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ABSTRACT
High quality accruals reduces information asymmetry by providing more information on the value of the firm’s investment projects, thereby reducing adverse selection. Furthermore, high quality accruals mitigates moral hazard problems by facilitating contracting and monitoring. Thus, firms with higher quality accruals have better access to external funds and are less likely to forgo valuable investment projects in order to pay dividends. So in this study, we examine the impact of accruals quality and dividend policy on investment efficiency and decisions. The sample of this study, includes 155 companies listed in the Tehran Stock Exchange during the period 2008-2013 and for processing and testing hypotheses, Generalized Method of Moments (GMM) Method is used. The results show that accruals quality and dividend policy have no significant impact on investment in the companies listed in Tehran stock exchange.

INTRODUCTION

Under neo-classical theory, firms invest until the marginal benefit equals the marginal cost of this investment in order to maximize their values [1]. However, in the Keynesian framework [9], where expected investment will be determined by the preference for growth or for financial security, and in the agency framework [24], which considers information asymmetry problems, firms may deviate from their optimal investment levels and hence suffer from underinvestment (lower investment than expected) or overinvestment (greater investment than expected). In perfect financial markets, all positive net present value projects (NPV) should be financed and carried out. Nevertheless, there is a significant body of literature that contradicts this assumption [2]. Market imperfections, as well as information asymmetries and agency costs can lead to negative NPV projects being carried out (overinvestment) and to the rejecting of positive NPV projects (underinvestment). According to agency theory, both overinvestment and underinvestment can be explained by the existence of asymmetric information among stakeholders. Jensen and Meckling [18], Myers and Myers and Majluf develop a framework for the role of asymmetric information in investment efficiency through information problems, such as moral hazard and adverse selection. With regard to moral hazard, discrepancy of interests between shareholders and a lack of monitoring of managers may lead to management trying to maximize its personal interests by making investments that may not be suitable for shareholders [18], with the consequence of managerial empire building and overinvestment [15]. Under adverse selection, better informed managers may overinvest if they sell overpriced securities and achieve excess funds. To avoid this, suppliers of capital can ration the capital or raise its cost, which will lead to the rejection of some profitable projects due to fund constraints [4] with subsequent underinvestment [12].

The main purpose of this study is investigating the impact of accruals quality and dividend policy on investment efficiency and investment decisions in the companies listed in the Tehran Stock Exchange. Tehran Stock Exchange is considered both as a capital market, including emerging stock exchange in the Middle East.