitative characteristics to evaluate and determine the quality of financial reporting that their finding was remarkable.

The current research is performed in a similar direction, but uses the viewpoint of engaged groups in financial reporting about their preferences of qualitative characteristics as a mean to evaluate its better arrangement. Upon the current sustainable areas of financial reporting, we gained from seven qualitative characteristics, and their details are presented in the Table 1.

According to the research problem and objectives of the study, five hypotheses are postulated in the study as follow:

**H<sub>1</sub>:** From the perception of providers of accounting information, the seven investigated qualitative characteristics do not have the same rank.

**H<sub>2</sub>:** From the perception of users of accounting information, the seven investigated qualitative characteristics do not have the same rank.

**H<sub>3</sub>:** From the perception of accounting profession members, the seven investigated qualitative characteristics do not have the same rank.

**H<sub>4</sub>:** From the perception of overall respondents, the seven investigated qualitative characteristics do not have the same rank.

**H<sub>5</sub>:** There is a meaningful difference among profession members', users' and preparers' perceptions of accounting qualitative characteristics preferences.

## RESEARCH METHODOLOGY AND DATA COLLECTION

This study intends to describe the current condition of qualitative characteristics preferences based on respondents' perception and do not want to change the position of research variables, hence the method of the research is descriptive and in the other side it would help national regulatory bodies improve the conceptual framework. Thus, this research is classified as an applied research. The level of analysis of this study, upon its captured individual, is macro. The focus of analysis is also determining the perception of preparers, users and profession members about the current condition of qualitative characteristics and ways of improving its construction to improve conceptual framework. The financial society of Iran constitutes the statistical population, and the accountants and financial managers are considered as agent of preparers. While stockholders, bank specialists and accounting students and teachers are considered as agent of users, in this regard, auditors constitute agent of profession members. Furthermore, by considering the research methodology and quality of the study's variables, the suitable mean for gathering data is the questionnaire. We used a five-point Likert scale questionnaire, which has the ratings of "strongly disagree" (1) and "strongly agree" (5), to collect data. The questionnaire contains two parts, namely: (A) bio-data and (B) some questions regarding the current condition of considering the

**Table 2.** Demographic information of participants.

Demographics	Frequency	Percentage
<b>Gender of participants</b>		
Male	176	63
Female	105	37
<b>Experience</b>		
Less than 5	98	35
Between 6-10	106	38
Between 11-15	42	15
More than 15	35	12
<b>The age of participants</b>		
Under 25	25	9
Between 26 to 30	109	40
Between 31-35	84	30
Over 35	63	21
<b>Educational background</b>		
Bachelor	233	83
Master and PhD	48	17
<b>Field of study</b>		
Accountancy	195	70
Management	52	18
Economics and other	34	12
<b>Work area</b>		
Accountant and Manager	194	69
Stockholder and Analyst	10	4
Bank specialist	26	10
Auditor	35	12
Accounting student	16	5

qualitative characteristic in the standard setting and information provision process. In order to be assured of the validity of questionnaire, we took advice from Delphi and experts, while on the other side, the Cronbach's Alpha method was employed to assure sufficient reliability of the questionnaire. The result for the Cronbach's Alpha is 0.89, which is larger than the minimum level of 0.7. This shows that the questionnaire has suitable reliability.

## RESULTS OF ANALYSIS

After distributing questionnaires among the participants, 281 usable questionnaires were collected. Table 2 shows the demographic information of participants. According to the table, majority of the participants (109 participants) were aged between 26 and 30 (40%). Furthermore, 63% of the participants were male, in contrast to only 37% of the participants that were female. Also, majority of the participants have Bachelor's degree (87%), while the rest

of the participants were MA or PhD holders.

As mentioned before, five hypotheses are postulated in the current study based on the study's objectives. Here, the testing of hypothesis 1 is elaborated.

$$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6 = \mu_7$$

$H_1$ : there is at least a case where its value differs from others

Where  $H_1$  hypothesis claims that from the viewpoint of providers of accounting information, seven investigated characteristics do not have the same rank and value for improving the current condition of financial reporting and related conceptual framework. As such, some characteristics must be emphasized more than others.  $\mu_1$  to  $\mu_7$  is respectively the median answers of providers about the current condition of accordance of the financial reporting process and standards with each investigated seven

**Table 3.** Summary answers of participants upon the quality characteristics of financial reports.

Investigated characteristic producing information asymmetry			Reliability	Timelines	Adequate disclosure	Relevance	Comparability	Cost-benefit	Conservatism	Total information asymmetry of groups
Compared groups										
Providers of accounting information	Accountants and financial managers	Respondents	194	194	194	194	194	194	194	194
		Mean	2.9323	3.0644	2.7990	3.0322	3.1482	2.9247	2.9948	2.9851
		SD	0.4946	0.5856	0.5072	0.4333	0.5647	0.5366	0.7752	0.3529
Users of accounting information	Stockholders creditors and academics	Respondents	52	52	52	52	52	52	52	52
		Mean	2.8510	2.9231	2.6490	2.8269	2.9856	2.6962	2.8462	2.8220
		SD	0.4341	0.4938	0.5053	0.4097	0.4965	0.7060	0.8458	0.3111
Accounting profession	Auditors	Respondents	35	35	35	35	35	35	35	35
		Mean	2.7464	2.8429	2.6000	2.8214	3.0143	2.9029	2.9571	2.8213
		SD	0.4419	0.4819	0.4704	0.3741	0.5488	0.5026	0.6899	0.2966
Total importance of characteristics producing information asymmetry		Respondents	281	281	281	281	281	281	281	281
		Mean	2.8941	3.0107	2.7464	2.9680	3.1014	2.8797	2.9786	2.9399
		SD	0.4841	0.5541	0.5057	0.4345	0.5501	0.5541	0.7846	0.3458

characteristics and those characteristics preferences. Table 3 summarizes the answers of participants upon each characteristic.

Due to the ordinal scale of the study's data in analyzing this hypothesis, we gained from the nonparametric statistical methods. The result of the Kruskal-Wallis test, which is summarized in Table 4, shows that for this hypothesis, p-value is less than  $\alpha$  ( $p\text{-value} = 0.00 < \alpha = 0.05$ ). So, upon this hypothesis test result,  $H_0$  is rejected and there is evidence that the seven considered characteristics from the perception of the providers' group do not have the same importance and rank, and upon the result of the Friedman ranking test result, some characteristics must be emphasized more than others.

In a similar direction with the first hypothesis, the second and third hypotheses were designed

to examine whether or not, those seven investigated characteristics have equal value and importance in the current condition of financial reporting in order to improve the conceptual framework, from the perception of users of accounting information and profession members, respectively.

Upon the result of the Kruskal-Wallis test for these two hypotheses in Table 4, the p-value again became less than the meaningful level of 0.05 ( $p\text{-value} = 0.004 < \alpha = 0.05$ ); so for both of these hypotheses also, the  $H_0$  is rejected and the seven investigated qualitative characteristics do not have the same rank and importance respectively, from the viewpoint of the users and profession members in the current condition of financial reporting.

For better conclusion and interpretation of the

result of the foregoing three hypotheses, we used the Friedman ranking method. The result of the Friedman test shows that the p-value is less than  $\alpha$  for those hypotheses ( $p\text{-value}=0.000 < \alpha=0.05$ ), thus  $H_0$  is rejected again. So, there is a meaningful difference among the seven qualitative characteristics, in which Table 4 shows their rank. While the high mean and rank of the investigated qualitative characteristic show that respondents, when compared to other qualitative characteristics, are more satisfied in considering those qualitative characteristics in the current accounting system, the qualitative characteristics that have low ranks describe moderately satisfaction in considering the accounting information provided.

Upon the Friedman statistical test, while providers' groups are complaining more of inadequate disclosure, lack of sufficient reliability and less

**Table 4.** The result of the test of hypotheses 1 to 3 with Kruskal-Wallis test.

Involved groups in financial reporting	Respondents as agents of investigated groups	Result of Kruskal-Wallis test			Compared Qualitative Characteristics	Kruskal-Wallis ranking	Friedman ranking test result	Final ranking result	Result of hypothesis test
		Chi-Square	Df	Asymp. Sig.					
Providers of accounting information	Accountants and financial managers	45.804	6	0.000	Reliability	642.16	3.72	2	H <sub>0</sub> rejected
					Timeliness	736.00	4.34	6	
					Full disclosure	550.79	3.20	1	
					Relevance	710.72	4.16	4	
					Comparability	784.52	4.68	7	
					Cost-benefit	630.84	3.73	3	
					Conservatism	701.46	4.18	5	
Users of accounting information	Stockholders, creditors and Academics	18.904	6	0.004	Reliability	120.60	3.59	3	H <sub>0</sub> rejected
					Timeliness	119.18	3.31	1	
					Full disclosure	125.72	3.48	2	
					Relevance	169.68	4.81	7	
					Comparability	165.09	4.76	6	
					Cost-benefit	141.92	4.06	5	
					Conservatism	141.31	3.99	4	
Accounting profession	Auditors	17.954	6	0.004	Reliability	110.47	3.41	2	H <sub>0</sub> rejected
					Timeliness	127.84	4.16	4	
					Full disclosure	86.49	2.86	1	
					Relevance	118.79	3.67	3	
					Comparability	149.40	4.71	6	
					Cost-benefit	127.77	4.30	5	
					Conservatism	140.24	4.89	7	

and less consideration of cost benefit constraint, from the viewpoint of the users, non-consideration of timeliness presentation, and lack of adequate disclosure in a reliable manner are the main factors decreasing the quality of financial reporting. However, auditors as members of the profession have their own opinions, and after lack of adequate disclosure and sufficient reliability, they take emphases on lack of sufficient relevance as the main difficulty of the current accounting information. Figure 5, by twin comparison of the viewpoints of these three groups, highlights their similarities and differences.

In a similar direction to the previous three hypotheses, the fourth hypothesis is willing to trace the viewpoint of the overall respondents about importance and preferences of qualitative characteristics, in order to sort and consider them in revising future national framework. Hence for this purpose, we again used the Friedman nonparametric test. Statistical expression of this hypothesis is thus presented, and Table 5 and Figure 6 show the condition and result of the test.

**H<sub>0</sub>:** From the perception of respondents to reduce information asymmetry, seven investigated qualitative characteristics have the same weight.

**H<sub>3</sub>:** From the perception of respondents to reduce information asymmetry, seven investigated qualitative characteristics do not have the same weight.

As shown by the Friedman test, respondents among the compared qualitative characteristics are more satisfied about the condition of having sufficient comparability, considering timeliness in providing information and having sufficient relevance. On the other hand, they complain more of the current condition of inadequate disclosure and lack of sufficient reliability, besides less consideration of the cost benefit constraint in issuing new standard and providing accounting information. However, they believe that they pay less attention to the three foregoing characteristics as the main factors that lead to reduction of financial reporting quality and production of information asymmetry among contributors in the market, where they finally lead to decrease of market efficiency.

To test the fifth hypothesis, which is designed in the direction of being able to compare the degree of satisfaction of the three investigated groups, from the current condition of accordance of financial reporting and its standards with those investigated qualitative characteristics, we used the Kruskal-Wallis test. Statistical

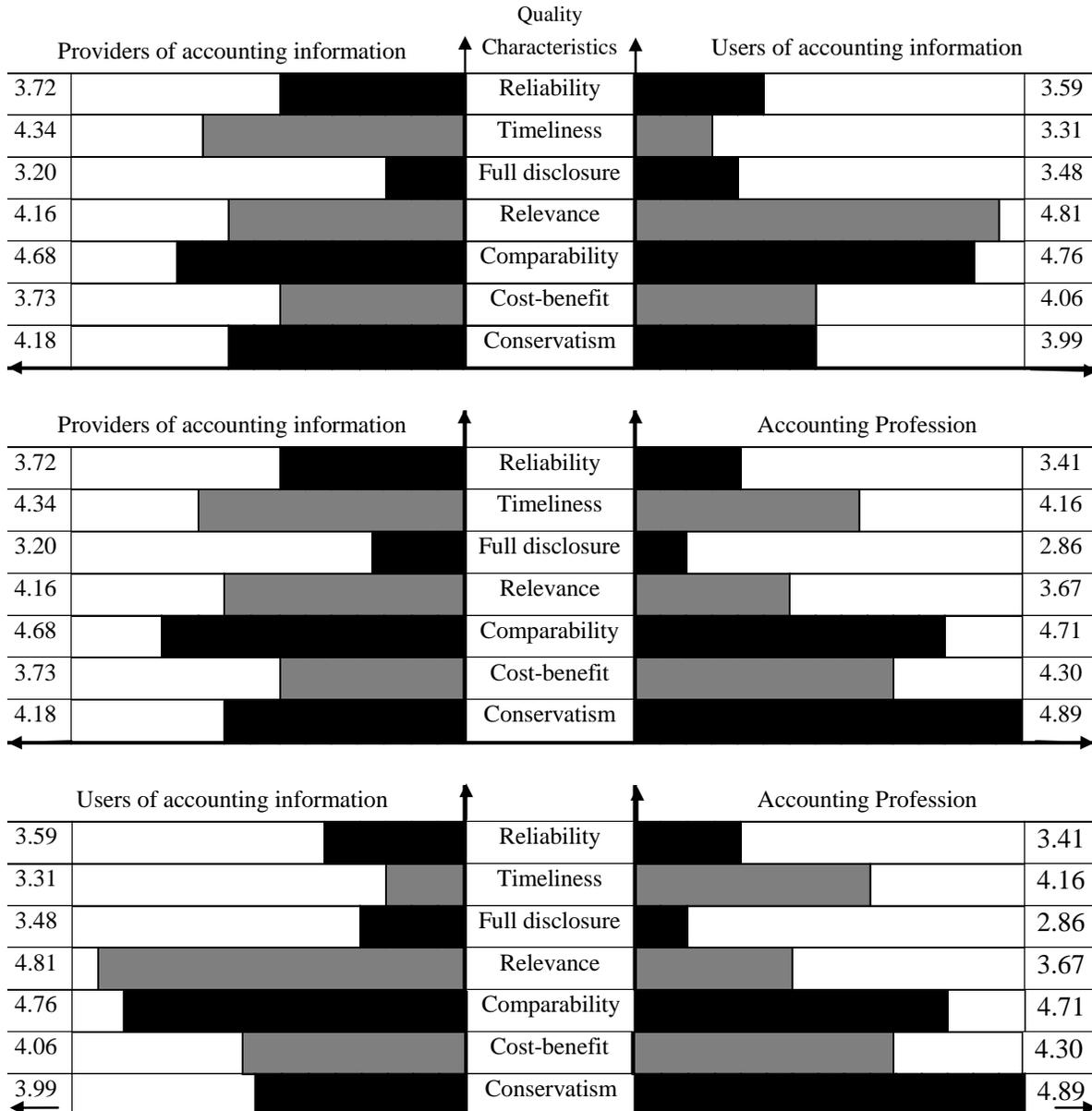


Figure 5. Twin comparison of the viewpoints of three investigated group.

expression of this hypothesis is presented as follows:

$$H_0: \mu_1 = \mu_2 = \mu_3$$

**H<sub>5</sub>:** there is at least a case where its value differs from others

Where H<sub>5</sub> hypothesis claims that there is a meaningful difference in the perceptions of accounting qualitative characteristics preferences of users, preparers and profession members. However,  $\mu_1$ ,  $\mu_2$  and  $\mu_3$  are the median answers of these three groups, respectively. Table 6 summarizes the result of the hypothesis test.

As shown in Table 6, p-value is less than the significant

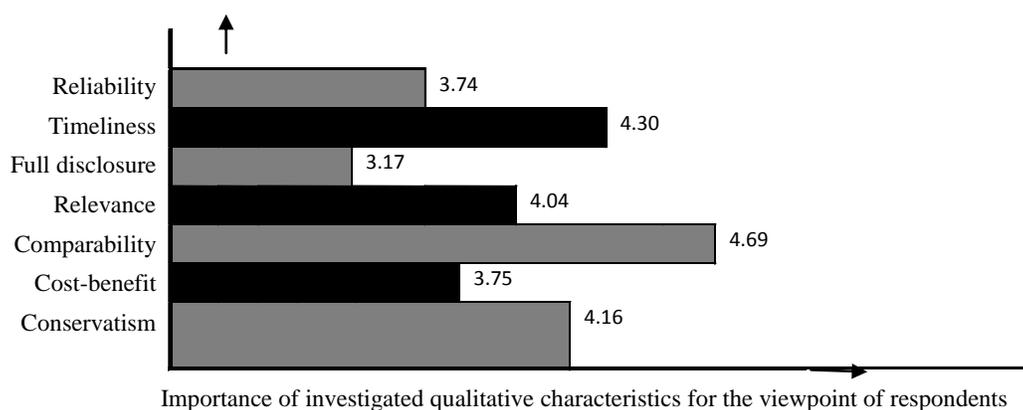
level of  $\alpha$  (p-value = 0.00 <  $\alpha$  = 0.05). So, for this hypothesis, H<sub>0</sub> is rejected and there is at least a case where its mean is different from others and there is a meaningful difference in the three investigated groups' perceptions about accounting qualitative characteristics preferences.

Following the result of the test used to determine the cases or groups that their expectation differs from others, Post Hoc Tests (LSD) are used to examine cases, and their results are summarized in Table 7.

Upon the result of the foregoing test, the preparers' viewpoint of accounting qualitative characteristics preferences that causes production and wide spread of information asymmetry is different from that of the

**Table 5.** Result of Friedman ranking test.

Compared qualitative characteristics	Mean rank	Rank result	P-value	Result of the test
Reliability	3.74	3	0.002	H <sub>0</sub> rejected
Timeliness	4.30	6		
Full disclosure	3.17	1		
Relevance	4.04	4		
Comparability	4.69	7		
Cost-benefit	3.75	2		
Conservatism	4.16	5		

**Figure 6.** Condition of the investigated characteristics from the overall respondents' viewpoint.**Table 6.** The result of the Kruskal-Wallis test for hypothesis 5.

Compared Groups	Mean of the answers	Standard deviation	Mean rank	d.f	Chi-Square	P-value
Providers	2.9851	0.3529	152.71	2	13.022	0.001
Users	2.8220	0.3111	114.32			
Profession members	2.8213	0.2966	115.73			

**Table 7.** Result of the test to determine the group that differs from others.

Compared groups	Providers of accounting information	Users of accounting information	Accounting profession
Providers of accounting information	Mean difference	0.10870	0.14439
	Std. error	-----	0.09007
	Sig.		0.178
Users of accounting information	Mean difference		0.06056
	Std. error	-----	0.10438
	Sig.		0.577
Accounting profession	Mean difference		-----
	Std. error	-----	-----
	Sig.		-----

accounting profession members. Moreover, the auditors are, at least, less satisfied than the preparers with regards to the level of current financial reporting in accordance with qualitative characteristics.

## Conclusion

While the overall finding of most studies, such as Alattar and Al-Khater (2008), shows that the current accounting system plays a critical role in providing useful information for different entitled users, the result of other studies also indicates that investors use legal sources of information, as well as, other informal sources of information. Hence, there is a gap between the legal and actual financial reporting models in Iran. Thus, the legal reporting system is yet to meet the needs of the users (ArabSalehi and Bagherpour, 2009). For handling this troublesome attitude, which is the case of the hypotheses of the current study, we used and focused on the qualitative characteristics of accounting and financial reporting to evaluate and describe information asymmetry areas among three main engaged groups in financial reporting, to include, profession members, users and preparers, in order to strengthen the national conceptual framework.

The results of this survey show that preparers' perception of accounting qualitative characteristics preferences and information asymmetry areas generally differs from that of the accounting profession members, and especially, auditors are less satisfied than the preparers with regards to the current financial reporting in accordance with qualitative characteristics. This finding is in accordance with the past finding of Mirshekary and Saudagaran (2005) in some aspects which they show its weak level of consensus among bank loan officers, tax officers and auditor groups about the importance of several information items. Also, the result of the study reveals that while providers' groups are complaining more of inadequate disclosure, lack of sufficient reliability and less consideration of cost benefit constraint, from the viewpoint of the users, non-consideration of timeliness presentation and lack of adequate disclosure in a reliable manner are the main factors decreasing the quality of financial reporting. However, auditors, as profession members, have other opinions about the lack of adequate disclosure and sufficient reliability. As such, they emphasize on the lack of sufficient relevance as the main difficulty of the current accounting information.

Moreover, this study reveals that all the respondents in the seven compared qualities are satisfied about the condition of having sufficient comparability, timeliness presentation, and having sufficient relevance. In contrast, respondents are complaining more of lack of adequate disclosure, lack of sufficient reliability and less consideration of the cost-benefit constraint in issuing new standards. Thus, from the respondents' viewpoint, the foregoing three cases are the main factors for reducing the level of transparency in the markets, where wide

spread information asymmetry gaps are seen between contributors in the markets. This finding is also in accordance with the past finding of ArabSalehi and Bagherpour (2009). However, they paid attention to other characteristics, such as the inadequate disclosure of non-financial information in financial statements, as factors that cause reduction of market efficiency.

The main limitations of this study arise from two cases. The first is related to the questionnaire itself and the inherent limitation, such as less precision of respondents in filling it, whereas the second one is related to the statistical population and the inhomogeneous condition, where respondents such as stockholders, bank specialists and accountants, use different abilities and accounting knowledge to answer the questions that made the designing of the questionnaire and gathering of the data difficult. However, it does not seem that these limitations have a significant effect on the research finding.

Conversely, while the academic literature is intended foremost to inform the academic community, findings in the academic literature can certainly be relevant to professional bodies as well. Considering the results of this study, information asymmetry is a very important attitude for all the contributors in the markets. Thus, along with the decision to improve the underlined accounting postulates and issue new coherent common conceptual framework, we need to generalize these activities in our country to ensure that financial information is released in a reliable and timely manner. Hence, to enhance the disclosure quality and reduce the information asymmetry, some work need to be done in two distinct areas at the same time. Firstly, it seems that it is necessary to reevaluate the operational objectives and aims of the standard setting bodies, in order to have a periodical oversight on activities of this organization to ensure that they are operating along with their stated goals.

Finally, while the main purpose of establishing the conceptual framework is to aid the standard setting bodies in developing and issuing new standards (in which qualitative characteristic is one of its main part), it seems that in providing and issuing new standards, all the components are not considered equally and are especially more evident in Iran. So, along with the current turn to revise the conceptual framework construction by foremost professional bodies, there is need to reevaluate the component of the national conceptual framework and respond more to accounting rules with its operational environmental change. However, some more works need to be done to handle this problem in the near future, if we want to achieve the high level of financial reporting goal in our country.

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