QUID 2017, pp. 2283-2290, Special Issue N°1- ISSN: 1692-343X, Medellín-Colombia

INVESTIGATING THE RELATIONSHIP BETWEEN MANAGEMENT CAPABILITY AND VALUE OF GOODWILL IN CORPORATIONS ACCEPTED IN TEHRAN STOCK EXCHANGE

(Recibido el 23-06-2017. Aprobado el 27-08-2017)

Parvin Vakili Ghasrian
Department of Accounting, Sanandaj Branch, Islamic Azad University, Sanandaj, Iran

Peyman Amini
Assistant Professor of Accounting, Department of Accounting, Sanandaj Branch, Islamic Azad University, Sanandaj, Iran

Abstract: One of the human capital, which plays an important role in transforming resources into income and wealth creation for its shareholders, managers of commercial firms. Information related with corporate executives, such as their ability to seize the opportunities of investment, financing, resource allocation, and their knowledge and experience, an important aspect of business and intangible assets are valuable. The information to investors and analysts and users of financial statements with information content are valuable and important. The aim of this study was to investigate the relationship between the management and the value of goodwill in the company is listed on the Tehran Stock Exchange. To fulfil this objective, a formulation of hypotheses and selecting qualified 98 companies, including the companies listed in Tehran Stock Exchange during the five-year period, 2011 to 2015, will be the test. The research findings showed that there is a significant and positive effect between goodwill value and managerial efficiency. This relationship shows that managerial efficiency has significant and positive effect goodwill value. In relation to the control variables, firm size, operating cash flow, profitability and firm age have a significant effect on goodwill value. Also Financial leverage also no significant effect on goodwill.

Keywords: Capacity management, performance management, goodwill value, Tehran Stock Exchange.

Citar, estilo APA: Vakili..P., & Amini, P. (2017). Investigating the Relationship between Management Capability and Value of Goodwill in corporations of accepted in Tehran stock exchange. *Revista QUID (Special Issue)*, 2283-2290.

1. INTRODUCTION

Increasing competition and new economic challenges allowed companies to assemble advanced management systems including management quality capability. Successful management assembling needs more efforts and coherent planning. Quality management is one of the newest management insights which have high capability in enabling companies (Yeung, Edwin & Lai, 2006). Since management ability can increase efficiency and final merit of company, in new economic era based on knowledge, the basic challenges are in relation with merits of knowledge assets and invisible stimulators regardless merits of assets in company and its final merit, because, in terms of accounting standards, more intangible investments cannot state in balance sheet. Today, majority of intangible assets show abilities on an organization which are applied as resource for competitive advantage and economic growth although we are not able to measure assets perfectly but we will find its value on future operational case (Namzi and Ghaffarim 2015).

Synchronization of assets is said assets which are under-recognizable, non-monetary and lacking subjective nature, mean of recognition is that discriminates assets each other and its merit is not dependent on other assets or total commercial unit, right of invention, right of author, goodwill computer software, commercial symbols are samples of intangible assets . Intangible assets are regarded as useful cycle of product and will be depreciated. There is difficulty between fixed assets in commercial unit and income derived from research and development of commercial symbols which are on balance sheet and invisible assets are different from each other and are as personal and separated but more invisible assets are purchased and obtained as group (Salavati and Rahmani Nourozabad, 2014).

2. RESEARCH PROBLEM

The research is about management negative ability pertains to merit of goodwill. Managers with high ability are prevented with reduction of value of goodwill. Last date and time has more value in decision of goodwill. Also, the results show importance shareholders in prevention from value of goodwill and reduction of damages. This study has done to investigate the relationship between Management Capability and Value of Goodwill in the Corporations of Accepted in Tehran Stock Exchange. In present research, it was tried to test ability of management to merit of goodwill in the Corporations of Accepted in Tehran Stock Exchange. After controlling manager' behaviour, regression analysis shows relationship between management ability and merit of goodwill and it was shown that the managers are able to prevent from reduction of goodwill and loss compared with others and we discuss indigenous problems and the additional times.

If accounting accruals have two specifications like pertinent and confidence, it shall be useful in decision and influences on users and company value, the financial statements shall be measured with market value and be under correlation (Rahmani and Arefmanesh, 2015). In current study has tried to investigate the relationship between Management Capability and Value of Goodwill in the Corporations of Accepted in Tehran Stock Exchange. Generally, the question is here does ability and capability of manager can influence on merit of goodwill? It is suitable to make decision by the shareholders and creditors to aware from it and can move manager into debt and inform effective message for investors and creditors.

3. RESEARCH BACKGROUND

Li Sun (2016) in his research discussed relationship between management capability and merit of goodwill. The results showed that better managers can prevent from goodwill damage and regression analysis showed that there is positive relationship between management ability and goodwill damage and scale of losses. Generally, witnesses showed that managers with better ability play vital role in prevention or reduction of damages.

Miyagawa and Hisa (2014) divided invisible assets as computer information, innovation assets and economic capabilities. Computer information consists of software in commercial unit. In order to measure it, we exploit price of purchasing and wages of person who involved manufacturing it. Innovation assets like research and development, mineral exploration, copy right and license right and other development and design expenses. Economic capabilities are brand, human force and organizational structure. In order to measure brand, advertising information has been used. In estimating human capital, cost of education of staff has been used. In order to estimate expenses of organizational structure, 9% of reward and commission of management have been used. Because, according to Robinson and Shimiza (2001), 9% of total working hours spends modification and revision of organizational structure and finally, there are hypothesizes for intangible assets and discussed its relationship with economic growth and exploitation.

Fadour and et al (2014), discussed and determined view of experts in accounting about intangible assets. In their study, 111 experts participated and 55/86% believed that in traditional financial statements, they are not able to determine value of intangible assets and thus, it is resulted to increasing informational

symmetry, more than 80% believed that value of intangible assets can play important role in develop strategy and innovation.

Domitris (2013), in his study discussed manner of information disclosure about elements of intangible assets for companies inserted in Romania stock exchange. The results showed that said companies cannot disclosure information in their financial statements. Domitris stated its reason as difficulty in measuring it.

Fukao and et al (2016), in their research discussed relationship between management capabilities and performance criterion by using coverage analysis in the Corporations of Accepted in Tehran Stock Exchange. The results of hypothesis showed that generally, there is direct and significant relationship between management capabilities as if by increasing manager' capability in using resources and increase company efficiency, company performance and wealth of shareholders increase too.

Rahman and Sobchak (2015) in research discussed a model for valuing intangible assets in the Corporations of Accepted in Tehran Stock Exchange. Thus, firstly, a theoretical matrix extracted in order to identify dimensions of intangible assets and financial indicator for companies and then value of intangible assets for 102 companies was determined by using two models during 5 years since 2010 to 2014 and the most suitable model has been selected. According to findings, model has necessary credit.

Bozorgasl and Salehzadeh (2015) in research discussed relationship between management ability and interest stability by emphasize upon accruals and cash flows in the Corporations of Accepted in Tehran Stock Exchange. The results of research confirmed the relationship between management ability and interest stability and also management ability and Sustainability of accruals and benefit cash flow.

Namazi and Mousavineghad (2015) divided intangible assets as registered intangible assets including right of invention, right of compilation, right of reproduction, goodwill (right of guild union, profession of business), commercial trademarks, franchise, computer wares, use of public services, formulas, models and intangible assets and unregistered intangible assets . In order to calculate unregistered intangible assets, substitute variables are used as economic added value, extra value, value of market than book value and Q-Tubin rate.

Mashayekhi and Bayrami (2015) in research discussed value of intangible assets by using artificial neural networks. The findings indicated special specifications, corporate governance, and structure of ownership and intangible assets.

4. RESEARCH HYPOTHESIS

There is significant relationship between Management Capability and Value of Goodwill in the Corporations of Accepted in Tehran Stock Exchange

4.1. Regression Pattern of Hypothesis

In order to investigate the relationship between Management Capability and Value of Goodwill in the Corporations of Accepted in Tehran Stock Exchange by multiple linear regression model has been used:

In which

Goodwill: company t goodwill in year i

MA: scale of management ability (management efficiency) company i in the end of year t

CFO: operational cash flows company i in the end of year t

ROA: yield of Assets Company i in the end of year t

Age: age of Company i in the end of year t

Size: size of Company i in the end of year t

LEV: financial leverage Company i in year t

$\alpha 0$: fixed coefficient (width to destination)

$\beta 1$ to $\beta 6$: independent and control variables

εit: part of model error Company i in year t

Operational definition and calculation of parts of said model has been stated following:

4.2 Manner of estimation of management ability (independent variable)

In present research, in order to estimate management ability, Damarchian et al (2012) model has been used. In this model, company efficiency is calculated in multivariate linear regression as independent variable and its native specifications has been calculated.

In order to estimate company efficiency, Damarchian et al (2012) used DEA model. The said model is kind of statistical model which is used to measure performance system by input and output.

$$max_{v}\theta = \frac{sales}{v_1 CoGS + v_2 SG\&A + v_3 NetPPE + v_4 OpsLease + v_5 R\&D + v_6 Goodwill + v_7 Intan} \quad (1)$$

In which

CoGS: price of sold commodity Company i in year t

SG&A: public, administrative and sales cost Company i in year t

NetPPE: net balance for assets, machines and equipment in early year t of company i

OpsLease: cost of operational leasing

R&D: research and development

Goodwill: goodwill purchased

Intan: net balance of intangible property Company i in year t

The aim of calculating company efficiency is to estimate management ability and since native specifications of company are involved to calculate efficiency, one cannot measure management ability accurately because it is derived from it.
Damarchian et al (2012) divided efficiency of company as two parts in order to control effect of native specifications. They performed it by controlling 5 native specifications (company size, share of market, cash, age of participated in stock and foreign sales). Each of 5 variables as native specifications can help manager to obtain better decision or perform inverse mode and limit management ability. In following model which was offered by Damarchian et al (2012), 5 specifications were controlled.
Firm Efficiency = α0 + α1 (SIZE) it + α2 (Market Share) it + α3 (Free Cash Flow Indicator) it + α4 (Age) it + α5 (Foreign Currency Indicator) it + εit
In which above model:
SIZE: company size equals to natural logarithm for company assets
Market Share: company market share and equal to rate of sales to total industry
Free Cash Flow Indicator: permanent variable which equals to 1 in the positive mode and equals to 0 in the negative mode.
Foreign currency indicator: permanent variable equals to 1 for exporting companies otherwise 0
εit: scale of management ability
α0: fixed factor (width to destination)
α1 to α5: independent and control variables
Said model shall be evaluated in coverage analysis mode thus, it was not involved in total market.

4.3 Manner of estimation of management ability (independent variable)

$$MV_{i,t} = \alpha + \beta(\mathrm{GW}_{i,t}) \qquad (2)$$

In which
MVi,t: value of company I in year t and is calculated in terms of number and price of shares
GWi, t: number of goodwill reported in financial statement of company I in financial period t.

$$MV_{i,t} = \alpha + \beta(IIA_{i,t}) \qquad (3)$$

IIAI,T: digit of intangible assets in financial statements of company I in financial period t

4.4 Control Variables

- Financial Leverage

Rate of total debt to total assets
This variable is obtained by dividing book value of debt to total value of assets in end of financial year.
Lev: total debt/ total assets

- **Company Size**

This variable is natural logarithm for total assets
This variable equals to natural logarithm of total assets in end of financial year. Company commits total assets for more than year.

Size = Ln (Asset)

- **Age of Company**

Organizations are flexible in early periods and are non-controllable. Control increases and flexibility reduces, when commercial unit is being controlled and flexible, it indicates young advantages.
In this research, in order to measure age, natural logarithm Ln has been used on year (2014).
(Date of establishment of company 2015 Age=Ln.)

- **Yield of Assets**

Yield of assets is calculated from manner of profitability of a company dependent to total assets and is obtained by division interest.
Yield of assets = net interest/ average total assets
ROA= Net Income / Average Total Asset

- **Flow of operational cash**

Following relationship is used to calculate cash.
CFO: CF/TA
In which above relationship:
CF: operational cash
TA: total assets

5. RESEARCH FINDINGS

5.1 Test of Research Hypothesis

There is significant relationship between
Management Capability and Value of Goodwill in the Corporations of Accepted in Tehran Stock Exchange
Before test of hypothesis, we select suitable mode for regression model. Firstly, F limer table is used to select combined model. F limer value is significant 5% smaller than 1 and it is negative for hypothesis.

Table 1. Select combined data against combined data

Kind of Test	Statistical Value	Freedom Degree	Test Statistics
F Limer	3/1386	و 485) (97	0/0029

Because of lacking select combined data against mixed data, Haussmann test has been used to select pattern for fixed effects against random effects. Haussmann value is significant more than 5%, thus, there is not sufficient reason to reject random pattern and random test has been used to test of first hypothesis.

Table 2. Select pattern for fixed effects against random effects

Kind of Test	Qi-square test	Qi – Square Freedom Degree	Test statistics probability
Husman	27/9528	9/4386	0/1047

Regression model of random effects is effective on management for goodwill (0/038) and as for t statistics (0/015), it is significant. This subject shows management efficiency has positive and significant effect on goodwill. In relation with control variables, company size, profitability, operational flow, yield of property and age of company, there is positive and significant relationship and financial leverage has not significant effect on goodwill. Results pertain to F statistics (0/0000) show that generally, model is significant. In order to discuss lacking self-correlation, Dubin-Watson statistic has been used. If its scale is between 1/5 and 2/5, there is no correlation and as for variance, we use White (0/2259) test which no synchronization. Determination coefficient shows percent of changes which will be explained by independent and control variables. In this pattern, determination coefficient is equal to 64% so that independent and control variables explain 64% of changes. As well, results pertain to determination coefficient is shown and hypothesis is confirmed.

Table 3. Regression model for random effects of management efficiency on goodwill

$Goodwill_{it} = \beta 0 + \beta_1 MA_{it} + \beta_2 Lev_{it} + \beta_3 Size_{it} + \beta_4 CFO_{it} + \beta_5 Age_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$			
Variables	Regression coefficient	T value	T statistics
Fixed value	0/282	1/51	0/138
Management efficiency	0/038	3/19	0/015
Financial leverage	0/145	1/61	0/129
Company size	0/049	2/94	0/027
Operational cash	0/055	2/89	0/035
Profitability	0/047	2/97	0/026
Company age	0/018	3/35	0/007
ROI	0/023	2/74	0/011
Determination Coefficient	Modified determination coefficient	F statistics	F value
0/64	0/62	0/0000	/1935 299
Durbin-Watson	1/98	White statistics significant level	0/2259

6. CONCLUSION

According to the results of research hypothesis there is a significant and positive effect between goodwill value and managerial efficiency. This relationship shows that managerial efficiency has significant and positive effect goodwill value. In relation to the control variables, firm size, operating cash flow, profitability and firm age have a significant effect on goodwill value. Also Financial leverage also no significant effect on goodwill. Manner of acceptance of the hypothesis means management efficiency influences upon goodwill and hypothesis is confirmed. The suggestions indicated according to results, there is meaningful relationship between management efficiency and value of goodwill of company. Since efficient managers can identify situations of their economic status more and perform necessary actions, thus wealth of shareholders will be increased. Therefore, it is suggested that since we will recognize goodwill

by increasing role of managers, thus, the managers shall obtain more information. Including the most important tasks are stated. Also, one of the most important and controversy discussion in the field of accounting is goodwill and intangible properties. Regardless definition of goodwill and intangible properties, what is important is to discuss confidence and pertinent values of financial statements. If accounting accruals shall be used in information, they shall be estimated in financial statements.

REFERENCES

Aier, J. K., Comprix, J., Gunlock, M. T., & Lee, D. (2005). The financial expertise of CFOs and accounting restatements. Accounting Horizons, 19(3), 123-135.

Amini, Payman, Zabihi Nahid (2016), Evaluation intangible properties by using panel data model (case study of pharmacy companies of Tehran Stock Exchange). Thesis for MA of Islamic Azad University, Sanandaj Branch

Baik, B., Farber, D. B., & Lee, S. (2011). CEO ability and management earnings forecasts. Contemporary Accounting Research, 28(5), 1645–1668.

Bamber, Linda Smith, John Jiang, and Isabel Yanyan Wang. (2010): "What's my style? The influence of top managers on voluntary corporate financial disclosure." The accounting review 85.4 1131-1162

Bertrand, M., & Schoar, A. (2003). Managing with style: The effect of managers on firm policies. The Quarterly Journal of Economics, 118(4), 1169–1208.

Bozorgasl Mosa, Salehzadeh Bistoum (2015), Relationship between Management ability and interest Stability by emphasize upon accruals and cash in the company is listed on the Tehran Stock Exchange, Accounting Knowledge Magazine, Period 14, no. 58.130-122

Bozorgasl. M & Salehzadeh.R (2015). The Effect of Manager's Overconfidence on Reducing Risk of Stock Price fall: Case of Companies Listed on the Tehran Stock Exchange. Journal of Current Research in Science, (2), 370

Chalmers, K. G., Godfrey, J.M., & Webster, J. C. (2011). Does a goodwill impairment regime better reflect the underlying economic attributes of goodwill? Accounting and Finance, 51, 634–650.

Dai, J., Li, Y., He, K., & Sun, J. (2016). R-fcn: Object detection via region-based fully convolutional networks. In Advances in neural information processing systems (pp. 379-387)

Darrough, M., Guler, L., & Wang, P. (2014). Goodwill impairment losses and CEO compensation. Journal of Accounting, Auditing and Finance, 29(4), 435–463.

Demerjian, P., Lewis-Western, M., & McVay, S. (2015). Earnings smoothing: For good or evil? Working paper. University of Washington.

Domitris, W. (2013). Comparative efficacy and tolerability of 15 antipsychotic drugs in schizophrenia: a multiple-treatments meta-analysis. The Lancet, 382(9896), 951-962.

Fadour A. L., Megarity, C. F., & Timson, D. J. (2014). FAD binding overcomes defects in activity and stability displayed by cancer-associated variants of human NQO1. Biochimica et Biophysica Acta (BBA)-Molecular Basis of Disease, 1842(11), 2163-2173.

Fama, E. F., & French, K. R. (1997). Industry costs of equity. Journal of Financial Economics, 43, 153–193.

Financial Accounting Standards Board (FASB) (2001 The relevance of the value relevance literature for financial accounting standard setting: another view. Journal of accounting and economics, 31(1), 77-104.

Financial Accounting Standards Board (FASB) (2011). Goodwill and other. Accounting standards update no. 350–20. CT: Norwalk.

Francis, B. B., Sun, X., & Wu, Q. (2014). Measurement of the muon reconstruction performance of the ATLAS detector using 2011 and 2012 LHC proton–proton collision data. The European Physical Journal C, 74(11), 3130.

Fukao, K., Ikeuchi, K., Kim, Y., Kwon, H., Makino, T., & Takizawa, M. (2016, May). The structural causes of Japan's lost decades. In Third World KLEMS Conference, Tokyo, Japan, May (pp. 19-20).

Jiraporn, P., Jiraporn, N., Boeprasert, A., & Chang, K. (2014). Does corporate social responsibility improve credit ratings? Evidence from geographic identification. Financial anagement, 43(3), 505–531.

Krishnan, G. V., &Wang, C. (2015). Review of nanotechnology for soil and groundwater remediation: Brazilian perspectives. Water, Air, & Soil Pollution, 226(4), 121

Li, F. (2008). Annual report readability, current earnings, and earnings persistence. Journal of Accounting and Economics, 45, 221–247.

Li, K., & Sloan, R. G. (2015). Has goodwill accounting gone bad? Working paper. University of Toronto.

Mashayekhi, E., &, Bayrami T. U. (2015). Using artificial neural network models in stock market index prediction. Expert Systems with Applications, 38(8), 10389-10397

Miyagawa and Hisa. (2014, May). The structural causes of Japan's lost decades. In Third World KLEMS Conference, Tokyo, Japan, May (pp. 19-20).

Momtazian A and Kazemneghad M. (2016), Discuss Relationship between management Capability and Performance by using coverage analysis in the company is listed on the Tehran Stock Exchange, Accounting empirical researches, year 5, no. 20

Namazi M and Mousaneghad S (2015), Discuss relationship between intangible properties and financial performance in the company is listed on the Tehran Stock Exchange, Accounting and Auditing Knowledge Magazine,No.23.

Namazi, R., &, Mousavineghad M. R. (2015). High Tech Lending: Maintaining Priority in an Intangible World. Banking & Finance Law Review. Volume 14, No. 1 (1998), p. 45-87.

Olante, M. E. (2013). Overpaid acquisitions and goodwill impairment losses—Evidence from the U.S. Advances in Accounting, 29, 243–254.

Rahman, M., Shah, M. N., & Sobchak, C. L. (2015). U.S. Patent No. 7,899,431. Washington, DC: U.S. Patent and Trademark Office.

Rahmani A and Zohreh A (2015), Offer Model for valuing intangible properties in the company is listed on the Tehran Stock Exchange, Quantitative Studies Magazine in management, period 8, No. 26

Ramanna, K., & Watts, R. (2012). Evidence on the use of unverifiable estimates in required goodwill impairment. Review of Accounting Studies, 17(4), 749–780.

Sun, L., & Zhang, J. H. (2016). The impact of goodwill impairment losses on bond credit ratings. Working paper. University of Tulsa.

Xu,W., Anandarajana, A., & Curatolab, A. (2011). The value relevance of goodwill impairment. Research in Accounting Regulation, 23(2), 145–148.

Yaghoubi M, Kashanipour M (2016), Occupational Security and Interest Management , Administrative Management of Mazandaran University, period 6, No. 21, pp 83-104

Yeung, E & Lai. (2016). The relation betweenmanagerial ability and audit fees and going concern opinions. Auditing. Journal of Accounting, Auditing and Finance, 21, 223–265