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The Effect of Economic Policy Uncertainty on the Comparability of Financial Statements: The Moderating Role of Managerial Ability[1]

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Research Paper

INTRODUCTION

Comparability is an important qualitative characteristic of financial statements that increases the usefulness of financial information and helps users identify similarities and differences between two sets of economic phenomena. Weakness in comparability of financial statements obscures the information environment, reduces reporting quality, and increases information asymmetry (Kim, Li, Lu, & Yu, 2016: 1). This condition, in the most optimistic possible case, overshadows the quality of investors' judgment due to the lack of access to a suitable source of information. It will not be possible to avoid this event without fully understanding the factors affecting the comparability of financial statements. At the same time, knowing these factors becomes doubly important when the cause of many weaknesses in the comparability of financial statements is sought only in the accounting profession, while its main origin can be caused by other factors outside the profession (Mahdavi and Sarmadinia, 2017). One of the important and influential factors in the comparability of financial statements is the uncertainty of macroeconomic policy factors. This factor is supported by the theory of fiscal policy uncertainty and the theory of lack of monetary economic policy. Uncertainty of economic policy by affecting the amount and manner of voluntary disclosure, increasing uncertainty in estimating the current value of assets

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registered at historical cost, the tendency to voluntary revaluation of some economic enterprises, etc., can hurt the comparability of financial statements. As stated earlier, the decrease in the comparability of financial statements due to the decrease in the quality of financial reporting will decrease the quality of investors' judgment. In this regard, many researchers have concluded that investors' incorrect judgment and decision-making greatly increase the risk of future lawsuits against the management group of the economic enterprise (Ge, Seybert & Zhang, 2019: 2)., after bearing the losses caused by the investment, the investors will seek answers from the management, so that they may impose a part of the losses caused by their decisions on different people such as the company's management, auditors, supervisors, etc. (Guedhami, Pittman & Saffar, 2014: 1). Therefore, the management inherently has this motivation to reduce the weaknesses of the financial reports of its economic institution to protect itself from the risk of future lawsuits and loss of the labor market to some extent. The degree of effectiveness of the comparability of financial statements from the uncertainty of macroeconomic policy factors is influenced by factors such as the efficiency of the economic unit's management complex. The ability or talent of management is known as an intangible asset that shows the efficiency of a manager compared to other managers in converting business unit resources into income (Demerjian, Lev & McVay, 2013: 465). Ge, Sebert, and Zhang (2019: 5) believe that because increasing management ability reduces opportunistic behaviors and thus increases the efficiency of an economic enterprise, efficient and capable manager's use accounting estimates to choose accounting procedures and methods in the range Determined by accounting standards, they act differently from other managers. Also, since management is responsible for preparing and approving financial statements, choosing alternative accounting methods and making judgments in reaching accounting estimates is part of its powers (Matt Bjornsen and Stallings, 2022: 1). This indicates that the comparability of financial statements can be influenced by managers' decisions (Kim, Kraft & Ryan, 2013: 24). Therefore, it is expected that management ability as a measure of management efficiency can affect the relationship between the uncertainty of economic policies and the comparability of financial statements.

According to the above, the hypotheses of this research are formulated as follows:

The first hypothesis of the research: economic policy uncertainty has a significant effect on the comparability of financial statements.

Second hypothesis: Managerial ability moderates the relation between economic policy uncertainty and comparability of financial statements.

MATERIALS AND METHODS

The statistical population of this research is the companies accepted in the Tehran Stock Exchange. Based on the conditions of the research, the research sample includes 1240 years - of companies in the period from 2013 to 2022.

Considering that to measure the dependent variable (comparability of financial statements) the data of the current years and 3 previous years are needed to calculate the comparability of financial statements, the data of 2010 to 2022 are used.

In this paper, following the study of De Franco et al. (2011), to measure the comparability between two companies i and j, in the first step for each company-year, regression model (3) using time series data (6 months) for two The last four-year period leading to the end of year t is estimated. Also in this research is the uncertainty of the economic policy, which according to the research of Zarra Nezhad and Motamedi (2013), Moghadam and Sezavar (2014), Baghoomian et al. (2016), Salem Dezfuli et al. (2019), Shekarkhah and Ghasedi Dizaji (2016) criteria (inflation rate, interest rate, exchange rate and economic growth) have been used.

RESULTS AND DISCUSSION

Economic policy uncertainty has a negative and significant impact on the comparability of financial statements; as economic policy uncertainty increases, the comparability of financial statements decreases. Additionally, managerial ability positively affects the relationship between economic policy uncertainty and the comparability of financial statements. The ability to manage leads to the attenuation of the negative relationship between economic policy uncertainty and the comparability of financial statements; meaning that if economic policy uncertainty is higher and companies are managed efficiently, the reduction in comparability of financial statements through economic policy uncertainty is neutralized.

CONCLUSION

Comparability of Financial Statements is one of the quality features that will increase the usefulness of financial information; therefore, this feature is important for companies and investors, and its proper use increases the quality of information and secures the interests of investors. But comparability of

financial statements; Like other factors, may be affected by macro political and economic changes; Therefore, in this research, we tried to measure the effect of economic policy uncertainty on the comparability of financial statements, and the results of the test indicate a negative and significant relationship between the uncertainty of economic policy and the comparability of financial statements. In this way, with the increase of economic policy uncertainty, the comparability of financial statements decreases. The results of findings of this research are in line with the research of De Franco et al. (2011: 35), Nagar et al. (2019: 38), and Dhole et al. (2020: 19). The results also indicate that the ability to manage the negative relationship between economic policy uncertainty and comparability of financial statements is diminished. This is because, despite capable managers exhibiting less opportunistic behavior, competent managers, seeking increased beneficiary acceptance, adhere to accounting standards within the prescribed range. This, in turn, enhances the comparability of financial statements. The findings of this hypothesis are in line with the research findings of Dhole et al. (2020: 19) and Lu et al. (2010: 805).

Keywords: Managerial Ability, Economic Policy Uncertainty, Financial Statement Comparability.

JEL Classification: E44, M41.