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Investigating the impact of management ability on companies' corporate opacity: A case study for Tehran Stock Exchange (TSE) from Iran

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Abstract

This article examines the relationship between management ability and the corporate opacity of companies listed on the Tehran Stock Exchange (TSE). This research has been calculated in the statistical sample of 84 companies from the companies admitted to the stock exchange between 2011 and 2022. The Securities and Exchange Organization enters the extracted data into an Excel spreadsheet and then enters the Eviews software for analysis. Due to the combination of data, which consists of time and cross-sectional series, the regression statistical model of panel data or combined data was used, so a regression model was used for each period and each index. Is. The findings show a significant relationship between management ability and corporate opacity among companies admitted to the stock exchange. Firms with lower levels of management capability exhibit weaker governance structures, inadequate financial reporting practices, and limited disclosure of material information. Conversely, companies with higher levels of management capability demonstrate a greater commitment to transparent reporting, stronger governance frameworks, and more advanced disclosure practices.

Keywords: management ability, corporate opacity of companies, Islamic market, Tehran Stock Exchange (TSE), shareholder, governance, financial reporting

1. Introduction

Transparency is a cornerstone of corporate governance and is essential for maintaining trust and confidence in the business world (Janning et al., 2020). It enables stakeholders to assess the performance, risks, and financial position of companies accurately (Bandsuch et al., 2008). However, corporate opacity continues to be a significant issue in many organizations, raising concerns about the reliability of financial information and the overall governance practices employed. Therefore, Transparency is an essential aspect of an efficient and reliable capital market that allows investors to make informed decisions based on accurate and reliable information (Gardi et al., 2021). However, in recent years, there have been concerns about the corporate opacity of companies listed on the Tehran Stock Exchange (TSE). This corporate opacity has led to doubts about the accuracy of financial reporting and raised questions about the governance practices of stock exchange companies. To understand the factors influencing this phenomenon, it is very important to examine the role of management ability in shaping the transparency perspective in TSE.

One critical factor that can significantly impact transparency is management ability. Management ability, including the skills, knowledge, and experience of leading a company, plays a central role in guiding organizational strategies, implementing effective governance mechanisms, and ensuring reliable financial reporting (Fung, 2014). A competent management team is expected to meet high standards of transparency, act in the interests of shareholders, and provide accurate and timely information to stakeholders. Conversely, weak management capabilities may lead to deficiencies in internal controls, inadequate governance structures, and a lack of commitment to transparent practices(Too & Weaver, 2014). A competent management team is expected to meet high standards of transparency, act in the interests of shareholders, and provide accurate and timely information to stakeholders. Conversely, weak management capabilities may lead to deficiencies in internal controls, inadequate governance structures, and a lack of commitment to transparent practices (Wahyuni-TD et al., 2021). The relationship between management ability and transparency is particularly relevant in the context of listed companies. These organizations, operating in the public domain, have a responsibility to provide transparent disclosures to protect the interests of their shareholders and other stakeholders(Islam & Van Staden, 2021). Failure to do so can lead to a loss of investor confidence, regulatory scrutiny, and negative market repercussions.

TSE, as the main platform for capital market activities in Iran, faces unique challenges in promoting transparency. Economic sanctions, geopolitical uncertainties, and regulatory restrictions have made it necessary for listed companies to adopt strict governance practices and maintain the highest standards of transparency. The absence of such procedures can weaken the confidence of investors, disrupt the flow of foreign investment and hinder the growth and development of Iran's economy. Therefore, this paper aims to investigate the relationship between management ability and the corporate opacity shown by companies listed on the TSE. By examining the extent to which manageability affects transparency outcomes, this research seeks to provide valuable insights for policymakers, regulators, and market participants in their efforts to strengthen transparency and corporate governance practices of stock exchange firms. To achieve this goal, the panel data method will be used. This study uses quantitative analysis using financial data and governance indicators. This comprehensive approach enables a deeper understanding of the complex dynamics underlying the corporate opacity in TSEs and illuminates the role of manageability in contributing to this issue.

Addressing this research gap, the findings of this study provide empirical evidence on the impact of management ability on the transparency practices of listed companies. The results will contribute to the existing literature on corporate governance, financial reporting, and capital market transparency in emerging economies, especially in the context of TSE. In addition, the

findings of this study will inform policymakers and market participants in their efforts to strengthen transparency standards, promote sound governance practices, and attract domestic and international investors to Iran's capital market. Finally, increasing transparency in the stock market is vital for strengthening economic growth, improving market efficiency, and investors' confidence in Iran's capital market.
The structure of the rest of this article is as follows: In Section 2, the theoretical foundations and development of research hypotheses are formulated. Section 3 presents the research methods, while Section 4 includes the analysis of the results. Finally, Section 5 provides an overview of these research findings based on conclusions and limitations.

2. Theoretical Foundations and Development of Hypotheses

In recent past, numerous case studies have been developed on the complex behavior of stock markets, including emerging markets with their distinctive characteristics (Pourmansouri and Birau, 2024; Birau and Trivedi, 2015; Trivedi and Birau, 2013; Kumar et al., 2023; Pourmansouri et al., 2024). The stock exchange, as a place for shaping the flow of financing and investment, has a major role in increasing the country's production, and in this way, it is of vital importance in the direction of the country's progress. But the important issue in this context is the correct shaping of this flow by the forces in the market, which depends on the projects with the maximum return being identified by the investors. Decision-making to identify such projects always requires the use of reliable and relevant information for use in decision-making models. For potential and actual capital market investors to make decisions, this information is effective only when it has quality (Vadiei & Shakohizadeh, 2011).
One of the things that affect the transparency of financial reporting in companies is the personal characteristics of CEOs, including their ability and financial knowledge, which overshadows their behavior and type of decisions in the organization (Ghanizadeh et al., 2022; Rahmati Ghourouli et al., 2022). Therefore, management ability can be defined as the efficiency of managers compared to competitors in converting the company's resources into income standards (Demerjian et al., 2013). A capable manager is expected to better understand accounting standards and thus reduce information asymmetry (Iatridis, 2010; Lakhal & Dedaj, 2020; Van Tendeloo & Vanstraelen, 2005). Managers with more inherent ability, due to having a better understanding and analysis of the current and future conditions of their company and industry, have higher quality estimates in relation to accrual items (Mansoorfar & Didar, 2015), which leads to the honest presentation of accounting profits and, as a result, improves Financial reporting becomes transparent (Hajiha, 2023).
Therefore, in accounting literature, management ability is one of the dimensions of the human capital of companies, which is classified as an intangible asset. For example, in her research, Uygur (2018) states that companies with CEOs with high ability are significantly less ambiguous than companies with CEOs with low ability and that lack of corporate transparency further reduces value for companies managed by low-ability CEOs. Low-ability CEOs who hide behind corporate opacity are shunned by the lack of strong corporate governance, which suggests that corporate governance is important for recruiting and retaining talented managers, as well as preventing low-ability CEOs from exploiting them. The corporate opacity of the company is vital (Uygur, 2018). In their research, Demarjian et al. (2013) define management self-efficacy as the efficiency of managers compared to competitors in converting the company's resources into income (Demerjian et al., 2013). These sources of income generation in companies include the price of inventories, administrative and distribution and sales costs, fixed assets, operational rents, research and development costs, and intangible assets of the company. Better management ability leads to more efficient management of the company's daily operations, especially in critical periods of operations when management decisions have a significant impact on operations (Demerjian et al., 2012). Chamner and Paglis (2005) and

Chamner et al. (2009) stated in their research that an economic enterprise with a manager capable has less information asymmetry and investors understand the value of such a company well.
In other words, capable managers can convey the inherent value of the company to investors better by reducing the information asymmetry; therefore, such a company has financial leverage. It reduces itself and turns to increase capital through internal sources during financing (Chemmanur & Paeglis, 2005; Chemmanur et al., 2009). Bashiri Manesh and Mehri Kamroud (2018) investigated the relationship between disclosure quality and management ability, emphasizing conservatism. The findings of their research show that the ability of managers has a positive and significant effect on the quality of information disclosure. Also, conservatism has a negative and significant effect on the quality of information disclosure (Bashiri Menesh & Mehri Kamroud, 2018).The results of Jabarzadeh Kongarloui and Radi(2019) showed that management ability reduces information asymmetry and information uncertainty and increases the score of timely disclosure and reliability. In general, it can be said that there is a direct relationship between management ability and corporate transparency(JabarzadehKongarloui & Radi, 2019).Therefore, according to the topic of the research, the following hypothesis is proposed:
H 1: Management ability affects corporate opacity.

3. Research Methodology

The research results can be used in the decision-making process of financial statement users and managers, this research is practical in terms of purpose. Also, this research is of a descriptive-correlation type. The method used in this research is panel data method with fixed effects and GLS estimation method. The variables of this research are classified into two groups of independent variable and dependent variable. As a result, our statistical population is the companies admitted to the stock exchange that have the following conditions:

I. The fiscal year ends on March 29 of each year.
II. They have not changed their fiscal year during the research period.
III. The information on their financial statements from 2011 to 2022 should be fully available.
IV. Do not belong to investment and financial intermediation companies (banks and leasing).
V. During the research period, the trading of the company's shares has not been stopped in TSE for more than 6 months.

Therefore, 84 companies admitted to TSE were selected as a sample.

3.1. Variables

In this research, managerial ownership and management ability are considered independent variables. Management ownership: the percentage of shares at the disposal of management and managers, as reported in the latest announcement of the company's representative. To measure management ability, the model provided by Demarjian et al. (2013) has been used. Measuring the ability of managers using this model is done in two steps. The first step is to analyze the efficiency of the company using data envelopment analysis (DEA) by considering the cost of goods sold (CGS), administrative, general, and selling expenses (SG&A), tangible fixed assets (PPE), operating rent (OpsLease) and Intan intangible assets are measured as input variables and Sale as output variable. In the second step, it was calculated that the efficiency of companies is affected by two factors: corporate characteristics and managers' ability, so these two factors should be separated from each other. Demarjian's model (2012) and data coverage analysis method are used to measure managers' abilities. In this model, by measuring the efficiency of the company and then entering it in the multiple linear regression as a dependent variable and controlling the inherent characteristics of the company, management ability is calculated. The efficiency of the company is calculated using the Data Envelopment Analysis (DEA) method in each industry. The method used is output oriented and the goal is to maximize the output. The input and output variables of data coverage analysis are as follows:

$$\max_{v}\theta = \frac{\text{Sales}}{v_1\text{COGS} + v_2\text{SG\&}A + v_3\text{NetPPE} + v_4\text{OpsLease} + v_5\text{Intan}} \tag{1}$$

where in:
Sales: Sales revenue
COGS: cost of goods sold in year t
SG&A: General, selling, and administrative expenses in year t
NetPPE: net balance of property, plant, and equipment at the beginning of year t
OpsLease: operational lease cost in year t
Iantan: specific balance of intangible assets at the beginning of year t
In this model, a special coefficient (v) is considered for each of the input variables, because the effect of all input variables on the output (sales) is not the same. The calculated value for the company's efficiency is in the range of 0 to 1. Companies with an efficiency score of one are very efficient companies, and companies whose efficiency score is less than one are below the efficiency limit and must reach the efficiency limit by reducing costs or increasing revenues. The purpose of calculating the company's efficiency is to measure the ability of the management, and since the inherent characteristics of the company are also involved in the calculations related to the efficiency, it is not possible to measure the ability of the management correctly. Because affected by these features, it is calculated more or less than the actual value. Dimerjan et al. (2012) have divided the company's efficiency into two separate parts, i.e. efficiency based on the company's inherent characteristics and management ability, to control the effect of the company's inherent characteristics in their model. They have done this by controlling for five intrinsic firm characteristics (firm size, firm market share, firm cash flow, firm life, foreign sales (exports)). In the following model presented by Dimerjan et al. (2012), these features are controlled:

$$\text{firm efficiency} = \alpha_0 + \alpha_1\text{size} + \alpha_2\text{Market share} + \alpha_3\text{Free cash Indicator} + \alpha_4\text{Age} + \alpha_5\text{Forein Currency Indicator} + \varepsilon \quad (2)$$

size: company size (equal to the natural logarithm of the company's assets)
Market share: the market share of the company (it is equal to the ratio of the company's sales to the sales of the entire industry)
Free cash indicator: If a company has a positive operating cash flow, the number one (1) is assigned, and otherwise, the number zero (0) is assigned.
Age: the age of the company (equal to the natural logarithm of the number of years the company has been listed on the stock exchange)
Foreign Currency Indicator: It is a virtual variable that is assigned equal to one (1) for companies that have exported (sales in foreign currency) and zero (0) otherwise. The rest of the model shows management ability(Demerjian et al., 2012).
the dependent variable is Corporate Opacity: In this study, the Corporate Opacity Index is created for the relative evaluation of the Corporate Opacity of each company. This index is used by using four roughness proxies of different companies, i.e. 1- volume of transactions, 2- expansion of demand, 3- number of participating analysts, and 4- forecasting error of analysts. As in the study of Anderson and colleagues (2009), this index is constructed so that the degree of inflexibility increases as the index of the company increases. Trading volume (dollar volume) is included in the opacity index as a proxy for information uncertainty (Anderson et al., 2009).

1- Volume of transactions: It is calculated as the natural logarithm of the average volume of money per day of each company during the financial year.
2- Expansion of demand (distribution): Using a proxy for information asymmetry, it is calculated by considering the difference between the end-of-year tax and its proposed price and dividing it by the proposed average of the tender prices.
3- The number of participating analysts: Lang and Lundholm (1996) suggest that the number of analysts and forecast error of analysts may be used to measure market monitoring and access to information. I use the natural logarithm of several analysts (Lang & Lundholm, 1996).
4- Analysts' forecasting error: Analysts' forecasting error is calculated by the predicted average as the square between the maximum and the minimum predicted value.
The following variables have been considered as control variables for this research:
Debt Ratio: It is one of the financial ratios, which indicates what ratio of the company's total liabilities (total current liabilities, long-term liabilities) related to its assets (total current assets, fixed assets, and other assets such as goodwill) is called the debt ratio. In simpler language; the Debt ratio is calculated by dividing total liabilities by total assets.
Company performance (Performance t-1): To measure the company's efficiency, Tobin's q is calculated as the ratio of the company's market value to its book value.
firm size: it is equal to the natural logarithm of the total assets of the bank. which shows how many assets a company has.
Growth: The company's growth in total assets.
Risk: Risk is the standard deviation of monthly stock returns for the previous three financial years.
Regression model for the dependent variable of the company's lack of transparency and its estimation results:
Firm opacity $_{it}$= α_0+ α_1(ability)$_{it}$ + α_2(firm size)$_{it}$ + α_3(Growth)$_{it}$ + α_4(*Debt ratio*)$_{it}$ + α_5(*Risk*)$_{it}$ + α_6(*Performance*)$_{it-1}$+ ε_{it} (3)

4. Empirical results

Table 1 shows the descriptive statistics of the research.

Table 1. Descriptive statistics

Variable	Mean	Median	Std.Deviation	Skewness	Kurtosis	Possibility
Corporate opacity	3.42	2.88	3.54	1.70	7.76	0.00
ability	-0.0008	0.006	0.144	2.22	0.26	0.00
Debt Ratio	0.74	1.23	3.45	5.53	8.31	0.00
Performance t-1	2.38	1.46	2.93	3.46	9.24	0.00
firm size	15.140	13.89	1.71	0.805	3.963	0.00
Growth	0.945	1.043	0.653	5.13	11.21	0.00
Risk	0.74	0.61	1.57	5.86	177.08	0.00

Source: Author’s computations

The most important central index in Table 1 is the mean, which indicates the balance point and the center of gravity of the distribution, and is a suitable index to show the centrality of the data. The median is another central index that shows the state of the society. As the results show, the mean of the Corporate opacity variable is equal to 2.88, which indicates that 28% of the data are less than this value and the rest are more than this value. An important point that can be inferred from the comparison of mean and median is the issue of normality of the data.

One of the most important parameters of data dispersion is the standard deviation. An important point that can be deduced from the standard deviation of a variable is to enter the variable in the regression model.

As can be seen in Table 1, the standard deviation of the variables is not zero, so the investigated variables can be included in the model. The degree of asymmetry of abundance curve is called Skewness. If the skewness coefficient is zero, the society is completely symmetrical, and if the coefficient is positive, there is skewness to the right and if it is negative, there is skewness to the left. For example, the Skewness coefficient of the ability variable is equal to 2.22, which means that this variable is skewed to the right and deviates from the center of symmetry by this amount. The degree of kurtosis of the abundance curve compared to the standard curve is called convexity with kurtosis. If the kurtosis is around zero, it means that the abundance curve is balanced and normal in terms of kurtosis. If this value is positive, the curve is prominent and if it is negative, the curve is wide. In this study, the kurtosis of all variables is positive. The results of Unit root test by Hadari method are reported in Table 2. Based on these results, regarding all the variables, the null hypothesis based on the root of unity of the variables or their nondurable ones is rejected at the confidence level of 0.05 and as a result, all the variables are stationarity.

Table 2. Unit root test results

Variables	**The value of the statistic**	**(prob)**	**result**
Corporate opacity	4.36	0.000	stationarity
ability	5.16	0.000	stationarity
Debt Ratio	4.75	0.000	stationarity
Performance t-1	7.33	0.000	stationarity
firm size	5.16	0.000	stationarity
Growth	4.75	0.000	stationarity
Risk	3.16	0.000	stationarity

Source: Author's computations

According to Table 3, the amount of tolerance and variance factor for all independent variables is more than 0.2, and the variance inflation factor is also very close to 1 (it is much less than 4). As a result, the hypothesis of non-existence of collinearity between independent variables is confirmed.

Table 3. Multicollinearity test

Variables	**tolerance**	**variance inflation factor**
Corporate opacity	0.615	1.201
ability	0.589	1.333
Debt Ratio	0.599	1.452
Performance t-1	0.478	1.324
firm size	0.766	1.325
Growth	0.738	1.112
Risk	0.346	1.537

Source: Author's computations

Limer's F statistic is used to choose between panel data and pooled data methods. In this test, the hypothesis H0 indicates the same width of the sources (combined data) and the opposite hypothesis 1H indicates the heterogeneity of the width of the sources (panel data). According to the figures presented for p-value in Table 4, the results of this test for all situations indicate the rejection of the H0 hypothesis and the acceptance of the panel data model:

Table 4. The results of Limer's F test for the dependent and control variables of the research

	statistics	(prob)	result
Limmer's F test statistic	6.54	0.00	panel data

Source: Author's computations

In Panel Data Analysis, the coefficients are fitted in two ways: fixed effects and random effects. In the first model, the width of the regression origin is different for all units (groups), that is:

where Ai takes the value of one for the i-th observation and zero for the other observations. In this equation, there is no general origin width for the equation, but a separate origin width is considered for each cross section. While in the second model, the width from the origin is the same for all units and the error sentence is random for all units, as follows:

Here, the error sentence is made up of two $\beta_o+\varepsilon_{it}$ sentences.

In estimating panel data, there are two models called fixed and random effects. In the first model, fixed effects, there are N unknown but fixed parameters, and in the random effects model, the width is not fixed from the origin, but random and independent of the explanatory variables. If the H0 hypothesis is rejected after performing the Limer's F test, the question arises as to whether the estimation of the model should be done in the form of Fixed Effect Model or Random Effect Model. In order to be able to make a comparison between the Fixed Effect Model and the Random Effect Model in terms of explanatory power of the dependent variable, we use a test called the Hausman test. In the Hausman test, the hypotheses H0 and H1 represent the Random Effect Model method and the Fixed Effect Model method, respectively. If the calculated probability value is less than the 5% error level, the null hypothesis is rejected and the Fixed Effect Model method should be used, otherwise the Random Effect Model method will be used. Since in the current research, the probability value is higher than 5% for all the research models, so the Random Effect Model method was used for estimation.

Table 5. The results of the Hausman test

	statistics	(prob)	result
Hausman test	204.176	0.00	Panel data method with fixed effects

Source: Author's computations

Table 6 shows the regression estimation results of Investigating the impact of management ability on companies' corporate opacity. As can be seen, management ability has a negative and significant effect on companies' corporate opacity. While management ability is often associated with positive outcomes such as transparency and accountability, it is important to acknowledge that there can also be a negative impact on corporate opacity when management abilities are lacking or misaligned. In certain cases, weak management abilities can contribute to increased levels of corporate opacity within companies.

One of the main factors contributing to this negative impact is the lack of effective communication and information dissemination from management to stakeholders. Inadequate communication channels, poor reporting practices, and limited access to information can hinder transparency and create opacity within the organization. When managers fail to prioritize timely and accurate disclosure of information, it can lead to a lack of trust among stakeholders, including investors, employees, and customers. Furthermore, a lack of managerial competence can result in poor governance practices and unethical behavior within companies. Without strong leadership and oversight, managers may engage in fraudulent activities, manipulate financial data, or engage in deceptive practices to conceal information. This not only increases corporate opacity but also exposes the company to legal and reputational risks.

Table 6. Regression estimation results

Variable		Coefficient	Z-Statistic	Prob.
Ability		-0.311	0.612	0.003**
Growth		3.963	5.751	0.000***
Debt ratio		-1.189	-2.28	0.011**
$Size_{i,t}$		0.825	2.05	0.004**
Risk		-0.561	-0.327	0.743
Performance		-0.422	-0.199	0.842
C		-4.46	-3.587	0.000***
McFadden R-squared	0.187	LR statistic	67.56	0.000***

** 5% error level—*** 1% error level. Source: Author's computations.

5. Conclusions

In conclusion, the investigation into the impact of management ability on companies' corporate opacity has shed light on the intricate relationship between managerial competence and the transparency of corporate operations. The findings suggest that strong management abilities are associated with lower levels of corporate opacity, as competent managers prioritize effective communication, ethical practices, and accountability within their organizations. By cultivating a culture of transparency and implementing robust governance mechanisms, companies can enhance their reputational standing, attract investors, and foster long-term sustainable growth. The research highlights the crucial role of leadership in fostering transparency and reducing corporate opacity. Effective managers create a culture of openness, establish clear communication channels, and implement robust governance mechanisms. They understand the importance of accurate and timely information disclosure to shareholders, investors, and other stakeholders. By promoting transparency, managers can enhance the credibility and reputation of their companies, attract investment, and build long-term sustainable growth.

However, it is important to acknowledge the challenges that companies listed on the TSE may face in reducing corporate opacity. The Iranian business environment is subject to unique factors such as regulatory constraints, political influences, and cultural norms. These factors can create hurdles for managers aiming to enhance transparency, as they navigate the complexities of compliance, information disclosure, and external pressures. To address these challenges, policymakers, regulators, and industry stakeholders need to collaborate to establish clear guidelines and standards that promote transparency and reduce opacity. Strengthening regulatory frameworks, improving corporate governance practices, and enhancing the enforcement of regulations are crucial steps in this process. Additionally, providing training and support to managers in navigating these challenges can contribute to the overall transparency of companies listed on the TSE. Overall, the negative impact of management ability on corporate opacity highlights the importance of strong leadership, competent decision-making, effective communication, and ethical practices within organizations. To mitigate these negative effects, companies must invest in developing management capabilities, implementing robust governance mechanisms, and fostering a culture of transparency and accountability. By doing so, companies can minimize opacity, build trust with stakeholders, and enhance their long-term sustainability and success.

In conclusion, the investigation highlights the significant impact of management ability on corporate opacity among companies listed on the TSE. By recognizing the importance of transparency, fostering strong leadership, and addressing the unique challenges of the Iranian business landscape, companies can position themselves as trusted entities, attract investment, and contribute to the overall growth and development of the Iranian economy.

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