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Influential Factors in the Trust Relationships Existing Between Financial Analysts and Corporate Managers in Iran

A Thesis Submitted in Fulfillment of the Requirements for the Award of the Degree

Doctor of Philosophy

From

University of Wollongong

By

Mehdi ArabSalehi Nasrabadi

School of Accounting and Finance

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Dedicated to my wife, Badrossadat Amiri, without whose encouragement and support this thesis might never have seen the light of day.

I, Mehdi ArabSalehi, declare that this thesis, submitted in fulfilment of the requirement for the award of Doctor of philosophy, in the Department of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Mehdi ArabSalehi

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Acknowledgments

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Abstract

This research explored the role of trust in the relationship between the financial analysts and corporate managers in Tehran Stock Exchange (TSE) by focusing on two important aspects of the trust relationship. These aspects are key trustworthiness factors and the influential factors to perceive these key factors. Financial analysts use financial reports, which are prepared by corporate managers, in their analysis. In this thesis components of trust are distinguished from each other. These components are antecedent factors to trust, trust, and outcome of trust. Trust is considered as the financial analyst's intention to depend on managers based on their perception of managers' key characteristics including: integrity, benevolence, competence, and predictability. Antecedent factors to trust are psychological and sociological factors that influence the perception of financial analysts about those key characteristics. These antecedent factors include: related factors to: financial reports, management as well as external auditors, rules and regulations, and religion- Islam. The financial analysts' trust in corporate mangers results in their reliance in the provided financial reports. The level of financial analysts' reliance on the financial reports is positively associated with the level of their trust in managers. The theoretical model of trust developed by … is modified to apply in Iranian context. Purposive sampling is used to collect the required data. The primary data is gathered from in-depth interviews with 20 financial analysts in Iran. After that, the pattern coding technique proposed by Miles and Huberman (1994) is applied to summarise and analyse the interview data. The pattern matching technique is then used to compare the results of interviews to the theoretical patterns. The main findings of this research are: 1) trust is important in the relationship between the financial analysts and corporate mangers, 2) the degree of trust that the financial analysts put in the corporate managers is identified by the corporate managers' level of trustworthiness, 3) the key factors of trustworthiness of a corporate manager are integrity, benevolence, competence, and predictability in his/her behaviour, 4) a model of trust relationship which explains how financial analysts build their relationships is suggested, 5) the main reason for financial analysts to build the relationship with corporate managers is to get accurate information about the company, especially inside information. This research contributes to the literature of trust which include: (i) adding trust as an important element in business relationship (ii) providing empirical evidence of the key factors of trustworthiness (iii) providing empirical evidence of the influential factors on the trust relationship between financial analyst and corporate managers (iv) proposing a new model of a trust relationship between the financial analysts and corporate managers. This research has several limitations that limit the findings to be generalised. These include: Firstly, in the selected sample, the relationship between the financial analysts and corporate managers was very specific. This is because: the Iranian financial market, the Iranian financial analysis industry, and the TSE all are in an early stage of development. Secondly, the required data were collected through conducting semi-structured interviews with financial analysts only. It was not possible therefore to directly monitor the actual relationship between financial analysts and corporate managers. As a result of this restriction, the researcher had to accept the statements made by financial analysts and the data analysis had to be limited to the results of these interviews. Thirdly, because the beliefs and attitudes of financial analysts had to be translated from Farsi into English in the process of translation some concepts may not have been conveyed correctly because of the linguistic differences. Fourthly, there is a lack of previous research in this area, especially in the Iranian financial market. The study also suggests some prospective areas for investigation by applying the research proposed model in different business relationships such as the relationship between investors and corporate mangers and relationship between investors and financial analysts. The results of these suggested studies may be helpful to build a general model of trust which would be applied in different business relationships.

Chapter 1. Introduction

1.1. Background

This thesis examines the potential role of trust as a fundamental factor in understanding the formation, continuation and maturing of the commercial relationships that exist between financial analysts, who use corporate reports in advising clients on investment decisions, and the corporate managers responsible for the production of those reports. The investigation is conducted within the emerging economy and maturing financial market of Iran; where religious observance is a pervasive behavioural factor conditioning commercial relationships.

The relationship between financial analysts and corporate managers may be 'at arms length', but this thesis contends that there is a degree of trust which financial analysts are willing to place in corporate managers to report honestly and fairly. Their perceptions of the factors which determine that level of trust are essential to an understanding of the behavioural foundations of these and similar influential commercial relationships where delegation, uncertainty and risk are present.

This introductory chapter introduces the issue to be investigated in this thesis. The dynamics of a trust theory approach to examine the relationship between financial analysts and corporate managers in relation to financial reporting is examined. This includes its significance in corporate governance, the relevance of trust theory in delegated choice situation and the specific research questions under investigation as well as the contribution to be made by the investigation.

The chapter also introduces the role and accountability of corporate managers in corporate financial reporting, and reviews the role of financial analysts in the use of that published financial information. The theoretical foundations of the analysis are introduced in terms of the trust theory and its potential role in the understanding of business relationships that are characterized by uncertainty.

However, the models developed from these principles are, for the most part, within the context of mature financial systems and economies. Their application to emerging economies and financial markets and other cultural contexts is not well understood. So the chapter then explains how a trust model will be selected from these foundations for modification to fit a developing or emerging economy and market context. The contextual details of the Iranian economy that drive that modification are then introduced

The chapter reviews the importance of the financial analyst-corporate manager connection within the corporate reporting and investor action cycle in Iran. The empirical research method and sequence of steps that guide the real world application of the modified model are then given in outline. The progression empirical research approach is then outlined, and the data collection and data analysis methods introduced.

Finally, there is an outline of the intended contributions of the analysis to the literature, the limitations of the research, and explanation of the progression and logic of the steps in the investigation are given.

1.2. Delegated Choice Situations and Trust in Business Relationships

In business relationships in financial markets, delegated choice situations are often characterized by risk in the sense that the agent's behaviour is unobservable by the principal, the agency outcomes are uncertain and neither party can predict or control the behaviour of other participants. Because the participants in such relationships are both vulnerable and inter-dependent, they must be willing to trust each other.

Delegated choice situations represent a pervasive type of business relationship characterized by uncertainty, risk and the need for inter-dependent trust between participants. This thesis focuses on a business relationship that arises from a delegated choice situation that commonly exists between a firm's external shareholders and its managers and directors. Shareholders typically delegate decision-making authority to managers and directors who are trusted to manage the corporate performance in the best interests of the shareholders.

But information asymmetry often prevails in the sense that external stakeholders cannot directly observe corporate performance. So, they must rely, at least to a degree, on financial reports provided by managers to gain information about corporate financial performance and position. Even then, shareholders and potential investors typically rely on the opinions of professional corporate financial analysts for expert information and interpretation of a company's financial reports.

The relationship between financial analysts and corporate managers[1] at this point now becomes significant in terms of the degree of confidence or reliance that financial analysts are willing to place in the managers and directors of individual public companies to report honestly and openly about the firm's financial performance and standing.

Trust theory and associated models may help us to understand the dynamics of such situations by identifying the nature and role of behavioural factors, attitudes and perceptions that may influence the formation, growth and effectiveness of such business relationships (e.g., Mayer and Davis, 1999; Wintoro, 2000; McKnight and Chervany, 2001-2002).

This thesis focuses on the potential role of the trust theory in assisting to identify and understand the factors that contribute to the formation and effectiveness of one particular type of significant business relationship that is characterized by uncertainty _the association between financial analysts and corporate managers in relation to corporate financial reporting. The thesis attempts to isolate and define the major trust factors that may influence or determine the attitude of financial analysts towards corporate managers and their capacity to report honestly about company performance in published corporate reports. In particular, the thesis investigates how those factors are perceived and operate within the specific cultural, religious and economic context of the emerging Iranian economy.

[1] In this thesis the term "manager" refers to Chief Executive Officer (CEO).

A number of high profile corporate collapses in recent years indicate that many corporate managers continue to mislead external stakeholders about company periodic financial performance through inaccurate, misleading or even fraudulent financial information in published corporate financial reports. The production of misleading financial reports by corporate management continues, despite the presence of strict accounting rules, audit provisions and corporate governance requirements that characterize the corporate reporting environment in the major developed economies (Rezaee, 2002; Clarke, Dean and Oliver, 2003; Stolowy and Breton, 2004). There is considerable evidence that misrepresentation of corporate performance in financial reports continues to be a widespread practice even amongst the largest international corporations (DiPiazza and Eccles, 2002; Wu, 2004).

Financial misrepresentation of corporate performance in published financial reports is so pervasive that finding effective methods to counter deficiencies in corporate accountability is a critical issue in the accounting, corporate regulation and corporate governance literature (Zacharias, 2000; Clarke, Dean and Oliver, 2003; Wells, 2005). Current efforts by regulatory bodies and professional associations focus on both strengthening regulation, and tighter administration of current corporate reporting requirements (DiPiazza and Eccles, 2002; Clarke, Dean and Oliver, 2003).

However, less attention has been paid to understanding the behavioural aspects of the contextual markets in which such misrepresentation occurs, e.g., an understanding of the factors that may form the perceptions of financial analysts about the expected accuracy of corporate financial reports. Financial analysts may use corporate financial reports as one source of information for advising clients in their investment decision-making, the factors that determine the degree of trust they are willing to place in corporate managers to report honestly may become a very significant relational factor.

The whole problem of misleading corporate reporting and the impact on external stakeholders is an even worse problem in emerging economies and markets where the accounting and corporate governance regulation and enforcement are often less developed than in mature markets and economies (Johnson, Boone, Breach and Friedman, 2000). An understanding of the behavioural foundations and dynamics under-pinning corporate accountability and honesty assumes particular importance in such situations of regulatory and enforcement deficiency (e.g., see Sharda and Miller, 2001).

The current investigation seeks to contribute to this understanding by examining the perceptions of the Iranian financial analysts about the major trust factors that influence their expectations about, and confidence in, the quality of financial information published in financial reports by corporate managers in the Tehran Stock Exchange (TSE).

The process of producing corporate financial reports is subject to considerable regulatory overview that includes accounting standards and regulations, auditors and corporate governance regulators. But it is a firm's managers and directors who are ultimately responsible and accountable for the content, quality and validity of the information contained in those reports. So, the financial analysts' perception about the trustworthiness of those responsible for reporting accurately becomes a significant issue in relation to corporate financial accountability and honesty.

1.3. The Research Question

The purpose of this study is to investigate the role of trust in building a relationship between the financial analysts and corporate managers in Iran, a developing country, which is in the early stages of development of capital market and a financial services industry. This investigation leads to the main research question:

> Which factors determine the level of trust of financial analysts in corporate managers?

A theoretical model of trust developed by McKnight and Chervany (2001-2002) has been modified here based on the context of research (the Iranian capital market) to identify and investigate the key factors of trustworthiness of corporate managers from the perception of financial analysts. The investigation focuses on two important aspects of a trust relationship; Firstly, the key factors of trustworthy characteristics of the corporate managers, which are required by financial analysts to reduce risks in the relationship (Sheppard, Hartwick and Warshaw, 1988) and secondly, the antecedent factors to trust including personal, social, and cultural factors that influence the perception of a financial analyst about a corporate manager's trustworthiness. Consequently, the main research question is divided into two sub-questions:

1. What are the key factors of trustworthiness of the corporate managers from the perception of the financial analysts in Iran?

2. What are the antecedent factors which influence the perception of financial analysts about the key factors of the Iranian corporate managers' trustworthiness?

1.4. Motivation of This Study

The investment activities of share markets show that shareholders give mandates to corporate managers to manage their companies. Corporate managers provide financial reports to show their performance in the company as well as its financial position. Financial analysts may use financial statements as a base to analysing the performance and financial position of the company to give their recommendations regarding potential investment in the company. Investors rely on financial analysts to make decisions about investment in shares of the companies. However, research has mostly concentrated on the role of managers in corporate reports, the role of financial reports in decision-making and the role of financial analysts in financial markets.

Not much is known about the fundamental factors which determine the building of the relationship between the financial analysts and corporate managers. This thesis argues that trust is important for financial analysts in building a relationship with corporate managers for two reasons. Firstly, financial analysts rely on corporate managers by using the financial statements provided by them as a basis for their analysis. In this situation financial analysts do not have alternative except to trust in the corporate managers who provide the financial reports. Secondly, financial analysts bear risks in their relationship with corporate managers, such as the risk of fraud or errors in the financial statements. In order to reduce the risk, financial analysts need to trust in the integrity, benevolence, and competence of corporate managers (Sheppard, 1998).

Iran as a developing country with emerging economy and the capital market has started to transfer some public areas of economic activities to the private sector. The role of financial analysts has become more important as a result of the implementation of a privatization policy in Iran. For this reason the Iranian capital market has become an interesting case for researchers. Financial analysts as new-comers to the Iranian capital market have a significant role in the investors' decision- making process. There is also no research identifying the trustworthiness factors of corporate managers is Iran.

1.5. Trust and Business Relations

The development and maintenance of effective relationships are vital to the operation of the economy as well as business and financial markets. For example, Shemwell, Cronin and Bullard (1994) state that a long term relationship with a customer reduces business costs in finding a new customer. Trust appears to be a very significant element in the starting, development, and maintaining of effective business relationships between individuals (e.g., Anderson and Narus, 1990; Moorman, Zaltman and Deshpande, 1992; Wray, Palmer and Bejou, 1994; Fram, 1995; Wintoro, 2000).

Moorman, Zaltman and Deshpande (1992) suggest that there are two major benefits of trust. Firstly, by trust in another, the mutual understanding between the parties in the relationship increases, and secondly, the quality of the relationship increases as measured by: increased satisfaction, enhanced loyalty, and reduced conflict. For example, the conducted research by Shemwell, Cronin, and Bullard (1994) shows that trust and commitment are important aspects of a customer service-provider relationship. Wray, Palmer, and Bejou (1994) found that trust and satisfaction are important aspects to increase the quality of a buyer-seller relationship. Anderson and Narus (1990) conducted a research to study a partnership between a distributor and a manufacturing firm. In their study the manufacturing firm claimed that trust is a basis for enhanced satisfaction and reduction of conflict. Chow and Holden (1997) in a study of the purchasing strategy of a buyer found that trust generates the buyer's loyalty. The importance understanding of how trust operates in relationships is essential if we are to effectively assist business in general and financial markets in particular.

The following aspects of trust have been well documented. E.g., according to Mayer, Davis and Schoorman (1995) and Bhattacharya, Devinney and Pillutla (1998) trust becomes a significant factor in relationships characterized by risk and uncertainty. Morgan (1994) argues that trust is central to interpersonal and commercial relationships, because it is crucial wherever risk, uncertainty, or interdependence exist (see also Mayer, Davis and Schoorman, 1995; Mishra, 1996; McKnight and Chervany, 2001-2002). The increasing complexity in transactions makes conditions more uncertain, and consequently the need for trust grows (Mishra, 1996). In such relationships, trust becomes a significant factor in the building and maintenance of a relationship through its effects on the maintenance of harmony, decreasing the degree of uncertainty and enhancing the long term orientation between parties as well as accelerating decision making and reducing transaction costs (Boon and Holmes, 1991; Ganesan, 1994; Shemwell, Cronin and Bullard, 1994; Creed and Miles, 1996). However, trust is required as a basis for a relationship since it provides benefits to both parties (Moorman, Zaltman and Deshpande, 1992; Shemwell, Cronin and Bullard, 1994; Chow and Holden, 1997).

In a business relationship, each party has to trust the other in a situation of uncertainty, as for example, in a relationship between customers and web vendors (McKnight and Chervany, 2001-2002; Yousafzai, Pallister and Foxall, 2003), consumers and service provider (Shemwell, Cronin and Bullard, 1994), and trustees and investment managers (Wintoro, 2000).

In the stock market, financial analysts have to trust managers as the providers of financial reports not knowing whether the financial statements show the real financial state and the results of the firm’s activities. In this risky and uncertain situation trust arises as a relevant factor in the relationship between financial analysts and managers. In this research the trust theory is used as a basic investigative vehicle for improving our understanding of the factors that determine the growth and maintenance of effective business relationships.

This thesis argues that trust may play a crucial role in the quality of the relationship between financial analysts and corporate managers and the degree of reliance that financial analysts are willing to place on the reliability and honesty of individual corporate financial reports. In turn, these relationships may impact heavily on the recommendations made by financial analysts to investors and shareholders about the company, in terms of holding, buying, or selling its shares.

Financial analysts may consider trust as an essential component for building a relationship with corporate managers because the condition of their relationship is risky and uncertain. Firstly, investment in a listed company's shares involves risk about the potential level of returns from that investment including falling share prices and variance of actual returns from the anticipated return. Secondly, financial analysts can only hope that corporate managers will be seriously concerned with the investors' interest because they cannot control the behaviour of corporate managers.

1.6. Review of Trust Models

In the literature, a number of models have been developed to illustrate how trust operates in relationships (e.g., Moorman, Zaltman and Deshpande, 1992; Mayer, Davis and Schoorman, 1995; Doney, Cannon and Mullen, 1998; McKnight, Cummings and Chervany, 1998; McKnight and Chervany, 2001-2002; McKnight, Choudhury and Kacmar, 2002). The type of model developed often depends on the perspective of the researcher and the nature of the issue under investigation. For instance, in research about the role of trust between providers and users of market research, Moorman, Zaltman and Deshpande (1992) used a theoretical model of trust in order to focus on the nexus between trust and the growth of the business relationship. Doney, Cannon and Mullen (1998) developed a model to examine the extent to which cultural norms and values facilitate or inhibit the formation of trust.

When seeking a practical application of a trust theory model to suit an emerging economy, such as Iran, there are three alternatives. Each alternative has advantages and disadvantages. The alternatives are: (i) develop a completely new model, (ii) apply existing models to the new business, financial and cultural context, or (iii) modify of the elements of an existing model to take into account any significant behavioural, cultural and business differences in the new context.

The first alternative is constructing a new model. Advantages of constructing a new model are: (i) can be sure that the model is context specific and that it fits the cultural, social, behavioural and business context for which it is constructed, (ii) avoids the problem of the generalisability across cultural and social contexts.

Disadvantage of constructing a new model is that new models must be built from first principles and the construction is a process that can take an extremely long time.

The second alternative is applying an existing model with no modification. Applying an existing model with no modification involves with some assumptions including: (i) the principles of trust theory, the elements of trust models, the major factors and the interrelationships between major elements of a trust model are equally applicable to different cultural contexts, (ii) any differences between contexts are not sufficient to invalidate the application of an existing model, (iii) a suitable model of trust theory can be chosen from the existing alternative models.

An advantage of applying an existing model with no modification in a new context is that it saves time because it needs a little work in terms of re-working the model to apply in a new context. The disadvantage of applying an exiting model to a new context is that behavioural, social and financial factors and relationships of the emerging markets such as Iran may not be so similar to the mature economies and Western cultural contexts in which models developed. Consequently, these models may not be equally applicable to other cultural and business contexts.

The third alternative is modifying an existing model to apply in a new context. The advantages of this alternative are: (i) quicker than building a new model which will take a long time, (ii) allows for the direct integration of previous work on applying trust theory to business relationships and so benefits from previous work done on defining the elements of a trust model, the main factors of trust and previous work on the inter-relationships between various types of factors.

Disadvantage of modifying a model is that existing models are largely constructed to fit particular social, behavioural and economic contexts. The behavioural, social and relational factors in different business contexts e.g., emerging markets may be so fundamentally different that suitable modification is not possible. As a result, trust models may be context specific not generalisable.

Suitable modification may be so fundamental that it may be quicker to construct new models for specific contexts.

While the construction of context specific models is probably the most appropriate alternative in the long term, such models will take a long time for their construction and maturity. Because the problem of corporate accountability and governance are immediate and very pressing the only viable alternative in the short term, is to attempt suitable modification of existing models.

To date, most operational models of trust theory have been developed in the particular cultural and commercial context of developed countries such as the USA and western European countries. Their application to business relationships is fundamentally conditioned by the cultural and other socio-economic context in which they have been developed. Consequently, these models may need modification to be applied to them in different cultural and socio-economic contexts where highly significant cultural factors may fundamentally change the influence of trust in business relationships in several ways. For example, in many developing economies, religious observance is a highly significant cultural variable that fundamentally conditions the definitions, perceptions, roles and impacts of trust on the development and maintenance of business relationships.

Given the often fundamental differences in socio-economic contexts in which business relationships are formed and carried on, the major purpose of this research is to investigate the possibility of translating a trust theory model across such cultural contexts while still retaining its validity in the new. In particular, this research investigates whether a traditional model can be modified to allow for the dominant influence of religion on trust development in many developing markets, such as Iran.

The aim is to see whether this modified model of trust theory can still be used to increase our understanding of the nature, perception and operation of trust in business relationships in a context where religion is a dominant influence.

1.7. Foundations of Trust Theory in Practice

There has been a general lack of agreement on the definition of trust among scholars for two reasons. Firstly, it has been investigated from different perspectives and each discipline has applied its own lens and approach to define it. To solve this problem, Lewicki and Bunker (1995; 1996) suggested a categorization based on how trust is viewed: (i) as an individual characteristic that focuses on personality or dispositional perspectives on trust, (ii) as an institutional phenomenon that focuses on sociological and economic perspectives, or (iii), a characteristic of interpersonal transactions that focuses on development and dynamics of interpersonal and group level trust from a psychological perspective (social psychologists' perspective). Secondly, the differentiations among factors which constitute trust, trust, and outcomes of trust, have not been made clear in its definition.

Because of these differences, McKnight and Chervany (2001-2002) try to create a clear definition of trust to achieve general agreement, for two reasons: firstly they classify and evaluate findings across the studies, and secondly to improve communication between researchers to provide better solutions. They divide the previous trust definitions into two large groups: (i) different conceptual types, such as attitudes, and beliefs, and (ii) reflecting different referents such as trust in something, trust in someone, or trust in a specific characteristic of someone (e.g., honesty).

In terms of specific characteristics, 16 categories of trust-related characteristics are categorized into four: competence, benevolence, integrity, and predictability (Table 4-1). This is then formulated into an interdisciplinary model of trust types based on the result of their research (Figure 4-2). In this model the components of trust are distinguished from each other. These include: antecedent factors to trust, trust, and outcomes of trust.

They also define trust as "to willingly become vulnerable to the trustee, whether another person, an institution, or people generally, having taken into consideration the characteristics of the trustee" (McKnight and Chervany, 2001-2002, p.42). In fact, they looked at trust as beliefs of a person in the trustee's characteristics (competence, benevolence, integrity, and predictability) and his/her willingness to depend on the trustee. Antecedent factors to trust here are all influential factors, which impact on the perception of a person about trustee's trustworthiness characteristics including personal factors, such as, the reputation of trustee and environmental factors, such as rules and regulations.

The developed model by McKnight and Chervany (2001-2002) is the one chosen to be modified and apply in this research for a number of reasons. Firstly, it classifies and evaluates findings across studies. This classification facilitates meta-analyses of trust research because it clarifies the complexity of trust by specifying categories for most existing meanings of trust. Secondly, the model helps address conceptual confusion by representing trust as a coherent, defined set of concepts and subconstructs. These constructs are also clarified by explaining how they are related to one another. Thirdly, it is an interdisciplinary model, which includes personal, institutional, and interpersonal concepts. Fourthly, the model was developed to apply in a business relationship (e-commerce customer relationship). In this relationship one group provides the goods and services and another group uses the goods and services in an uncertain situation. This is similar to the relationship between financial analysts and corporate managers.

1.8. Main Components of the Modified Trust Model

This model classifies components of trust into three parts: antecedent factors to trust, trust, and outcome of trust. This thesis examines two of these components: antecedent factors to trust and trust.

1.8.1. Trust

Trust is defined here as a financial analyst's willingness to become vulnerable to the corporate manager, whether this is another person or an institution after taking into consideration has the desired characteristics (adapted from McKnight and Chervany, 2001-2002, p.42). According to the definition, trust is financial analysts' willingness to depend on managers because they believe that managers are honest, benevolent, predictable in their behaviour, and able to pass financial analysts' expectations while they are not sure (risk taking in their relationship). In other words, trust is financial analysts' beliefs about four characteristics of managers and then their willingness to depend on managers.

Integrity here is defined as the financial analyst's perception that the manager adheres to a set of principles that the financial analyst finds acceptable (adopted from Mayer, Davis and Schoorman, 1995, p.719).

Benevolence here is defined as the financial analyst's belief that the managers care about investors and are motivated to act in the investors' interest (adopted from McKnight and Chervany, 2001-2002, p.49).

Competence here is defined as a group of skills, abilities, and characteristics that enable a manager to have influence within some specific domain (adopted from Mayer, Davis and Schoorman, 1995, p.717).

Predictability here is defined as the probability with which financial analysts assess that managers will act in a certain way (adopted from Lane and Bachmann, 1998, p.66).

1.8.2. Antecedent Factors to Trust

Based on the definition of trust and the model (Figure 4-2) all personal and sociological factors including culture are antecedent factors to trust. Antecedent factors are influential factors on the perception of financial analysts about corporate managers' trustworthiness characteristics (integrity, benevolence, competence, and predictability), and consequently on their willingness to depend on managers. According to the literature about trust the antecedent factors include disposition to trust (personal factors), and institutional based trust (sociological factors). In this thesis particular cultural factor of Islamic beliefs is considered as a part of both personal and sociological factors of trust.

A disposition to trust refers to a financial analyst's tendency to be willing to depend on corporate managers (McKnight, Cummings and Chervany, 1998). There are two types of disposition to trust: faith in humanity and a trusting stance which affects trusting intention in different ways (McKnight, Cummings and Chervany, 1998).

Faith in humanity means that a financial analyst believes that corporate managers are, in general, well meaning and reliable (Wrightsman, 1991). A trusting stance means that a financial analyst believes that, regardless of whether corporate managers are reliable or not, he/she will obtain better interpersonal outcomes by acting as if they are well-meaning and reliable (McKnight, Cummings and Chervany, 1998). This happens when financial analysts do not have enough information about a situation (Wrightsman, 1991).

Institution-based trust means that financial analysts believe impersonal structures support their chance to be successful in a certain situation (McKnight, Cummings and Chervany, 1998).

Situational normality and structural assurances are two types of institution-based trust. Situational normality is the financial analyst's belief that success is likely because the situation is normal (McKnight, Cummings and Chervany, 1998). It has its roots in the beliefs that if appear to be normal, predictable or that every thing seems to be suitably organized, and in an appropriately structured setting that it is likely to be a successful and easy interaction (McKnight, Cummings and Chervany, 1998).

Structural assurances are the financial analysts' beliefs that success is likely because such contextual conditions as promises, contracts, regulations, rules and accounting standards are in place (McKnight, Cummings and Chervany, 1998). This comes from a sociological belief and relates to these trusting beliefs about unfamiliar managers because, a financial analyst judges an unknown manager based on general feelings about the manager's environment (McKnight, Cummings and Chervany, 1998).

Islamic beliefs affect both dispositional-based trust (faith in humanity and trusting stance) because it has ethical principles and beliefs in its tenet, and it also influences institutional based trust because it has rules for observance. Islamic government is responsible for providing a suitable environment for implementation of Islamic rules in the society.

This thesis investigates the patterns of trust model on which the Iranian financial analysts' trust in corporate managers is built and influential factors on their perception of the managers including personal, sociological, and cultural factors.

1.9. Corporate Governance in Iran

Commercial law and its regulation are in early stage of development and implementation in Iran. This includes national accounting and auditing standards.

However, there are some similarities in corporate governance between Iran and developed countries in terms of commercial laws and regulations, accounting standards as well as technical aspects of accounting and financial reporting. According to the Iranian Commercial Code, TSE lists Public Joint Stock Company whose capital is divided into shares. The Ordinary Annual General Meeting can make any decision about the company's activities such as, approving financial and audit reports, dividends, appoint a Board of Directors and auditors. In addition to the Commercial Code, the TSE rules and regulations govern the activities of its listed companies, especially in regard to financial reporting (e.g. Davani, 2004).

There are also some differences between Iran and developed countries in relation Government laws and regulations. Firstly, the investors and creditors are legally less protected in Iran. This problem is related to the fact that the existing laws/regulations are not strictly implemented. Further, to the best of the author's knowledge there has not been any lawsuits against managers who have provided misleading information.

Secondly, many companies listed on the TSE are dominated by large shareholders, particularly the government. With concentrated ownership, agency risks may arise between large and minority shareholders (Shilifer and Vishny, 1997; Fan and Wong, 2002) if large shareholders are able to influence management decisions to their advantage (Lemmon and Lins, 2003). In the TSE context as an emerging market, where there is less legal protection and fewer corporate governance mechanisms, such as dispersed ownership structures and high-quality disclosure requirements to protect minority shareholders interests, conflict of interests between large and minority shareholders may be the main reason for earnings management rather than conflict of interests between shareholders and self-interested managers as it is considered in agency theory literature (e.g., Jensen and Meckling, 1976). Leuza, Nandab and Wysockic (2003) in examining the systematic differences in earnings management across 31 countries found that there is a negative association between the quality of legal minority protections and earnings management. In addition, Liu and Lu's (2003) findings suggest that the conflicts of interests between controlling shareholders and outside investors are the main incentives for earnings management in China's listed companies. Given that nearly all TSE listed companies have large shareholders this type of conflicts of interest between large and minority shareholders may give more incentive and possibility for earnings management. Therefore, earnings management may exist nearly in all of TSE listed companies.

It can be seen from Table 1-1 that TSE listed companies were dominated by large shareholders during the period 1996-2003. In 1996, the average public sector ownership percentage across all TSE listed companies is 36.42% falling to 26.41% by 2003. The average ownership percentage of a single large shareholder across all TSE listed companies is 31.15% in 1996 while it increases to 34.60% in 2003.

Table 1-1: Percentage of ownership owned by Large shareholders in TSE

Please see print copy for Table 1.1

Thirdly, in TSE listed companies the conventional corporate governance mechanisms such as board of directors may not be strong enough to ease the conflicts of interests in the companies against the influence/control of large shareholders.

Fourthly, the existence and the influence/control of the large shareholders in TSE listed companies may also affect auditor independence and finally the audit quality. They may put pressure on auditors or even threaten them resulting in auditor changing their findings to comply with the interests. The emerging privatisation of auditing in the TSE may only provide greater opportunities and incentives to the large shareholders in the company to gain their own aims.

All of this implies that the financial information provided by companies may not have the necessary qualitative characteristics. Therefore, investors will search for other reliable sources of information i.e., financial analysts. As a result, the role of the financial analysts in Iran may be more important than in developed countries.

1.10. Iranian Financial Analysts

The Iranian financial analysis industry is in its early stages of its development, in terms of the existence of any formal association of members, the qualified number of financial analysts, and regulations in relation to their services and responsibilities. There is also a lack of research in this area.

However, the activities and the role of Iranian financial analysts have some similarities to what is carried out in developed countries. For example, they use past, current as well as the future prediction of the company for analysing (Chung and Jo, 1996). They play a monitoring role in assisting to control managers' activities as well as the mediator between company and investors (Chung and Jo, 1996). They are able to increase the information about a company for investors. This information about company performance can influence share prices (Asquith, Mikhail and Au, 2002). Analysts also have a role in the efficiency of capital markets in two ways. Firstly, by reducing agency costs related to separation of management and control (Chung and Jo, 1996) and secondly, by providing necessary information to investors as a link between public corporations and investors (Moyer, Chatfield and Sisneros, 1989).

There are also some differences. The Iranian financial analysts are new-comers to the TSE and do not have any formal association. There is no rule regarding the activities and responsibility of financial analysts in Iran. Cultural factors may also affect their method of work and their relationships. The types of relationships which have been common practice in Iran for many years may affect the financial analysts' recommendations (Sharda and Miller, 2001). For example, in Iran the friendship is an important factor in identifying the type and amount of work given to individual (Cook-Johnson, 1980). This may affect the relationship between the financial analysts and their clients. However, there has been no conducted research about the Iranian financial analysts it is possible to speculate on possible problems and their solutions.

1.11. Rules and Regulations in the Iranian Business Relationship

After the revolution in 1979, Islamic beliefs became more effective in business relationships in Iran. Since that time the Iranian economy has been subjected to a number of internal and external upheavals, disruptions and shocks such as eight-year war with Iraq, and the ongoing economic and financial embargoes by the United States (Amirahmadi, 1990; Pesaran, 1995). As a result, the regulatory and cultural environment in which the Iranian companies operate have been affected. This includes the TSE rules and regulations and the accounting and auditing profession.

The TSE started its operation in April 1967 but is still in the early stages of its development in terms of the rules and legislation, the number of firms, lack of shareholders and creditors protection laws as well as the level of using modern technology. However, it has some similarities with developed markets such as the London Stock Exchange, in terms of corporate governance rules and regulations, the Iranian financial education system, and financial reporting process (see chapter 3).

On the other hand, there are some differences between the Iranian and developed countries capital markets. These relate to the nature of emerging markets that usually suffer from a lack of shareholder and creditor protection (Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998), lower level of market efficiency (Walczak, 1999; Fan and Wong, 2005), lack of implementation of the existing rules and legislations (Gomes, 2000), and cultural factors such as religion, which may influence the relationships between financial analysts and corporate managers. For example, Islam may strongly influence the businesses relationships in Iran as a country where majority Muslim (99%) (e.g., Ahmad, 1980; Shaari, Russell and Frank, 1993; Malley, 2004).

1.12. Islamic Principles and Business Relationship

Islam has principles and rules for all aspects of life including business relationships such as the belief that the absolute owner of every thing is God, life is a test, social justice, and the rule of "*LaZarar Wa La Zirar"* (no harm to self or others).

The nature of the principle of ownership in Islam differs from capitalism and socialism. According to Islamic beliefs God has created and perfected the whole world and then delegated man over his other creatures as his trustees. Man as a trustee of God has obligations in acquisition and using property.

According to Islamic beliefs, human life consists of two parts: worldly or a temporary life, and the permanent which is the one after death. Worldly life is preparation one for the permanent life. As cited in the Quran "That man can have nothing but what he strives for (53: 39)". As a result, man is accountable to God for his actions.

Islamic beliefs include social justice. In economic terms this includes wealth distribution. Economics is considered to be related to ethics and, in turn, ethics is related to religion (Taheri, 2005) . Consequently, according to Islam profit in business activity is considered as a secondary way to measure efficiency.

According to Islamic rule of "***La Zarar Wa La Zirar"*** Muslims are not allowed to harm themselves or others by any action including business activities.

Moreover, according to Islamic beliefs it is the responsibility of the government to provide a suitable environment for the implementation of Islamic rules in society (Motahhari, 1991).

1.13. The Relationship between the Factors in the Iranian Context and Trust Theory

It has already been discussed (p.19) that when the financial analysts believe that the corporate mangers possess the four trustworthiness characteristics (integrity, benevolence, competence, and predictability) then they are willing to depend them. There are some other factors which impact on the financial analysts' perception about the managers' trustworthiness. These are the personal factors such as the reputation of managers and institutional factors such as quality of appearance of the financial statements. In addition, rules and regulations such as the TSE rules and regulations and the Iranian Commercial Code are considered as structural assurances. These are antecedent factors to trust.

Islam is another influential factor in the financial analysts' perception of corporate managers' trustworthiness characteristics and their willingness to depend on managers.

Muslims, as the believers in the principle of "God is the owner" see themselves as trustees of God's property and are expected to share God's wealth with others by limiting their own enjoyment (Zarqa, 1980). Translating this tenet to business relationship between financial analysts and corporate managers, the rule God is the owner affects the perception of financial analysts about managers' trustworthiness characteristics such as benevolence. In fact, this belief reduces the risk of association.

Another Muslim tenet “life is a test” is a reason for believing that if observed practicing Muslims are honest, benevolent, and predictable. For financial analysts this results in trusting corporate managers. The risk of fraud, acting in self-interesting, or vacillating of behaviour decreases.

Social justice in Islamic terms comes from ethical behaviour and it results in benevolence and integrity of corporate managers (Shaari, Russell and Frank, 1993). Muslims who believe in the rule *LaZarar Wa La Zirar* will not involve in any action which harms themselves or others.

Religious concepts are additional reasons for believing that corporate managers are benevolent, honest, and competent. A further tenet enjoins practicing Muslims to only attempt to fill those jobs about which they have enough knowledge and ability. Consequently, the risk of lack of competence, benevolence, and integrity lessens. The level of trust increases. The Islamic government, provision of a suitable environment for the implementation of Islamic rules in the society increases the trust and reduces the risk of relationships even more.

All of these Islamic religious beliefs positively affect the perception of financial analysts about corporate managers’ trustworthiness characteristics as well as their willingness to depend on them.

1.14. Patterns of Components of Trust Model in the Iranian Context

In this thesis, trust is considered as the financial analysts beliefs about four managers' trustworthiness characteristics (integrity, benevolence, competence, and predictability) and their willingness to depend on managers. To make the model practical some patterns are considered for dispositional and institutional based trust.

The reputation of managers is considered as the pattern of personal factors for the purposes of examination of the model. Because there is some risk in the relationship between financial analysts and managers, in order to reduce it, financial analysts try to consider managers' reputation.

As a result, in this research consistent with McKnight, Cummings and Chervany (1998) the appearance quality of the financial reports (classification and the quality of printing) is considered as the pattern for situation normality belief in the relationship between financial analysts and corporate managers.

In the area of this research structural assurances are general rules, the Iranian Commercial Code, accounting and auditing standards, and the TSE's rules and regulations.

As can be seen Islam has both personal and social dimensions but it is difficult to distinguish whether Islam is a part of personal characteristics such as ethics or part of social contracts, rules, and legislations or an influential factor in personal and sociological aspects of trust especially in practice. Therefore, for the aim of this research, which is examination the model, Islam is considered as a part of dispositional as well as part of situational based trust.

1.15. Selecting Case of Research

An investigation of relationship between the Iranian financial analysts and corporate managers is selected for research. This relationship is the results of the financial analysts' intention of using corporate reports, and the responsibility as well as the ability of managers to provide the accurate corporate reports.

Iran is a developing country with emerging economy and the capital market, which has started to transfer some public areas of economic activities to the private sector. This means that the number of private investors in the TSE has increased. This development of the stock exchange is an important factor in business investment decisions.

Financial analysts were chosen as subjects for this research because investors may rely on analysts to help them decide the risk of their investment and choose where to invest, instead of researching companies for potential investment themselves. Therefore, financial analysts play a key role in any capital market. They serve as mediators who gather, interpret, and analysis financial data to make recommendations about the quality of shares of a company. In summary, financial analysts were chosen as subjects for this research because of: (i) their reliance on accounting information in investment analysis, (ii) their important role in economic resource allocation, (iii) shareholders' reliance on financial analysts as experts who can provide a technical analysis, (iv) financial analysts role in increasing efficiency of the capital market, (v) regulators and standard setters use financial analysts' recommendations, (vi) Availability of this group, (vii) time limitation for collecting data.

1.16. The Research Method

Qualitative research method is used to investigate the relationships between the Iranian financial analysts and corporate managers because of stage of development of knowledge in the Iranian financial market which is in the early stage of development (Cavana, Sekaran and Delahaye, 2001).

Survey is used as the research strategy because of type of research questions which are what and how much, lack of researcher's control over events, focus on current events on financial market (Yin, 2003). Purposive sampling is used because in this way the researcher can focus on those groups of financial analysts who will provide important and related information for research and allows the researcher to focus on different cases to clarify the research question at hand (Dane, 1990; Denscombe, 2003). The necessary data is collected by conducting interview for two reasons. Firstly, the interview is the most common method in data collection in qualitative and business research (Cavana, Sekaran and Delahaye, 2001). Secondly, the researcher is interested in knowing people's beliefs, attitudes, values, knowledge, and other mental contents (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976; Gorden, 1980). Semi-structured interview is used for data collection because it allows the researcher to collect detailed perceptions from the interviewees about a particular topic or question. The researcher can also follow up the interesting topics, which have emerged during the interview by asking further questions (Smith, 1995).

1.17. The Contribution of This Study

Several contributions are expected by conducting this research. The first contribution of this study is expected to add additional variables of perceived trustworthiness of the model developed by McKnight and Chervany (2001-2002) in terms of trusting beliefs.

The second contribution of this study is expected to identify the patterns for antecedent factors which influence on the managers' trustworthiness characteristics from the perception of financial analysts.

The third contribution of this study is expected to be confirmation that the relationship between the Iranian financial analysts and corporate managers can provide (i) empirical evidence of trustworthiness characteristics of a person as proposed by McKnight and Chervany (2001-2002) in their model, (ii) empirical evidence of the influential factors on the perception of financial analysts about managers trustworthiness characteristics as proposed by McKnight and Chervany (2001-2002) in their model.

The fourth contribution of this study is to modify a trust model suggested by McKnight and Chervany (2001-2002) by considering the impact of Islam as a powerful influential factor in business relationship in an Islamic country-Iran. This is expected to provide a model which includes the impact of Islam as a powerful influential factor in the business relationships in an Islamic country-Iran in addition to the factors that were considered by McKnight and Chervany (2001-2002) in their model.

The fifth contribution of this study is expected to provide the useful information for evaluating the degree of validity of the developed trust models in western countries, in a developing country with emerging economy. In fact, this study is an empirical examination of a developed model in the western culture in a non-western culture. This examination will reveal weather this model is applicable in a non-western context or not.

The sixth contribution of this study is expected to provide useful information for regulators who issue regulations for the relationships between the TSE participants[2], users of financial reports to evaluate the degree of trustworthiness of a corporate manager.

1.18. The Limitations of This Study

The limitations of this research are related to the Iranian case study and data collection methods. First, in the selected sample, the relationship between the financial analysts and corporate managers is very specific. This is because; firstly the Iranian financial market, the Iranian financial analysis industry, and the TSE all are in an early stage of development. Therefore, the findings of this research are limited to be generalized. Second, the required data is collected through the conducting semi-

[2] TSE participants are all groups who involve in TSE listed companies activities such as investors, brokers, financial analysts, corporate managers, creditors and banks, auditors, TSE staff.

structure interviews with financial analysts. The researcher was not able to monitor the actual relationship between financial analysts and corporate managers. Therefore, the researcher has to accept the statement made by financial analysts and the data analysis has to be limited to the results of the interviews. The third limitation is translation the beliefs and attitudes of financial analysts from Farsi to English. In the process of translation some concepts may not be conveyed properly because of linguistic differences. The fourth limitation is lack of previous research in this area especially in the Iranian financial market.

1.19. The Structure of This Thesis

This thesis consists of seven chapters.

Chapter 1: introduction

This chapter introduces the issue to be investigated in this thesis. The significance of trust theory in corporate governance, its relevance in delegated choice situation and the specific research questions under investigation are discussed.

The chapter also introduces the role and accountability of corporate managers in corporate financial reporting, and reviews the role of financial analysts in the use of that published financial information. The empirical research method and sequence of steps and the progression empirical research approach, and the data collection and data analysis methods are outlined. Finally, there is an outline of the intended contributions of the analysis to the literature, the limitations of the research, and explanation of the progression and logic of the steps in the investigation are given.

Chapter 2: A brief review of the Iranian Context

This chapter discusses the role of financial reports and financial analysts in the capital market. The need for the financial reports, the necessary qualitative characteristics of the financial information and the factors that may impair them are discussed. The role of the financial analysts as the intermediator between investors and corporate managers also forms part of discussion. The similarities of the Iranian financial reporting system to western countries and the gap between actual and accepted financial reporting models in the TSE are also discussed.

Chapter 3: The role of financial reports and financial analysts in the capital market

This chapter provides an introduction to the context of the Iranian financial market. This consists of a brief history of the Iranian economy and a short discussion of the legislation and other factors which influence the Tehran Stock Exchange (TSE).

In this chapter the environment in which Iranian managers and financial analysts operate has been discussed. The history of the TSE, the structure of listed companies, rules and regulations relating to the TSE and listed companies, and some Islamic principles as a particular cultural factor which affects business relationships were also included in the discussion for their influence on business relationships in Iran.

Chapter 4: Theoretical Framework

This chapter reviews the main characteristic as well as the main categories of trust in the literature. Aspects of the trust theory and its operation that are thought essential for this research are reviewed by examining the nature, definitions, and perceptions of trust found in the literature. A categorization of different perspectives of trust is included. In this chapter also the components of a theoretical model of trust are explained followed by the explanation about the necessary modification to apply in the Iranian context.

Chapter 5: Empirical Research Method

This chapter explains the required data, the strategy of the research, and the method of collecting and analysing data. It focuses on the research strategy used to clarify the reasons for using the qualitative approach. This includes the reasons for choosing this particular approach and techniques for data collection and analysis and explanations about the steps in the process of the data collection and analysis.

Chapter 6: Data collection and data analysing

In this chapter the procedures applied to collecting and analysing the data are presented followed by the results of the data analysis process. The results used to identify the applicability of the research model to the Iranian context. This chapter presents the empirical steps taken to examine the modified theoretical model in the relationship between the Iranian financial analysts and corporate managers.

Chapter 7: Findings, contributions, limitations, and suggestions

In this chapter the aims and findings of the study are presented followed by a discussion on its contribution to the literature on trust. This is followed by a discussion on the implications of the research findings and finally limitations of the research and future research prospects are explained.

Chapter 2. The Role of Financial Reports and Financial Analysts in the Capital Market

2.1. Introduction

Managers and directors of public companies are required by corporation laws and accounting regulations to provide companies' financial reports. Public listed companies must also adhere Stock Exchanges rules. One of the primary objectives of financial reports, which are provided by corporate managers, is to provide the useful information to assist the external stakeholders in their decision-making, which cannot control the actual operation of the firm. Because of the separation of ownership and control financial reports may be a major source of information for stakeholders.

As explained in chapter one, this research explores the role of trust in the building a relationship between financial analysts and corporate managers in Iran. Although investors are the most important group of users of financial reports but many potential investors may do not have enough time, skill, or experience to effectively analyse the financial reports and companies' performances. Consequently, they often rely on professional financial analysts.

The aim of this chapter is to discuss the role of financial reports and financial analysts in the capital market. The need for the financial reports, the necessary qualitative characteristics of the financial information and the factors that may impair them are discussed. The role of the financial analysts as the intermediator between investors and corporate managers also forms part of discussion.

The objective of financial reports is to provide useful information to meet the information needs of the users, especially investors (Hoggett, Edwards and Medlin, 2006). This is discussed in Section 2.2. Financial information is useful if it has certain qualitative characteristics that, in turn, may affect the level of the financial analysts' trust in managers. These characteristics include relevance, reliability, comparability, and understandability that are described in Section 2.2.1. Some factors may impair the qualitative characteristics. These factors include errors, fraud, and earnings management, which are discussed in Section 2.3.

Audited financial statements are provided within a time frame after the end of the accounting period. This delay may reduce the usefulness of the audited financial information because investment decision-making may require information on a daily basis over the year. Because of this limitation, investors may seek other avenues of validating the information given. In this situation, financial analysts have become increasingly important. This is discussed in Section 2.4. This section also discusses the similarities of the Iranian financial reporting system to western countries and the gap between actual and accepted financial reporting models in the TSE.

It is shown in this chapter that financial reports play a significant role in the business relationship between financial analysts and corporate managers in terms of investment decision-making and that financial analysts play a significant role in safeguarding investors against possible investment risk.

2.2. The Objectives of Financial Reporting

The purpose of financial reports is to provide the information needs of a wide range of users who may require different types of financial information (Hoggett, Edwards and Medlin, 2006). The FASB identifies twenty four group of users of financial reports (Financial Accounting Standards Board., 1980). These groups include current and potential investors, creditors, customers and employees, as well as analysts, trade unions, auditors, regulatory authorities and governments. Barton (1982) identifies user groups as investors and capital market institutions, management, trade creditors, employees and their associations, customers, the government and its instrumentalities, and the public.

The objectives of financial reports is well documented in the literature of accounting (e.g., American Institute of Certified Public Accountants. Study Group on the Objectives of Financial Statements, 1973; Barton and Australian Accounting Research Foundation, 1982; Pijper, 1993; Anderson and Epstein, 1996). Pijper (1993, p.1) states "the form and content of the information required should be determined by its relevance to the decision making process". The provided information should enable interested parties to evaluate the success and efficiency of a company (Plewa and Friedlob, 1995). Kieso and Weygandt (1995, p.36) believe that the objectives of financial reporting are to provide information that is useful in investment and credit decisions making, assessing cash flow prospects, and information about enterprise resources, claims to those resources, and changes in them.

In addition, regulatory bodies have attempted to identify the objectives of financial statements which dominate financial reporting in each country. For example, in the US the FASB stated that:

> The objectives of financial reporting underlie judgments about the qualities of financial information, for only when those objectives have been established can a start be made on defining the characteristics of the information needed to attain them (Financial Accounting Standards Board., 1980).

According to the Accounting Standards Board (ASB) in England (cited in Pijper, 1993, P.1) the objective of financial statements is "to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users in making economic decisions".

According to the Iranian theoretical concepts of financial reporting the objective of financial reports is to provide summarized and classified information about the financial position, performance, and financial flexibility of an entity that is useful to a wide range of users in making economic decisions (article 1-1, theoretical concepts of financial reporting)[1]. Article (1-11) defines the financial flexibility of the entity as the ability of the entity to do an influential action in order to change the amount and time of cash flow in such a way which enables the entity to react to unexpected opportunities and events. This enables the entity to take advantage of unexpected investment opportunities and is able to continue during periods when the cash flow from operating is at low level or possibly negative. Financial statements should also present the results of the stewardship or accountability of management for the resources entrusted to it. Those users who

[1] The number in the left shows the number of chapter of conceptual framework and the number in the right shows the number of article in that chapter.

wish to assess the stewardship or accountability of management usually do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management (article 1-2).

The objectives of financial reports are achieved when the financial information has specific qualitative characteristics (e.g., relevance and reliability). These qualitative characteristics are discussed in the following section.

2.2.1. The Qualitative Characteristics of Financial Information

As discussed above in Section 2.2, the main objective of financial reports is to provide useful information for economic decision making for users. To be useful the information should have certain qualitative characteristics, otherwise the objective of financial reporting cannot be achieved (Pijper, 1993; Anderson and Epstein, 1996; Henderson and Peirson, 2002).

There have been discussions about the qualitative characteristics of financial information since 1966 when the American Accounting Association (AAA) raised the idea. It suggested relevance, verifiability, freedom from bias, and quantifiability as the qualitative characteristics of financial information (American Accounting Association. Committee to Prepare a Statement of Basic Accounting Theory, 1966). Regulatory bodies in the UK and Australia agreed with most of these qualitative characteristics (Institute of Chartered Accountants in England and Wales Accounting Standards Steering Committee, 1975; Henderson and Peirson, 2002).

In Iran, chapter two of theoretical concepts of financial reporting prescribes a number of qualitative characteristics of financial statements. These are discussed in the next section.

2.2.2. The Qualitative Characteristics of Financial Information in Iran

The theoretical concepts of financial reporting in Iran defines qualitative characteristics as, "those groups of characteristics which cause information of financial statements to be useful for users in order to evaluate financial position, financial performance, and financial flexibility of an entity" (article 2-1). According to article (2-2) some of the qualitative characteristics are related to the content of financial statements and others to the manner (quality) of representation of information. The key characteristics relating to the content of information are relevance and reliability. The key characteristics relating to the manner (quality) of representation of information are understandability and comparability (articles 2-3 and 2-4). Furthermore, materiality is a characteristic that provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful (article 2-6). Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Financial information sometimes faces some constraints such as cost versus benefit, which make it difficult to achieve the required qualitative characteristics. The relationships between qualitative characteristics are shown in Figure 2-1, in which it can be seen that the qualitative characteristics of information are classified into three sections. The first section shows the characteristics related to the content of financial statements; the second section shows the characteristics related to the manner of representation of financial statements, and the third section shows the constraints of financial information.

The qualitative characteristics related to the content of the financial statements are relevance and reliability. Relevance refers to the ability of financial information to affect users' economic decisions making and should help users to evaluate the past, present and future events. It may result in verifying or adjusting the users' prior assessments in an entity. Financial information is reliable if it is free from material errors and biases as well as prudent and complete. Prudence during the process of financial reporting affects the reliability of the provided information (articles (2-8)-(2-19)).

The qualitative characteristics related to the representation of information are comparability and understandability. Users must be able to compare an entity's financial statements through time in order to identify trends in financial performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Therefore, policies on recognition, measurement and disclosure have to be followed consistently over time. Financial information has to be summarized and classified in an appropriate way which makes it easy for users to understand. In preparing financial reports it is assumed that users have a reasonable knowledge of business and economic activities and accounting, and also an ability to understand complex financial matters (articles (2-20)-(2-29)).

The prepared information is seldom completely relevant, reliable, comparable, and understandable. There are some constraints on qualitative characteristics of information. These include; difficulties in striking a balance between qualitative characteristics, balance between benefit and cost, timeliness of information, true and fair view/ fair presentation. In practice, a balancing/ trade-off, between qualitative characteristics is often needed. For example, information which is more reliable may be less relevant and vice versa. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. Professional judgment determines the relative importance of the characteristics in different situations (article 2-31).

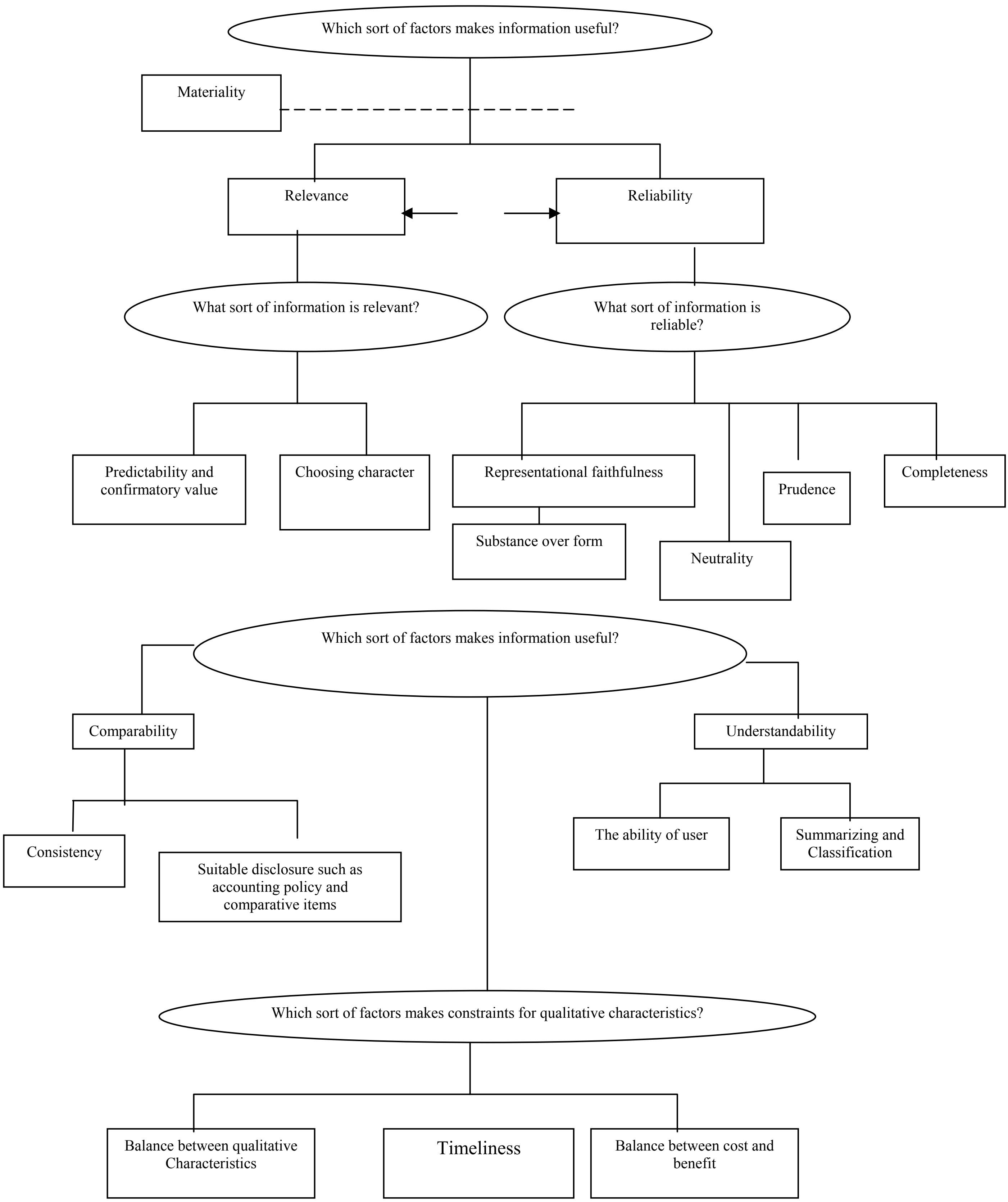

Figure 2-1: Qualitative characteristics of financial information

2.3. Influential Factors on the Qualitative Characteristics of Information

There are some factors affecting the qualitative characteristics of information and consequently the level of the usefulness of the information for decision-making.

These factors include misstatements in financial reports, which could be unintentional or intentional, also some relevant information may be excluded from the publication. In general, the information of a firm consists of financial and non-financial information. Accounting standards mainly requires the disclosure of financial information while the results of some research (e.g., Hirschey, Richardson and Scholz, 2001; DiPiazza and Eccles, 2002; Wu, 2004) indicate that stakeholders need both financial and nonfinancial information. The information of a firm can be divided into two categories: published (presented) and unpublished (non- presented) information. These issues are shown in Figure 2-2 and are discussed in the following sections.

2.3.1. Unpublished Information

Today according to DiPiazza and Eccles (DiPiazza and Eccles, 2002) stakeholders, especially shareholders, demand more detailed information about corporations than that provided by the management. They also proposed that management should measure and manage those factors which create value and help a company to meet its stakeholders' legal expectations including both financial and nonfinancial information. McBride (1997, p.1) defined non-financial information as "all information other than the financial statements and most of the accompanying notes". The result of prior research confirms the usefulness of non-financial information for users of corporate reports (e.g., Hirschey, Richardson and Scholz, 2001; DiPiazza and Eccles, 2002; Schiehll and Andre, 2003; Wu, 2004). In a research conducted by Pricewaterhousecoopers in 2001, the value drivers were divided into eight categories: product and service quality, customer satisfaction and loyalty, operational efficiency, current accounting results, product and service innovation, employee satisfaction and turnover, alliances with other companies, and community involvement and environmental performance. The result of the research shows that non-financial information is an important value driver for users of corporate reports (DiPiazza and Eccles, 2002).

Schiehll and Andre (2003) also found that non-financial factors such as product quality, customer satisfaction, innovation and environment provided information about a company's market value. Wu (2004) conducted a research in 31 failed and 31 non-failed companies listed on Taiwan Stock Exchange companies during 1995 to 2000. The result of this research confirms the usefulness of non-financial information to predict bankruptcy. Hirschey, Richardson and Scholz (2001) also studied the value-relevance of non-financial information for high-technology companies in the US. They found that "accounting earnings and book value information are highly relevant for security valuation in the high-tech sector, and that non-financial indicators of inventive output could be used to sharpen perceptions of long-term benefits derived from R & D expenditures" (Hirschey, Richardson and Scholz, 2001, p.224).

Based on the above discussion, it can be seen that non-financial information is also useful to users of financial reports. Users need both financial and non-financial information about a company for a complete picture but companies supply mostly financial information.

2.3.2. Published Information

Published information may be correct or incorrect (misstatements). Correct published information presents the true picture of financial position and the operating results of a company. Users expect that financial statements are correct. Publishing correct information increases users' trust in financial statements and encourages them to use financial statements more. Errors and manipulations result in incorrect information. Manipulations include legal (earnings management) and illegal (fraud) practices. The errors and manipulations are described in the following sections.

2.3.2.1. Misstatements in the Published Information

Kinney (2000, p.93) defined misstatement as the difference between the recorded value of an asset, equity, income or expense item and its true value. Misstatements are divided into two categories: accounting errors and accounts manipulations.

2.3.2.1.1. Accounting Errors

Accounting errors are unintentional mistakes in the financial statements and can be adjusted by reissuing the corrected financial statements. Providing financial statements outside the boundaries of the GAAP may be considered as an error if there is no planned intent to mislead the users (Mulford and Comiskey, 2002).

Although errors are unintentional and can be adjusted later, they increase the risk of the relationship between financial analysts and corporate managers because they reveal the managers’ incompetence.

2.3.2.1.2. Accounts Manipulations (AM)

Copeland (1968) defined manipulation as some ability to increase or decrease reported net income at will. Financial statements that are misstated due to the aggressive application of accounting principles, earnings management, error, or fraudulent financial reporting are likely to be misleading. Stolowy and Breton (2004, p.6) defined accounts manipulations as “the use of management’s discretion to make accounting choices or to design transactions so as to affect the possibilities of wealth transfer between the company and society (political costs), funds providers (cost of capital) or managers (compensation plans)”.

Indeed, they interpret accounts manipulation as a transfer of wealth which in political costs and cost of capital cases, the firm benefits from the wealth transfer. In the case of compensation plans case managers benefit from the wealth transfer. Stolowy and Breton (2004) believe the aim of accounts manipulations (AM) is to influence the market participants’ perception of the risk associated with the firm. Although different groups play a role in accounts manipulation, some researchers considered it as a mainly managerial activity but other players such as financial analysts, investors, and auditors also influence managers’ decisions to manipulate accounts too (e.g., Dye, 1988; Schipper, 1989; Stolowy and Breton, 2004).

Accounts manipulation could affect earnings, cash flow and the balance sheet. Arthur Levitt (cited in: Rezaee, 2002, p. 29) addressed this concern (AM) by stating, "we are witnessing an erosion in the quality of earnings, and therefore, the quality of financial reporting. Managing may be giving way to manipulations; integrity may be losing out to illusion". In general, accounts manipulations can be divided into two categories: legal and illegal (see Figure 2-2). Legal accounts manipulations are those allowed by laws, rules and accounting standards. The other group of accounts manipulation is illegal (fraud) (Stolowy and Breton, 2004).

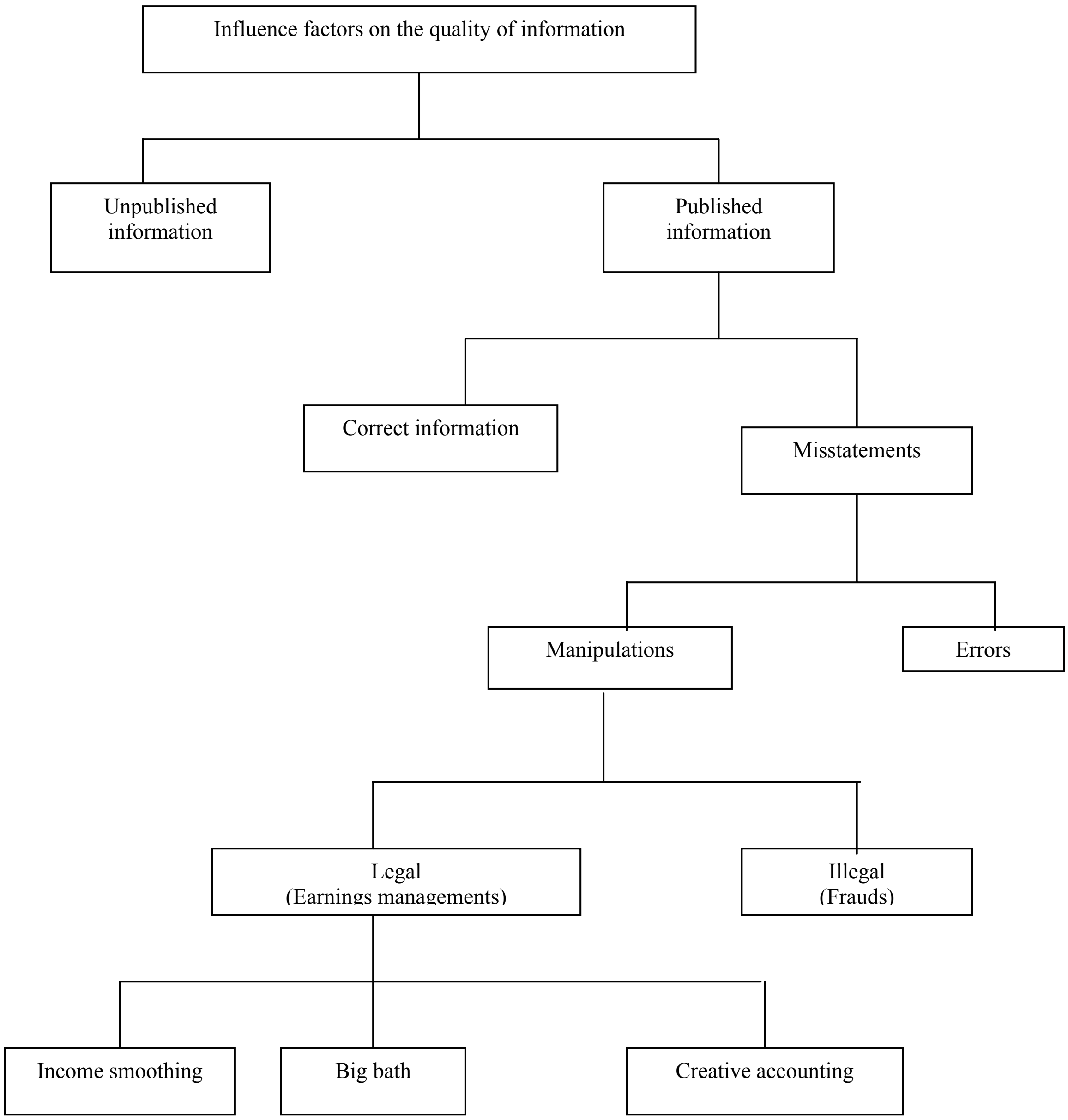

Figure 2-2: Influential factors in the qualitative characteristics of information

2.3.2.1.3. Legal Accounts Manipulation (Earnings Management)

Legal accounts manipulation is achieved in different ways. The most common way of accepted accounts manipulation is earnings management. This can be done in different ways including, taking a “big bath”, income smoothing, and creative accounting. Healy and Wahlen (1999, p.368), in a review of the earnings management literature, stated that:

> earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports, to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers.

Scott (1997, p.295) defined earnings management as the choice of accounting policies so as to achieve some specific manager objectives. Schipper (1989, p.92) also defined earnings management as " a purposeful intervention in the external financial reporting process with the intent of obtaining some private gain". Top management teams may manipulate reported earnings by using different of accounting or non-accounting techniques, such as, changing accounting methods or estimations (Rezaee, 2002).

Earnings management may be encouraged by capital market expectations, accounting-based contracts, and government regulations (Moore, 1973; Beneish, 1999; Kirschenheiter and Melumad, 2002; Stolowy and Breton, 2004). However, there are three methods for managing earnings: accruals management, the timing for the acceptance of obligatory accounting policies, and voluntary accounting changes.

Accruals management relates to the changing of estimates which are supposed to reach a planned goal such as length of the useful life, the possibility of recovering debtors and other year end accruals (Ayres, 1994). The timing for the acceptance of mandatory accounting policies is the second way of earnings management, especially in relation to the possibility of an early acceptance

(Ayres, 1994; Schrand and Wong, 2003). Another method of earnings management is a voluntary accounting change, such as switching from one generally accepted accounting method to another (Bremser, 1975; Bernard and Skinner, 1996).

Based on the effects of the different methods applied to earnings management, researchers identified different patterns in earnings management such as taking a big bath, income smoothing, and window dressing.

Big bath is a process in which a company may decide to maximize the reported lose or minimize the reported profit in a period to maximize its reported profit in the next period (Moore, 1973; Beneish, 1999; Kirschenheiter and Melumad, 2002; Stolowy and Breton, 2004). Pourciau (1993) found that using this technique the incoming executive reduces the profit in the year of executive change in order to increase the profits in the following years. Beneish (1999) provided evidence which indicates that managers maximize the company income in order to sell their own shares.

Income smoothing has been a topic of interest among many researchers (e.g., Copeland, 1968; Beidlerman, 1973; Barnea, Ronen and al., 1976; Wang and Williams, 1994). It is a way in which management decrease the variance of the profit in order to report a steady stream of earnings or growth in earnings (e.g., Copeland, 1968; Beidlerman, 1973; Barnea, Ronen and al., 1976; Wang and Williams, 1994; Buckmaster, 2001). Managers may have different incentives for income smoothing. Dye (1988) suggests an external share demand will increase the firm's stock price, and an internal demand relating to most favorable contracting, for instance, maximizing management bonuses are two reasons for income smoothing. Some researchers view accounting income smoothing as fraud and a way to mislead stakeholders. They maintain that income smoothing reduces the information content of earnings. It is also thought that managers who engage in income smoothing increase their own interests at the expense of shareholders (e.g., Barnea, Ronen and al., 1976). However a few studies confirmed that income smoothing may be useful to the existing stockholders (e.g., Wang and Williams, 1994).

Window dressing is an academic label for creative accounting. It is a way to mislead investors by presenting what they want to see, for example a nice steady increasing profit figure (Stolowy and Breton, 2000). Window dressing is a mixture of different mechanisms of earnings management and can be related to income statements or to balance sheets (McBarnet and Whelan, 1999). Blake and Amat (1996) showed that window dressing is an important issue in Spain and in the UK.

2.3.2.1.4. Illegal Accounts Manipulation (Fraudulent Accounting)

Financial statement fraud is a type of manipulation which is "outside the law and standards" (Stolowy and Breton, 2004, p.9). Rezaee (2002) believed that nowadays any organization may be affected by fraud, especially financial statement fraud which may decrease the quality, reliability, and integrity of the financial reporting process. There are different methods by which financial statements fraud is practiced. These include:

- Falsification, alteration, or manipulation of material financial records, supporting documents, or business transactions,

- Material intentional omissions or misrepresentations of events, transactions, accounts, or other significant information from which financial statements are presented,
- Deliberate misapplication of accounting principles, polices, and procedures used to measure, recognize, report, and disclose economic events and business transactions,
- Intentional omissions of disclosures or presentation of inadequate disclosures regarding accounting principles and polices and related financial amounts (Rezaee, 2002, pp.3-4).

In summary, it can be said that there are different incentives for managers to engage in earnings management and fraud which could result in providing misleading information. Consequently, earnings management and fraud may affect the perception of financial analysts about corporate managers' integrity, benevolence, and predictability in their behaviour. Earnings management and fraud increase the risk of the relationship between financial analysts and corporate managers in terms of the lack of integrity, benevolence, and predictability.

In addition, financial reporting systems may influence the qualitative characteristics of financial information. All of these considerations increase the importance of the role of financial analysts in financial markets. This will be discussed in detail in the following section.

2.4. Models of Financial Reporting

Financial reporting is one of the fundamental components of all accounting frameworks. In different countries, contextual factors can cause variation in financial reporting. Baker and Wallage (2000) argue that a country's history influences the development of its financial reporting. More specifically, Zeff, Wel, Camfferman, Limperg Instituut and Raad voor De Jaarverslaggeving

(Netherlands) (1992) stated that differences in economic history, political systems, legal systems, culture, and traditional providers of capital are also factors that cause differences in financial reporting. The International Accounting Standards Board also stated:

> Although financial statements appear similar from country to country, there are differences which have probably been caused by a variety of social, economic and legal circumstances and by different countries having in mind and needs of different users of financial statements when setting national requirements (International Accounting Standards Committee Foundation, 2004, p. 22).

For example, Australia has a Western-style capitalist economy, which is market-oriented and has its own political, economical and legal institutions. It has a specific regulatory framework for financial reporting which has developed over the years, and differs from the regulatory framework of other countries such as Iran. In Australia, the Federal Corporations Law, as well as certain government authorities such as, the Australian Securities Commission (ASC), the Australian Accounting Standards Board (AASB), the accountancy profession (Institute of Chartered Accountants & the Australian Society of Certified Practicing Accountants), and the Australian Stock Exchange have all played important roles in this development (Miller, 1993).

Iran, in a similar fashion, has its own unique social, political, and economic characteristics that have shaped the development of its specific regulatory framework for financial reporting. The Iranian Commercial Code (section three), Direct Taxes Act, education system, accounting standards as well as certain government authorities such as the TSE, and the Audit Organization of Iran all play a role in providing the financial reports of TSE listed companies.

Iranian financial reporting was based on a combination of the US, and the UK systems, as well as the International Accounting Standards until 2001. This was because of a lack of national accounting standards (Roudaki, 1996). As a result, the Iranian accounting system was generally similar to that of western countries but closer to the U.K system. The Iranian Commercial Code was based on French law (Roudaki, 1996, pp. 74-78; Jamshidi Fard, 2001) and this makes Iranian financial reporting system more similar to the European system. The similarities of the Iranian accounting systems to western countries will be discussed below. This will be followed by a discussion on the European and Iranian Models of Financial Reporting.

2.4.1. The history of Modern Accounting in Iran

Modern accounting in Iran began in the early 20th century and shows the influences of western countries financial reporting system. The need for accounting services in Iran resulted in some government organizations sending some Iranian students to the UK Universities to gain accounting qualifications. These students was sent by some government organizations (Anonymous, 2002). This is resulted in a modern style of accounting in Iran. For example, the Iranian National Bank (Bank Melli Iran) in 1932 sent twelve students to the UK for higher education in accounting. Seven of the students, who later became members of the Institute of Charted Accountants of England and Wales, returned to Iran after graduation. Some English textbooks were translated into Farsi by Hassan Sajadinezhad who was one of these seven students. He also tried to modify these books based on the Iranian legislations and economy. Later, some US text books in accounting were translated into the Iranian language (Farsi) by Iranians who had been educated in the US (Anonymous, 2002).

The first higher education institution which provided a complete program of studies in accounting was set up around 1944 by the National Bank of Iran (Bank Melli Iran). The first chairman of this institution was an Iranian who had obtained his University education and was accepted as a member of the Institute of Chartered Accountants from the UK (Roudaki, 1996). However, before the Islamic Revolution (1979) some other higher education institutions had been established for teaching accounting. These included the Institute of Accounting of the Iranian Oil Company (1957), and the Tehran College of Business (1958) (Roudaki, 1996, pp.74-78). Before the Islamic Revolution (1979) each institute and university had its own system (Roudaki, 1996) and most were dependent on the academic system of the country in which the chairman of the institute had been educated. For example, the Faculty of Accounting and Financial Sciences of the Iranian Oil National Company used the UK system while the Iranian Institute of Advanced Accounting (*Moasseseh Aali Hesabdari*)[2] used the US system (Anonymous, 2002).

After the Revolution, the Ministry of Culture and Higher Education[3] became responsible for preparing a universal system for all tertiary education. The program for accounting was prepared based on a combination of the curriculums of the US and the UK Universities (Anonymous, 2002). In addition, nearly all lecturers in accounting and auditing were graduated from western countries such

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[2] The Iranian Institute of advanced Accounting (*Moasseseh Aali Hesabdari*) was established in 1964 (Roudaki, 1996, p.75).
[3] In Year 2000 the name of the Ministry was changed to the Ministry of Science, Research, and Technology.

as the UK, the US, and Canada but all had experience of teaching in Iran. In conclusion, it can be said that the Iranian accounting system has similarities to western accounting systems, but especially to the U.K.

2.4.2. Financial Reporting Models Gap

According to Baker and Wallage (2000, p.174) "financial reporting consists of those customary and legally required reports that managing directors of companies provide to shareholders and other interested parties".

As it was explained previously, financial reporting models are affected by the regulatory bodies in each country. For example, in Australia, the Federal Corporations Act, certain government authorities, such as the Australian Securities Commission (ASC) and the Australian Accounting Standards Board (AASB), the accountancy profession (Institute of Chartered Accountants & the Australian Society of Certified Practicing Accountants) and the Stock Exchange, have all played important roles in determining the Australian financial reporting model (Miller, 1993). The evidence shows that in Iran, the Iranian Commercial Code (section three), Direct Taxes Act, education system, and accounting standards, certain government authorities such as the TSE, and the Audit Organization of Iran all play a role in providing financial reports of TSE listed companies.

The official organizations in both countries are responsible for the acceptable standards of financial reporting. There may be however a gap between what is determined (accepted) and what is actually followed as a financial reporting model. The accepted (determined) financial reporting model may not fully reflect the actual financial reporting system in use (Baker and Wallage, 2000). Although providing audited financial statements is required by law and by the accounting standards, global capital markets may not rely on this type of traditional financial reports because audited financial statements may not be directly relevant to their decision making process (Frost and Pownall, 1996).

Audited financial statements are provided within a time frame, usually after the end of the accounting period. This delay is not acceptable for the purposes of investment decision-making because investment decision-making may require information spread over the year on a daily bases. For example, the Iranian Commercial Code and Direct Tax Act require companies to provide audited financial statements within four months period after the end of the fiscal year.

According to Williams (1996), financial analysts' forecasts, unaudited interim earnings' announcements, and privately obtained information, are the basis of investment decision-making. Ashbaugh, Johnstone and Warfield (1999) examined the application of internet services by companies as a means of improving the relevance of their financial reporting. They found that firms' web sites provided more timely financial information, and in some cases, more financial and nonfinancial data than traditional paper-based reporting methods. Moreover, Frost and Pownall (1996) found that large multinational companies, and the sophisticated financial analysts and portfolio managers who use these companies information, operate mostly in an environment where audited financial statements are not directly relevant to their decision-making processes. Therefore, it can be said that the accepted model of financial reporting may not reflect the manner in which information actually flows to the users, especially investors. This may be partly related to advances in information technology, which enables investment decision-makings to be made on-line and in real time (Baker and Wallage, 2000).

Institutional investors may seek other alternatives of validating information in addition to external auditing. For example, they may broadly rely on financial analysts for information concerning potential investments (Byrne, 1998). Furthermore, financial analysts and other information providers use on-line and real time information that enables them to have updated information immediately (Baker and Wallage, 2000). Financial analysts apply unaudited earnings forecasts by management to revise their own earnings forecasts, which may, in turn, become a primary source of information for investors' decision-making (Williams, 1996). Seeking other alternatives of validating information by institutional investors is the reason that the role of financial analysts and other information providers are becoming increasingly important (Baker and Wallage, 2000). Financial analysts are not only users of information which are provided by corporate managers, but also one of the information providers to other users, particularly investors and creditors. The role of financial analysts in the capital market is described in the following section.

2.4.3. The Role of Financial Analysts in Financial Market

Financial analysts perform a valuable activity because they are skilled at gaining information from the analysing of the financial statements data. This reviews insights about the current performance and future prospects of a firm (Palepu, Bernard and Healy, 1996).

Kuperman, Athavale and Eisner (2003) identified the different tasks of financial analysts in different positions. According to Kuperman, Athavale and Eisner (2003) financial analysts operate in two different positions: Buying, or selling. They state:

> On the buy side, analysts and portfolio managers work for investment funds, banks and insurance companies and make investment recommendations or decisions for their clients. On the sell side, brokerage firm and investment bank employees provide earnings estimates and research recommendations to investment managers and investors (p.78).

Chung and Jo (1996) discussed the monitoring role of financial analysts in companies. They believe that the financial monitoring role is most important in controlling managers' activities because managers may organize corporate assets to benefit themselves rather than the shareholders. Financial analysts are the most important information mediators between firms and investors because they usually collect and process a vast amount of information from corporate insiders and managers and subsequently distribute this information to current and potential investors. In fact, many investors rely on the information provided by financial analysts when they select and revise their portfolio (Chung and Jo, 1996). Therefore, it can be claimed that the basic task of financial analysts is to forecast the future of specific investment opportunities.

To achieve this, they use current information, look at the past history and future prospects of the company under consideration (Smith, 1992). In fact, financial analysts use this information, analyse it and then publish their opinions in a report about the company under consideration. According to Asquith, Mikhail and Au (2002) an analyst's report is the end of a process that includes the collection, evaluation, and distribution of information related to a firm's future performance.

Therefore, the role of financial analysts is important in investment decision-making and consequently in financial markets (Benesh and Peterson, 1986; Ho and Harris, 1998; Barber, Lehavy, McNichols and Trueman, 2001; Asquith, Mikhail and Au, 2002). Their role increases the efficiency of capital markets in two ways: firstly, by reducing agency costs related to the separation of ownership and management (Chung and Jo, 1996); and secondly, by providing investors with the information necessary to make informed decisions as a link between public corporations and investors (Moyer, Chatfield and Sisneros, 1989).

Some researchers argued that security analysis activities reduce agency costs associated with the separation of ownership and control (e.g., Jensen and Meckling, 1976; Chung and Jo, 1996). Chung and Jo (1996, p.494) stated that security analysis activities "help discipline corporate managers, because their decisions are closely monitored and publicized through such activities". According to Kuperman, Athavale, and Eisner (2003) financial analysts, as information mediators, increase the investors knowledge about the factors that can influence share prices, such as, company performance. This indicates that analysts activities such as trading recommendations and earnings estimates may affects the market valuations (e.g., Benesh and Peterson, 1986; Ho and Harris, 1998; Barber, Lehavy, McNichols and Trueman, 2001; Asquith, Mikhail and Au, 2002).

Asquith, Mikhail and Au (2002) argued that the number of analysts that follow a firm activities have positive effects on the firm's market value. Similarly, Chung and Jo (1996) believe that the` greater the number of financial analysts monitoring a company, the greater the increase in a company's value. They argue that investors gain their knowledge about securities through the information provided by financial analysts. Consequently, an increase in the number of financial analysts monitoring company' activities, will result in more information being published about it which investors are able to obtain. This acts as a, security analysis and affects a firm's value through its impact on an investor's cognisance of securities.

In summary, investors may rely on financial analysts as the experts who are able to provide a technical analysis, to evaluate the company performance and financial position. As a result, the relationship between financial analysts and corporate managers becomes important. This relationship involves risk and uncertainty, as financial analysts do not know whether corporate managers report the real situation of a company in terms of performance and financial position. Thus, the degree of trust in the relationship between financial analysts and corporate managers becomes a significant factor in reducing the risk in the relationship.

2.5. Summary

In this chapter, the roles and functions of financial reporting and financial analysts were discussed. It was shown that managers provide financial statements to stakeholders, especially investors. There are some qualitative characteristics which make financial statements useful in decision-making.

It was also shown that the usefulness of financial statements may have decreased for several reasons. Firstly, there are some factors such as errors, fraud, and earnings management which can affect qualitative characteristics of information and consequently, the usefulness of information. Secondly, investors may need both financial and non-financial information even though financial statements include more financial information. Thirdly, investors may need information in real time for purposes of investment but financial statements are provided to users only at intervals. This delay may not be acceptable for the purposes of investment. Fourthly, advances in technology made it possible for users to have access to real time and on-line information.

The role of financial analysts in capital market is becoming more important than before. They play a crucial role in increasing the efficiency of capital market firstly by reducing agency costs related to separation of ownership and management, and secondly, by providing investors with the information necessary to make informed decisions as a link between public corporations and investors. However, financial analysts need to trust the corporate mangers as the providers of company information. They may focus on some key characteristics of corporate managers as indicators of the trustworthiness to trust them. This includes characteristics such as integrity, benevolence, competence, and predictability. The factors which affect the usefulness of financial statements may also influence the perception of financial analysts about trustworthiness of corporate managers. This issue will be explained in chapter six. In the following chapter, the Iranian context and in chapter four theoretical framework of the research will be discussed.

Chapter 3. Explaining the Iranian Context

3.1. Introduction

The aim of this chapter is to provide an introduction to the context of the Iranian financial market. This consists of a brief history of the Iranian economy and a short discussion of the legislation and other factors which influence the Tehran Stock Exchange (TSE). This is follow by a discussion of the cultural influence of religion within business relationships in Iran which is necessary to understand the context and the factors that ultimately shape the situation in which financial analysts and corporate managers operate. It is also helpful in understanding the operation of the fundamental factors, which determine the building of the relationships between Iranian financial analysts and corporate managers and the influential factors in trust relationships between these two groups.

1979 was the year of the Islamic revolution in Iran and religion from this time had a greater effect than before, not only in business relationships, but also in Iranian society as a whole.

Since the Islamic revolution the Iranian economy has been subjected to a number of internal and external upheavals, disruptions and shocks (Amirahmadi, 1990; Pesaran, 1995). As Pesaran (1995, p.1) stated:

> These include the initial effects of the disruptions due to the revolution itself, the eight-year war with Iraq, and the ongoing economic and financial embargoes by the United States and on occasions by some of the European economies. In addition, there are the volatile international crude oil prices, and uncertainties surrounding the conduct of the monetary, foreign

> exchange and trade policies with abrupt switches between fixed and floating exchange rate regimes, open and closed foreign trade policies, and private-owned and government-controlled enterprises.

In addition, Iran's economy relies heavily on oil export revenues and it plays a significant role in the process of economic development in Iran as around 80-90 percent of total export earnings and 40-50 percent of the government budget is from oil (Eia, 2005).

All of these have had an affect on the regulatory and cultural environment in which Iranian companies operate. In this chapter the effects of both legislation and religion (Islam), which have affected the behaviour of the participants within the Iranian capital market will be discussed.

There will be particular emphasis on the effect of these factors on the managers and financial analysts' behaviour on the capital market. There is some evidence that suggests the rules, regulations, and Islamic beliefs encourage the financial analysts to feel that the environment of the capital market is safe enough to trust corporate managers. A brief history of the TSE is presented, followed by the issues connect with the Iranian Commercial Code (which in fact is the Iranian Corporate Law), the effects of three Five-Years Economic, Social, and Cultural Development Plans (1989-2004), which influence the TSE, will also be discussed. The influence of Islam as a cultural factor on business relationships in Iran with particular emphasis on the effects of Islamic beliefs on the business relationships of Iranian financial analysts and corporate managers will also be presented.

3.2. A Brief History of the Tehran Stock Exchange (TSE)

The proposal to have an efficient stock market to enhance the industrialization process of the Iranian economy was first mooted in the 1930s (e.g., Mirshekary, 1999; TSE, 2003; Amuzegar, 2005). At that time, a joint study was undertaken by Bank Melli Iran and two consultants from the Brussels Stock Exchange, which was completed in 1936. This study identified the issues involved in the establishment of a stock market. World War II and the economic and political upheavals which followed it postponed the establishment of the TSE until the approval of the Stock Exchange Act in 1966 (TSE, 2003).

The Tehran Stock Exchange (TSE) started its operation in April 1967 (Mirshekary, 1999). Six companies were listed on the TSE during its first year of operation. Government bonds and certain state-backed certificates were traded later on the TSE (Davani, 2003; TSE, 2003; Davani, 2004). Demand for stocks increased because of fast economic growth and the need for capital during the 1970s (Davani, 2003). Simultaneously, some institutional changes, such as the transferring from shares in public companies, and large private firms owned by families of the company's employees were opened to investment by the private sector. This led to an increase in the activity of the TSE. The number of TSE listed companies reached 105 in 1979 (Mirshekary, 1999; TSE, 2003). Twenty-four of these companies were commercial and specialized banks. The TSE was still in its initial stages in development and growth (Davani, 2003; TSE, 2003).

After the Islamic Revolution in 1979 and the subsequent economic reforms, the public sector control over the Iranian economy was extended (Mirshekary, 1999). As a result, the demand for private sector capital decreased. The Iranian government passed legislation nationalising all banks and insurance companies in June 1979 (Davani, 2003; TSE, 2003). Consequently, all insurance companies and commercial, specialized, and joint venture banks came under government ownership and control. In another reform, 36 specialized and commercial banks - including both those which were Iranian owned and those which were joint ventures -were integrated into six government-owned commercial and four specialized banks (Davani, 2003; TSE, 2003; Amuzegar, 2005).

These changes resulted in a steep decline and uncertainty about the future of trading on the TSE since the shares of private banks were an important and popular component of stocks traded on the TSE (Davani, 2003; TSE, 2003). New legislation became official in July 1979, which brought a further decline in stocks traded on the TSE. According to the new legislation several industrial companies, including some TSE listed companies were put under state ownership and/or control (Mirshekary, 1999). These companies included some companies which operated in strategic sectors of the economy (Davani, 2003). Such companies had to stay permanently in the public sector. The rest of these nationalised companies were put under the control and management of the state because of the alleged huge debts owed to the banking system by previous owners or main shareholders. As a result of the new legislation, shares of 24 TSE listed companies were removed or their trading delayed. Overall, the shares of 24 banks, two insurance companies, and 31 industrial companies were removed from the market or trading of them was suspended (TSE, 2003).

The TSE continued its operation with limited trading in the shares of the remaining companies. Nevertheless, many of the TSE listed companies were either nationalized or confiscated in the first year after the Islamic Revolution (Mirshekary, 1999). As a result, the number of TSE listed companies was reduced to 56 (TSE, 2003). In the three years following the enacting of the nationalisation legislation, the major market trading was in government bonds. This situation could not last for long because of the passing of the legislation on Usury-Free Banking which forbids all interest-bearing financial transactions (Mirshekary, 1999; Davani, 2003). Although the TSE was functioning, legislation forced it into a period of near inaction for a decade. This situation worsened because of the Iran-Iraq war (1980-988). During this period, the Iranian economy was put on a wartime footing. Furthermore, the essential expansion in the scope of state economic activities during this period gave little chance for TSE development (TSE, 2003; Amuzegar, 2005).

After the war ended in 1988, the wartime approach to the economy was reconsidered and there were some new opportunities for the private sector to increase its participation in the stock market. By the end of 1988, there were some positive signs of recovery in the TSE (Mirshekary, 1999; Davani, 2003; TSE, 2003) which was accompanied by a growing trend of trading in the TSE. This was the result of new economic decisions of the government. The first post-war Budget Act included new government policies which were effective from March 1989 (TSE, 2003). Furthermore, the first Economic, Social, and Cultural Development Plan had been submitted and was approved by the Parliament (Majles). Both of these documents highlighted the role of the private sector in economic recovery (Davani, 2003; TSE, 2003).

In the 1989 annual Budget Act, the Iranian government announced its intention to transfer some of the state owned companies to the private sector in order to reduce an overgrown public sector (Mirshekary, 1999; TSE, 2003). This declaration was important for the recovery of the TSE. As a result, after about a ten-year wait, the TSE was given new responsibilities and hope. Its first responsibility was to establish an efficient, reliable, and fair form of privatisation of public sector companies. Directing the liquidity of the private sector into productive activities was the other responsibility given to the TSE (TSE, 2003). During this period the TSE continued to expand. The number of companies listed on the TSE reached 220 by 1996 and the number of shares traded increased significantly. However, there was a high instability in share price trends during this period, especially in the years 1991, 1994, and 1995 (Davani, 2003).

In order to restore an efficient, fair, and reliable market that could play a major role in the Iranian economy, attempts were made to establish a set of mechanisms to improve transparency, liquidity, and the regulatory structure of the TSE (TSE, 2003). These mechanisms included methods intended to improve transparency, to ensure fair trading, to diversify new financial instruments, to expand the existing infrastructure to other geographical regions of the country, to create a commodity exchange market, and to generate long term investment opportunities (TSE, 2003). Great efforts were made to develop and modernize the TSE. For example, TSE trading technology was up-graded and its activities were expanded to other regions including Mashhad, Esfahan, Shiraz, Tabriz, and Ahwas. At the same time new financial tools including Financial Derivatives and Participation Certificates were introduced into the market (Anonymous, 2000; TSE, 2003; Amuzegar, 2005).

This brief history of the TSE helps us to understand the environment in which financial analysts and corporate mangers are associated.

3.3. The Structure and Corporate Governance of TSE Listed Companies Based on the Iranian Commercial Code

This section will provide some information about the type and structure of TSE listed companies including shareholders, shareholder meetings, the Board of Directors, and auditors. These factors may influence the perception of the Iranian financial analyst about the process by which managers provide financial statements. This background is necessary for understanding the legislation environment in which the Iranian corporate managers work.

3.3.1. Definition and Types of Companies

Part three of the Commercial Code of Iran is concerned with trading companies including Joint Stock Companies[1]. According to the Iranian Commercial Code (Erfani, 1996), "a Joint Stock Company is a company whose capital is divided into shares and the liability of shareholders is limited to the par value of their shares" (Article 1). A Joint Stock Company may be either a public Joint Stock Company (*Sherkat Sahami Am)* or a Private Joint Stock Company (*Sherkat Sahami Khass*). The main difference between them is that the Public Company may offer its shares and debt securities to the public while the Private Company may not (Article 4).

[1] TSE listed companies are only Public Joint Stock Companies.

3.3.2. Shareholders

The law specifies that a Joint Stock Company must have a minimum of three shareholders (Article 3). The shareholders of a Joint Stock Company participate in the ownership, profit and losses, and distribution of assets on liquidation in proportion to the shares held (Article 37). The shareholders possess the usual shareholder rights including, in general, the right to attend shareholder meetings, receive financial reports, elect and replace the Board of Directors, and vote on major decisions of the company (Article 70).

A Joint Stock Company may issue both ordinary and preferred shares in either bearer or registered form (Article 24). While the law does not specifically state what privileges may be assigned to preferred shares, it is understood that as to dividends and distribution of assets on liquidation, and multiple voting powers, will be honoured as priorities under this law. The main differences between registered and bearer shares are the manner of transfer and the tax implications. Bearer shares may be transferred by physical delivery while the transfer of registered shares is not complete until the transfer is recorded in the share register of the company. In the case of registered shares, restrictions on transfer may be written into the Articles of Association (Articles 39 and 40).

3.3.3. Shareholder Meetings

In the Iranian Commercial Code, shareholder meetings are called General Meetings (Article 72). There are three types of General Meetings (Article 73). The first is the Statutory or Founders General Meeting which is mandatory only for public companies. This meeting is held only at the time of the establishment of the company. The main objectives of this meeting are to make sure that all of the company's shares are subscribed and the required amounts have been paid that the prospectus has been understood and approved, the Articles of Association are approved, and to appoint the managers and auditors (Article 74).

The second is the Ordinary Annual General Meeting which must be held once a year. This meeting can make any decision about the company's activities and affairs except the ones which are assigned to the authority of the Founders and Extraordinary General Meetings (Article 89). Financial reports and audit report are presented to this meeting for approval. The paying of dividends has to be approved by this meeting (Article 90). Also, the Board of the Directors and the auditors are appointed by this meeting[2] (Article 88). The third is an Extraordinary General Meeting. This meeting is empowered to deal with any changes to the Articles of Association or the share capital and dissolution of the company (Article 83).

The quorum requirement for both the Ordinary and Extraordinary General Meetings is more than 50 percent of the shareholders entitled to vote (Article 88). If an Ordinary General Meeting fails because of the lack of a quorum upon the first call, the quorum requirement is reduced upon the second call, to any number of shareholders entitled to vote (Article 87). If an Extraordinary General Meeting fails because of the lack of a quorum upon the first call, the quorum requirement is reduced upon the second call to more than one-third of the shareholders entitled to vote (Article 84).

[2] The Board of Directors recommends auditors to the Annual General Meeting.

3.3.4. The Board of Directors

In regard to the Board of Directors, the law prescribes that a Public Joint Stock Company must have a minimum of five members of the Board of Directors and a Private Joint Stock Company must have at least two members of the Board of Directors (Article 107). However, these Boards are required to elect a Chairman and a Vice-Chairman (Article 119). It is mandatory that the election be by cumulative voting and it takes place at an Ordinary General Meeting (Article 108). Directors are eligible for re-election. The tenure of directors has to be identified in the Articles of Association but may not be for more than two years (Article 109). Members of the Board of Directors are required to possess the number of shares specified by the Articles of Association and this number may not be less than the number required for voting at the General Meeting. Each director must place the required number of shares in the custody of the company for the duration of his term of office to serve as security against company losses which may result from failings in their duties as directors. These shares must be registered shares (Article 114).

The law specifically provides the Board of Directors with all necessary authority for the management of the company within the limits of the company's objectives and as stated in the Articles of Association (Article 118). Directors are not only subject to the ordinary rules of fair play in the dealings with the company, its shareholders, and third parties dealing with the company, and thus liable for any violation of these rules, but they may also, individually and jointly, be subject to criminal prosecution for specified acts and/or omissions (Articles142 and 258).

A meeting of the Board is required to have a quorum of a majority of the directors (Article 121). The manner of calling board meetings, including any advice of meeting notice requirements, should be specified in the Articles of Association (Article 122). Minutes of each meeting must be kept and signed by a majority of the directors who attended that meeting (Article 123). The law requires that at least one person be appointed by the Board as the Chief Executive Officer to manage the daily operations of the company (Article 124). The scope of the Chief Executive Officer's authority should be specified by the Board at the time of his/her appointment and he/she is then considered to be the company's legal representative with authority to sign on behalf of the company (Article 125). Members of the Board of Directors paid by the company for attending meetings according to the time and number of meetings attended. Also, if it is identified in the Articles of Association, the Annual General Meeting can approve a specific percentage of the annual net income to be paid as a bonus to the Members of the Board (Article 134).

3.3.5. Statutory Inspectors (Auditors)

The law requires the election, by the shareholders, of a statutory inspector (auditor) once a year at the Ordinary Annual General Meeting. The election of more than one inspector is optional (Article 144). In general, the function of the inspector is to serve as a watchdog over the interests of shareholders and third parties and he/she can be criminally prosecuted for violation of his/her duties (Article 154). Among other things, the inspector is required to submit a report on the accuracy and reliability of the financial statements and other information provided by the Board of Directors to the Ordinary Annual General Meeting each year (Article 148). Certain categories of persons, such as criminals, directors and their relatives are not eligible for serving in this position (Article 147).

3.4. Tehran Stock Exchange Rules and Regulations

In addition to the Commercial Code, the TSE rules and regulations affects all the activities of TSE listed companies (e.g. Davani, 2004). This set of regulations consists of six chapters:

Chapter 1: The Law Governing the Establishment of the Stock Exchange (Ratified May, 1966),

Chapter 2: Administrative By-Laws of the Stock Exchange Council

Chapter 3: Regulations of the securities listing board

Chapter 4: Trading rules for TSE brokers

Chapter 5: Articles of association of the TSE organization

Chapter 6: Other TSE rules and regulations

In the following sections those regulations that are directly related to the relationship between the listed companies and investors are explained.

The Administrative Code of Conduct By-Laws of the Stock Exchange Council, Chapter 2 of the TSE rules and regulations, is the Administrative By-Law for listed companies and it consists of 23 articles in three sections.

Section one (articles 1-5) is concerned with the conduct of general meetings by TSE listed companies. Article 1 requires the company to invite the TSE representative to the meeting in writing at least 10 days before the meeting. The company has to send to the TSE all related documents including the management board report, and the auditor's and statutory inspector's report at least one week before the meeting. Article 2 requires that, based on the Commercial Code and other related rules, decisions in the general meeting have to be made for the equal benefit of all shareholders. In addition, the company must ensure that the auditor and the statutory inspector attend the general meetings. Articles 3-5 of this section are rules about registration of the decisions in the general meetings, dividing income, and increasing capital.

Section two (articles 6-17) consists of the TSE rules about listed companies' duties in relation to accounts and financial reports. According to article 6 the company has to prepare its annual financial reports as well as consolidated financial reports based on the published TSE format. Companies are required to send the annual financial reports within a time which is no longer than the time specified in Article 1 (i.e., 10 days prior to the meeting date). Article 7 requires the company to prepare its accounts and documents based on accepted principles and rules. It also requires that productive companies should have cost accounting systems to calculate the cost of their products. Article 11 requires that companies have an internal control system based on the requirements of the auditor and statutory inspector. According to article 8, those listed companies which own more than 50% of other companies' shares have to prepare consolidated financial reports. Article 9 requires that the listed companies and their subsidiaries be audited by members of the Iranian Association of Certified Public Accountants (IACPA). According to article 15, the listed company has to send a report every three months to the TSE of its production and sales statistics, the manner of using allocated rates of exchange[3], necessary financial reports based on TSE requests including comparing approved budget items with actual performance, the most recent tax situation, progress of development plans, and information about important contracts. Article 16 emphasizes that the listed companies have to send all information about their new plans to the TSE. Article 17 requires that the listed companies send the annual budget for the next year to the TSE.

Section three (articles 18-23) is about the companies' duty in relation to shareholders. According to article 18, the Articles of Association of the company should be prepared in such a way as to support minor shareholders' benefits. It emphasizes that the Articles of Association must not consider any special benefits for major shareholders. According to article 19, the company cannot pay any management fees, or control fees to shareholders including major shareholders. Article 21 requires the company to report in writing any changes in its management board, executive managers, auditor, or statutory inspector to the TSE within one week of the change.

3.4.1. Quick Disclosure of Information

A further part of the TSE rules and regulations is about the manner of disclosing urgent information. According to this part of the rules, listed companies have to immediately disclose any important information related to activities or situations of the company, including important facts or changes. According to article 1, important information is defined as that information which is related to company activity (production, trading, and servicing) and the company's situation

[3] The Iranian Government applies a restricted exchange rate policy for different purposes in different rates. As a result, there is an official and a block market exchange rate in the market. The Government allocates exchange in the lower price to companies to import their needed plants and equipment to support them. Consequently, this is important for investors to know as to how the company expended its allocated exchanges.

(mergers, changes in the combination of major shareholders, accepting foreign investment, and so on) which results in, or is expected to result in, considerable changes in share price or the price of any issued bonds by the listed company. Article 3 allows the TSE to stop trading in the company's shares until the important changes are disclosed. Companies must respond immediately to the TSE requests for quick information. Article 3 emphasizes that the company is responsible for any loss to investors due to delay in disclosure of information.

3.5. The History of Modern Accounting and the Auditing Profession in Iran

The history of modern accounting and auditing in Iran goes back to 1932. At that time Bank Melli Iran sent a group of twelve students to England for accounting education. From this group, seven graduated and returned to the country and formed the infrastructure of the first Accountants' Society, but this society was never formally established. The Accountants Association of Iran and the Chartered Accountants Association of Iran were officially formed before 1979 as two independent professional bodies. In 1979 the Audit Company (*Sherkat Sahami Hesabrasi*) was established by the government in order to audit most government organizations (Mirshekary, 1999).

After the Iranian Islamic revolution in 1979, many enterprises transferred to the public sector and were under the control of the government. To audit these companies the government established three audit firms between 1980-1982: the "Budget, Planning and National Industries Organization Audit Firm" (1980), the "Bonyad Mostazafan Audit Firm" (1981), and the "Bonayad Shahid Audit Firm" (1982). In 1983 these were merged to become the Audit Organization of Iran (Iran Audit Organization, 2006). According to the legislation, the Audit Organization is responsible, as an inspector and auditor of organizations, which are publicly owned. It is also the only professional body for national accounting and auditing standards compilation (Iran Audit Organization, 2006).

After privatisation began in Iran, in order to transfer some public activities to the private sector, parliament in 1993, passed a law which established the Iranian Association of Certified Public Accountants (IACPA). According to this Law public companies can use the services of IACPA in addition to the Audit Organization of Iran.

The Iranian Association of Certified Public Accountants (IACPA) accepts members from professional accountants and auditors. Members are permitted to establish private audit firms to serve as company auditors. These types of audit firms are small and less independent (as discussed in chapter six) compared with the Iranian Audit organization.

3.6. Privatisation in Iran

In Iran, after the Islamic Revolution (1979), legislation was passed by the Revolutionary Council which led to the seizing and nationalization of a large number of companies. As stated by Ali Akbar Hashemian, the Deputy Minister for the Economy and Financial Affairs who was responsible for government-owned companies in an interview by Radmanesh (2002), the companies whose ratios of current assets to fixed assets exceeded 33.3% were declared a national (public) company. The establishment of new organizations which are under government control such as Bonyade Mostazafan and Janbazan (Mostazafan and Janbazan Foundation), and Bonayde 15 Khordad (15 Khordad Foundation), continued to own and finance many companies, was another reason for the expansion of public companies (Roudaki, 1996).

The Constitution of the Islamic Republic of Iran was proclaimed in 1979. In it the economy is divided into three sections: state (governmental), cooperative, and private (The Constitution of the Islamic Republic of Iran, 1979). Shortly after Constitutional Law came to effect, Iraq attacked Iran and the war continued for eight years. During the war everything, including the economy, was affected. Wartime measure the government took over the control of all aspects of the country in order to manage the war efforts.

The war ended in 1988. Between 1989 until 2000, three Five-Year Economic, Social, and Cultural Development Plans were approved and implemented to recover and develop the Iranian economy. By passing of the First Five-Year (1989-1993) Economic, Social, and Cultural Development Plan (FFP), the movement of the Iranian economy began towards a free market economy. The main aim of the Plan was the recovery of the economy with an expanded role for the private sector.

A review of the First Five-Year (1989-1993) Economic, Social, and Cultural Development Plan (FFP), reveals that the existence of inefficiency in the public sector was recognized and it was expected that the Plan would also provide some guidelines to limit this problem. With a view to increasing the efficiency of governmental companies, the plan provided some guidelines to make management more accountable by the establishment of more modern systems in the public sector. The Plan also required the government to encourage and facilitate the participation in economic activities of other sectors including the private and the cooperative sections. Moreover, the Plan approved and justified the disposal of some government activities to other sectors. This was the first step towards the privatisation of public sector companies.

In fact, by the passing of the FFP the Iranian economy began moving towards a free market economy. The main aim of the plan was the recovery of the economy through giving a greater role to the private sector. According to the Plan, in order to reduce the expenses of providing governmental services and to improve the quality of services provided to the public, some non-cofunctions duties of government had to be transferred to the non-government sector (policy 8-3). The Plan (policy 4-37) required the government to encourage and support the establishment of manufacturing, mining, and specialist organizations to take over its nationalized industries (except strategic and large industries) and return them to the private sector (Abadi, 1995; Roudaki, 1996).

The second Five-Year (1995-1999) Economic, Social, and Cultural Development Plan (SFP) required (basic policies 4-5, 4-6, 4-7, 4-12) the government to increase the efficiency of the public sector and make its managers much more accountable (Abadi, 1995). It required the government to strengthen legal protection and provide facilities for increased participation by people in economic, social, and cultural activities and to emphasize the necessity of attracting private and cooperative investment in the country's development (basic policy 15-1) and also to transfer part of the activities currently carried out by the government to the private and cooperative sectors (basic policy 15-3). In this plan, for the first time, the government was legally and specifically required to transfer the ownership of state companies to the private and cooperative sectors (basic policy 15-4) and to take steps to increase the share of the private and cooperative sectors in the country's gross domestic product (basic policy 15-5).

Under this Plan for the first time the capital market received much more attention. Capital market was required to increase its efficiency by reorganising in such a way that, while enjoying a desirable level of independence, it is also able to play its real role in the mobilizing and allocation of long-term resources (general policy-2.2). In order to do this, new financial instruments such as Certificates of Deposit and Investment and Participating Bonds were introduced to the market in response to a variety of needs, including the provision of insurance against various risks. The Plan aimed at developing and strengthening the stock market (TSE) by reforming the relevant laws, improving and expanding the information service network, providing of up-to-date information on the status of TSE listed companies (paying due attention to the principle of auctioning and the primacy of the supply-and-demand mechanism) and creating a safe and favourable climate for financial investment by the general public.

In the second Five Year Economic, Social, and Cultural Development Plan (SFP) (1995-1999), for the first time since the Islamic Revolution (1978) foreign investors were allowed to invest (in partnership with Iranian investors) in various economic sectors.

The Third Five-Year Economic, Social, and Cultural Development Plan (TFP) (2000-2004) paid more attention to the privatisation of public sector companies (Anonymous, 2001). Article 9 of the TFP, stated that in order to improve efficiency and to increase productivity in the employment of the country's material and human resources, to streamline the government activities in the area of policy making, and to promote the role and scope of the private and cooperative sectors, the shares and stocks of the state-owned enterprises that were transferable and whose continued operation in the public sector seemed to be unnecessary, would be sold to the cooperative and private sectors on the basis of the regulations set by law.

According to article 11 of the TFP, shares belonging to the following entities are subject to these regulations of this Chapter: ministries, government agencies, state-owned enterprises stipulated in Article (4) of the State General Audit Law of 22/8/1987 (1/6/1366) as amended, profit making entities affiliated with the government and other companies with more than fifty percent of their equity and/or their shares, in total or in part, owned by ministries, public entities, state-owned enterprises (except banks, credit institutions and insurance companies), other state-owned companies and profit-making entities affiliated with government whose subjection to universal Laws and regulations necessitates that their names be mentioned or stipulated, including the National Iranian Oil Company, companies controlled by, or affiliated to the Ministry of Petroleum and their subsidiaries, the Iran Industrial Development and Renovation Organization and its subsidiaries, and the Centre for Procurement and Distribution of Goods; also shares owned by the above-mentioned entities in non-public enterprises and companies that are subject to special laws.

According to article 12 of the TFP, in order to coordinate, supervise and control the process of divestiture and to secure proper execution of the regulations of this Law, The “High Commission of Divestiture" shall be set up under the chairmanship of the Minister of Economic Affairs and Finance. Article 13 of the TFP clarifies the members of the Commission.

According to article 14 of the TFP the commission is the main authority and has the responsibility of deciding or confirming which companies are to be sold, dissolved or merged. This list is submitted to the relevant ministries or Ministry of Economic Affairs and Finance, and to present it to the government board for approval. The list should include a specific timetable for each case and an explanation of the method of ceding according to the market conditions. It is also required that the commission prepares an annual program of sales, dissolution, or merging of companies within the framework of the approbation of the government board, including formulation of the necessary executive policies and strategies.

According to article 15 of the TFP, the Government should set up an organization for privatisation by modifying the articles of association of the Organization for Promotion of Ownership of Production Units. It is claimed that this is the first time since the revolution that the Government has been required to set up an organization for privatisation (Anonymous, 2001).

As a result, during the period from 1998 to 2000, 748 companies were set up for transfer, 216 for survival and 74 for dissolution or merger (EghtesadeIran, 2002). Because of this privatisation policy the Tehran Stock Exchange has become one of the world's fastest growing and top performing markets.

3.7. Business in Islam

Religion plays a significant role in most societies. It not only affects the personal life of the individual but it also affects different aspects of human social life i.e. cultural, political, and economic[4]. The effects of religion on different aspects of society can be seen especially in Islamic countries (Ahmad, 1980; Malley, 2004), where a Muslim as a person and as a member of society has specific duties and responsibilities. For example, a Muslim, as a person, has to pray several times each day and at the same time, as a member of the society; has to act in society (e.g., performing in commerce and economic activities) in accordance with Islamic Law (Shariaa)[5]. In general, Islam affects all aspects of Muslims' lives in these societies.

There has been a special relationship between Islam and commerce (Shaari, Russell and Frank, 1993). Islam was born in Mecca which had a long history of commercial activities even before advent of Islam. This has continued to the present (e.g., see Durant and Durant, 1954; Hodgson, 1974; Makky, 1978). Even the Prophet Mohammad, himself, was a trader before he was acknowledged as the Prophet (e.g., see Hodgson, 1974; Lapidus, 2002). He was successful in business and because of his integrity he was given the honorific title, "the Trustworthy" (Hodgson, 1974). The Prophet used Mecca as centre to spread his ideas and to invite people to convert to his ideas (Hodgson, 1974). The history of Islam also shows that Islam reached East and West Africa and East Asia through trading associations (Hooker, 1988).

According to Motahhari (1991) Islam is linked to economics in two ways. Directly, because Islam has a set of rules about ownership, transactions, taxes, inheritance, charities, financial punishments, and punishment related to areas of wealth. Indirectly, because Islam is linked to economics through ethics and

[4] http://www.rsiss.net/stepfolder/comforto.html

[5] The Quran and the Sunnah (the tradition of Prophet Mohammad (P. B. U. H), are the main sources of Islamic laws. Together, they are referred to as the Shariaa (meaning the 'path').

morality, for example there are rules and recommendations such as trust, justice, charity as well as some prohibitions such as theft, mischief and corruption. In general, Islam has encouraged commerce (business)[6] and has required Muslims to trade in accordance with its principles, for example lawful (halal) and unlawful (haram) (Shaari, Russell and Frank, 1993). In the following sections, some Islamic principles and beliefs, relevant to this research, are explained.

3.8. A Brief Review on Some Islamic Principles and Beliefs

Islam is based on principles. The first and the major principle of Islam is Tawhid[7] (monotheism) (112:1-4, 112:1)[8], who has created everything (2:29, 25:59, 29:44, 29:61, 30:8, 32:4, 42:29), including man (55:3).

According to Islamic beliefs man is honoured by God as "being the best of God's creatures" (23:14)[9] and for this reason is chosen by God as his khalifa (vicegerent) on Earth (17:70), Allah's amin (trustee) (24:33, 33:72), and the axis of creation (2:29, 31:20, 11:61). As Allah's khalifa (vicegerent), man is responsible to make the earth suitable for life and use it to establish justice (57:25), and develop himself and others. The trust is duties and responsibilities (Motahhari, 1989, p. 37). Human as God's trustee and khalifa (vicegerents) are responsible and will be tested (67:2; 76:3). Thus, man should fulfil his responsibilities to live on the earth. As an axis man has been created to pray to God (2:29,30; 16:5,7,8,10,11,13,14; 55:10; 31:20; 45:12; 14:32,33; 51:56) (Sadeghzadeh, 1995).

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[6] The Quran states: "God has made business lawful for you"(2:275).

[7] The translation of the Quranic verses is based on the translation available in the Islamicity websie: http://www.islamicity.com provided by Yusuf Ali.

[8] Quotations indicated like this are from the Holy Quran; the first digit number of Sura (chapter) and the second the number of Aya (verse).

[9] For creation of whom God congratulated Himself (and man) (23:14)

The final objective for man is evolution and perfection (Sadeghzadeh, 1995). The world and every thing in it, which comes from God is for man's evolution and perfection (Motahhari, 1990, p. 73). Everything that man needs for the performance of his duties is provided in the world. Everything goes back to God (2:156,223, 7:179, 84:6). There will be rewards for good deeds and punishment for bad deeds (99:7, 8).

Man is responsible not only to himself but also to others, and for this he is accountable, and will be tested (67:2, 76:3). Thus, man must perform according to Allah's wishes in all aspects of his life- personal, economic and political.

According to Islamic beliefs there is a control system for man to see that man fulfil his duties. Sadeghzadeh (1995) states that there are three control mechanisms in Islam to ensure that a Muslim performs his/her duties. The first is self-control, through which a Muslim perceives himself as a human being always in front of God at any time (2:115). God is closer to him than his life-vein (6:103, 50:6). God is the best (4:6, 4:86, 33:39, 65:33) and the quickest to take account (4:6, 4:86, 6:63, 33:37, 33:39) and man will meet Him (18:110). Next comes public control, which encourages others to good behaviour (*Amr bil Maroof*) and prevents them from performing bad deeds (*Nahy anil Monkar*) (3:104, 22:41). Finally, governmental control, an important duty of an Islamic Government, is to oversee social behaviour, and therefore people become involved in right actions and abstain from wrong. As a result of this belief, when a Muslim understands this control system he tries to act according to God's wishes, at all times and in all aspects of his life. He does this because of self-control and also because of the pressures of public and governmental control.

3.8.1. Ownership in Islam

Islamic principle of ownership differs essentially from those of capitalism and socialism (Zarqa, 1980; Mannan, 1986). According to Quran, God is the real owner of everything "And Allah is the kingdom of the heavens and the earth who has control over everything" (3:189). Everything in this world belongs to God "Whatever is in the heavens and whatever is on the earth belongs to Allah" (2:284).

According to Islamic beliefs God has created and perfected the whole world and then delegated man as steward over all His other creatures. In other words, the real ownership belongs to God, and man as a trustee holds God's property in trust and is accountable to God (Sadr, 1994, cited in Taheri, 2005). As a result, Muslims believe that humans are only trustees for God's property and they do not actually own anything in this life.

According to Zarqa (1980) property in Islam is one of the foundations of behaviour for Muslim people in their business activities. He believed "whatever man owns is something he is allowed to have, even though it is God's rightful property" (Zarqa, 1980, p.12). Quranic verses support this idea. For example,

> "… to Him belongs all that is in the heavens and the earth, and all that is between them, and all that is underneath the soil" (20:6). "Praise belongs to God, the Nurturer of all being, the All-Merciful, the All-Compassionate, the Master of the day of Doom" (1:1-4). "… and give them some of the God's wealth which is given to you" (24:33).

Based on a limited ownership principle which is derived from the Quranic text mentioned above, man is not the absolute owner of the earth and its resources.

He/she does not have the right to have as much as he/she wants, or to obtain property in any way he/she wants. Indeed, everyone is considered as God's vicegerent and is a guardian of the public trust. Therefore, personal ownership is limited to the public's best interest.

Islam recognizes three types of ownership: private, public, and state, but as Siddiqi (1981) cited in Taheri (2005) states, there are specific obligations regarding private ownership in terms of acquisition, use, and disposal of property based on God's rules (see also Sadeghzadeh, 1995).

"God is the Owner" is a concept that sees humans as trustees of God's property. So, according to Zarqa (1980, p.12) Islamic believers think of themselves as custodians of God's wealth and tend to impose on themselves a limitation to the extend the use of God's wealth and share this wealth with others.

3.8.2. Life as a Test

According to Islamic beliefs, human life consists of two parts: the worldly, that it is temporary life, and the permanent which is the hereafter. Death is not annihilation and the end of life because according to the Quran, death has been created (67:2) and a creature cannot be non-existent (Sadeghzadeh, 1995). Motahhari (1990) cited in Sadeghzadeh (1995, p.132) argues that worldly life is an introduction to the second , just as childhood is an introduction to old age. Worldly life is looked upon as a farm and life hereafter, the harvesting. The Quran confirms the idea "That man can have nothing but what he strives for (53: 39)".

According to the Holy Quran, life in this world is temporary, permanent life is in the life hereafter (28:77). The purpose of creation (of man and the world) is to test man (67:2). God has chosen man as his khalifa (vicegerent) and consequently man is responsible for fulfilling certain duties and obligations, guided by God through His messengers, and by having conditional and limited (but not absolute) freedom to use needed resources. He will be judged according to how he has performed these duties and he remains accountable for his activities (83:1-6 and 30:39) as God states in the Holy Quran, to test “which of you is the best doer” (57:25, 67:2). The Holy Quran mentions this issue in a number of other verses. For example, “and He has subjected to you, as from Him, all that is in the heavens and on earth, behold, in that are signs indeed for those who reflect”[10].

According to Islamic beliefs (Zarqa, 1980, p.12) people are endowed with different qualities in many ways by God: mental or physical ability, and with material and social environments. Power, knowledge, and wealth are also distributed differently by God. Individuals may obtain these endowments through birth, effort, or through suitable opportunities. Followers of Islam believe that on the Day of Judgment all human beings will be questioned about how they have utilized these endowments (2:233, 286; 6: 152; 7:42; 23: 62). They will be questioned about:

> … His/her life, how he/she spent it, his/her youth and how he/she used it up, his/her wealth, how it was earned and spent, and how his/her knowledge was applied and what was its consequences (Authentic saying of the Prophet) (Zarqa, 1980, p.12).

Islahi (2005) cited in Taheri (2005) argues that man’s success in the hereafter depends on the manner of using the world’s resources. This belief, as

[10] (Quran 45:13) another translation of this Aya* is: And has subjected to you all that is in the heavens and all that is in the earth; it is all as a favour and kindness from Him. Verily, in it are signs for a people who think deeply.

well as the belief that God knows what is being done, encourages people to do their best in accordance with God's wishes.

3.8.3. Justice as a Principle of Islam

Social justice is the most important and widely influential principle of the Islamic economy which provides a wealth distribution system (Taheri, 2005). As Taliqani (1982) argues Islamic economy is founded on the principles of right and justice. Social justice has two components: the principle of general mutual responsibility and the principle of social balance. According to Tabatabaei (1980) social justice in an Islamic economy is based on the relationships between humans and God, humans and God's other creations as well as the nature and purpose of man's life on earth. Tawhid (monotheism) defines the human-God relationship. Believers in God know their duties and responsibilities to God and His creatures. Thus, man must follow God's guidelines and create a harmony between morality and the material aspect of life (social balance).

Ethics is one of the influential factors in achieving social justice. In Islam, economy is considered to be related to ethics and, in turn, ethics is related to religion (Taheri, 2005). As a result, Islam requires Muslims to follow the path of justice, goodwill and honesty (Shaari, Russell and Frank, 1993) and to recognize profit in business activities as secondary outcome.

3.8.4. The Islamic Rule of *"La Zarar Wa La Zirar"* (No Harm to Self or Others)

No harm to self or others is a well-known rule in Islam, known as the principle of "***La Zarar Wa La Zirar"*** which applies to all human actions. According to Islamic beliefs, a Muslim is responsible not only to himself but also to others. He must obtain property in a *halal* (lawful) way and by fair means. As a result, a Muslim is not allowed to harm[11], damage, or cause an injustice in the process of obtaining, holding, or using a property (income or wealth) for himself or others. He must not be the cause of harm to society, the environment or the eco-system in the form of pollution or waste, or in the form of abuse of (non-renewable and renewable) resources, according to the principles of *La Israf* (no waste)[12] and *La Zarar* (no harm) (Sadeghzadeh, 1995, pp.140-142).

In summary, the believer feels he is dealing directly with God in any of his transactions and social activities. As a result, a Muslim's deeds or words must not be the cause of harm or hurt to anyone else.

3.9. The Role of the Islamic Government

Islam as a comprehensive religion has a plan for all aspects of man (Ahmad, 1980; Malley, 2004). Evidence shows that government is a part of the Islamic system[13] as Prophet Mohammad and some others of his companions after him established (Durant and Durant, 1954). The reason is that although Islam is based on ethics and recommends Muslims to be of good behaviour, it has rules to punish those that break the rules. This is an area for which governments are responsible (e.g., see Sadeghzadeh, 1995). History shows that Islam has impacted on the rules and legislation in Islamic countries even in those which are not formally Islamic.

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[11] No harm to self or others is a well- known rule in Islam, known as the principle of "*La Zarar Wa La Zirar*" which applies to all human actions.

[12] This rule is based on one of the verses of Holy Quran (7:31) "O Children of Adam! …eat and drink but do not waste by excess …".

[13] 57:25: We sent a foretime our apostles with Clear Signs and sent down with them the Book and the Balance (of Right and Wrong), that men may stand forth in justice; and We sent down Iron, in which is (material for) mighty war, as well as many benefits for mankind, that Allah may test who it is that will help….

As a result, it is the responsibility of a government to provide a suitable environment for the implementation of Islamic rules on an Islamic society (Motahhari, 1991). It can be concluded from this that the people's general perception is that government protects their welfare and makes the environment safe for interpersonal activities including economic activities.

3.9.1. The Relationship between Islamic Traditions and the Trust Theory

Islam requires Muslims to organize their business relationships in accordance with Islamic principles. Business relationships are impacted on by Islamic traditions in two ways.

Firstly, Islam has some ethical rules and recommendations about business relationships such as trust and justice (Shaari, Russell and Frank, 1993). Islam requires Muslims to follow the path of justice, goodwill and honesty (Motahhari, 1991). Islam recognizes profit in business activities as only a secondary measure of efficiency.

According to Islamic beliefs, people in general are trustworthy unless something is found to be wrong[14] (consistent with the belief of faith in humanity). Islam also encourages group activities. For example, according to Prophet Mohammad, God is present wherever there is a group. Islam also encourages people to pray in groups. All of this indicates that according to Islam, people are in general reliable, and dealing with other groups causes better interpersonal outcomes (a trusting stance).

[14] This is a general belief in Islam that other people are trustworthy unless proven otherwise.

When people believe that "God is the Owner", human are seen as trustees of God's property. Therefore, they tend to limit their enjoyment of God's wealth that others may also enjoy God's wealth. This belief reduces the risk of the lack of trustee's benevolence in relationships. It means that when a financial analyst perceives that a manager believes in the concept that "God is the Owner", then he perceives the manager as a benevolent person.

According to the Islamic belief of "*La Zarar Wa La Zirar",* a Muslim is responsible not only for himself but also for others and he/she is not allowed to do harm to him/herself or others. In summary, a believer feels he is dealing directly with God in all of his transactions and social activities. As a result, a Muslim's deeds or words must not cause harm or hurt to anyone (himself, others, society, etc.). This supports the perception by financial analysts that managers who believe in Islam are benevolent, honest, predictable in their behaviour, and even expert in the domain of their job. It reduces the risk of errors, earnings management, and fraud by managers.

Secondly, Islam has a set of rules about business relationships such as ownership and transactions (Sadeghzadeh, 1995). According to Islamic beliefs man has duties in regard to God, other people, and him/herself. Islam has three control mechanisms to help people fulfil their duties: self-control (in which a Muslim perceives himself as the human being in front of God at any time (2:115)), public control (which is through the encouraging of others to good behaviour and preventing others from doing bad deeds (3:104, 22:41)), and governmental control (in which Islamic government controls social behaviour) (Sadeghzadeh, 1995). As a result, when Muslims understand this control system, they try to perform according to God's wishes at all times and in all aspects of their lives. This is the result of self-control.

A Muslim also because of public and governmental control tries to be involved in good actions and abstain from bad actions. This is consistent with sociologists' perspective which indicates that rules and regulations create an environment in which it is safe to trust other parties (structural assurances belief). When a Muslim believes in the control system he/she feels that the environment is safe to trust other people in a relationship. This applies to relationships such as those between the financial analysts and corporate managers (McKnight, Cummings and Chervany, 1998). The financial analysts' perception of this control mechanism reduces his/her perception of risk of illegal behaviour by managers such as risk of fraud.

According to Islamic beliefs, human life consists of two parts: the worldly that it is temporary life, and permanent which is the one hereafter. Man's success in the hereafter depends on the manner of using the world's resources. This belief as well as the belief that God knows what is done, encourages people to do their best in accordance with Allah's wishes. It supports the key trustworthiness factors in corporate managers such as benevolence, integrity, and predictability and reduces the risk in the relationship between financial analysts and corporate managers.

In summary, Islam is governed by ethics and social rules/regulations that impact on all personal aspects of believers' lives. Ethical principles governing personal and social issues are presented as "dos" and "don'ts" that have penalties/punishment for non-compliance. Business relationships are also expected to follow Islamic rules.

3.10. Summary

In this chapter the environment in which Iranian managers and financial analysts operate has been discussed. The history of the TSE, the structure of listed companies, rules and regulations relating to the TSE and listed companies, and some Islamic principles as a particular cultural factor which affects business relationships were also included in the discussion for their influence on business relationships in Iran.

It is shown that the TSE is an emerging and developing capital market, which has been affected by several factors such as Revolution, war, and privatisation. TSE listed companies are now operating in an environment, which is affected by different factors, such as regulations (e.g., the Iranian Commercial Code) and Islam, as a particular cultural factor. These factors theoretically create an appropriate environment in which financial analysts feel that the environment is safe to trust in corporate managers. All of these indicate that the TSE is in a unique situation, and this requires thorough investigation, particularly the business relationships between financial analysts and corporate managers. These considerations are important in developing the theoretical framework (chapter 4) and data analysis (chapter 6) in the Iranian context.

Chapter 4. Theoretical Framework- Trust Theory

4.1. Introduction

In the previous two chapters the Iranian context including the legislations and religion-Islam which have affected the behaviour of the participants (e.g., managers) in the Iranian capital market and also the significant role of financial reports as well as financial analysts in the capital market were discussed. It was indicated that the TSE is an emerging and developing capital market, which has been affected by several factors such as the Revolution, the war, and the privatisation. TSE listed companies are operating in an environment, which is affected by different factors such as regulations (e.g., the Iranian Commercial Code) and Islam as a particular cultural factor. These factors create an appropriate environment in which financial analysts feel that the environment is safe to trust in corporate managers. In addition, it was found that financial analysts play a crucial role in increasing the efficiency of capital market. However, financial analysts have to trust in corporate managers as the provider of the financial reports. Financial analysts may focus on some key characteristics of corporate managers to trust them such as integrity, benevolence, competence, and predictability.

Trust theory is discussed in this chapter because there is evidence which indicates that trust is a significant component in business relationships. Trust decreases risk and increases the quality of the relationship. As a starting point to this investigation, this chapter reviews the main characteristic as well as the main categories of trust in the literature. The aim is to present an overview of the most commonly held views about trust as a background to selecting the one particular model which is most likely to be able to be applied to the Iranian context.

Aspects of the trust theory and its operation that are thought essential for this research are reviewed by examining the nature, definitions, and perceptions of trust found in the literature. These are presented in sections two and three. Because the perceptions of the content and nature of trust may alter radically between environments and social contexts, the diversity of the perspectives of trust are also included in the discussion. A categorization of different perspectives of trust is included because it will assist in a forming a structure of the concept of trust. This is discussed in section four.

The diversity of perspectives about trust in the literature makes it difficult to study trust in abstract, in this research, therefore an attempt is made to discuss the reasons that make agreement between scholars necessary in the research about trust in general and in particular for the purposes of this research. It helped to define trust as a starting point in the agreement to study trust. This is presented in section five.

To apply the trust theory in this research, a theoretical model of trust was chosen from the literature. The components of this model are distinguished from each other. These are: trust, antecedent factors to trust, and outcomes of trust. The theoretical model chosen is modified to be adapted to the Iranian context. Firstly, the theoretical model is developed in a different cultural and economic context (e.g., the US), and secondly, religion as a highly significant cultural factor may change the influence of trust in business relationship in Iran. Therefore, Islam is added to the model as influential cultural factor, and as an antecedent factor to trust in the business relationships between financial analysts and corporate managers in the Iranian context. In the modified model trustworthiness of managers is judged based on four characteristics: integrity, benevolence, competence, and predictability.

To examine this model in the context, the financial analysts' perception about the reputation of managers, the appearance of financial statements, rules and regulations, and the level of religiosity (Islam) of managers are considered as the antecedent factors. These factors may influence the financial analysts' perception about managers' trustworthiness characteristics. The component of the model and their relationship are discussed in section six. Finally, the summary of the model is presented in section seven and the summary of the chapter in section eight.

4.2. Trust as a Relationship

Trust is considered as a particular type of relationship. Some scholars consider trust as a mutual relationship and others as one-sided. According to Glover (1995), trust relationship is similar to a fiduciary relationship. He identifies two characteristics of fiduciary: an undertaking and a reliance. "The undertaking conception of the relationship has its genesis in the acceptance by one party of another party's trust" (Glover, 1995, P.51). In Iran, the relationship between financial analysts and corporate managers can be considered as a fiduciary relationship, because according to the Commercial Code, corporate managers are responsible for providing the financial reports on which financial analysts rely.

Glover (1995, p. 74) argues that "a reliance characteristic may include two things. Either a person may rely in fact on another, or, in the circumstances, the person may be entitled to rely". He also argues that reliance in fact happens, where a person has actual trust or confidence in another. Business partners usually have this sort of confidence. He divides this reliance within a fiduciary relationship into as one or two-sided. “Two-sided reliance is where the parties rely on each other, mutually” (Glover, 1995 P.75) such as in a partner relationship. “One-sided reliance is where one party relies on another, often from a position of vulnerability or inequality” (Glover, 1995 P.75). As a consequence, the person in the lower position must place his/her trust in the person in the higher position of power and accept the risk of this reliance, for example, the relationship between the trustee of a pension fund and the investment manager (Wintoro, 2000). The relationship between financial analysts and corporate managers may be categorized as a one-sided reliance because financial analysts place their trust in corporate managers who have the greater power because they provide the information given in the financial statements.

There are two common characteristics of a fiduciary relationship between financial analysts and corporate managers: these are risk and trust. Firstly, financial analysts rely on corporate managers who are in the superior position, in terms of power, because they publish financial statements which form a major part of financial analysts’ assessment of the company. Secondly, the financial analysts accept the risk of using financial statements as a basis for their recommendations for investors because the quality of their recommendations depends on the quality of the information included in the financial reports. Trust in this partnership is vital.

4.3. Risk as an Essential Element in Trust Relationship

The literature shows that risk is an essential element in trust relationships because it has an interdependent relationship with trust. However, there is a lack of agreement relating to the definition of risk. For example, Nooteboom and Six (2003: p.3) state:

> A pervasive notion in the literature is that trust is associated with dependence and risk: the trustor depends on something or someone (the trustee or object of trust), and there is a possibility that expectation or hopes will not be satisfied, and that "things will go wrong". Yet one expects that "things will go all right".

A significant body of the literature on trust shows that many authors recognize the importance of risk in understanding trust but there is no agreement on how the relationship between trust and risk operates (e.g., Kee and Knox, 1970; Sheppard, Hartwick and Warshaw, 1988; Mayer, Davis and Schoorman, 1995; Das and Teng, 1998; McKnight, Cummings and Chervany, 1998; McKnight, Choudhury and Kacmar, 2002; Nooteboom and Six, 2003). For example, Mayer, Davis and Schoorman (1995, p.711) state "it is unclear whether risk is an antecedent to trust, is trust, or is an outcome of trust". Kee and Knox (1970) discuss that only in risky situations trust is a relevant factor. Hosmer (1995) and Johnson-George and Swap (1982), argue that trust essentially means to take a risk and leave oneself vulnerable to the actions of the other party as a trustee.

Mayer, Davis, and Schoorman (1995) consider risk as the crucial element in distinguishing trust and cooperation, and they believe that trust involves risk "the need for trust only arises in a risky situation (p.711)" but " cooperation does not necessarily put a party at risk" (P.712).

Bhattacharya, Devinney and Pillutla (1998) in their discussion on the characteristics of trust found that a risky environment is one of the determinants that affects trust. They state, “trust exists in an uncertain and risky environment” (Bhattacharya, Devinney and Pillutla, 1998, p.461). They emphasise risk in their definition of trust (p.462): “trust is an expectancy of positive (or nonnegative) outcomes that one can receive based on the expected action of another party in an interaction characterized by uncertainty”. Mayer, Davis, and Schoorman (1995) also consider risk as a tool to distinguish between trust and trusting behaviour. They state “the fundamental difference between trust and trusting behaviours is between a “willingness” to assume risk and actually “assuming” risk” (p.724).

Even though there is still a lack of agreement about the definition of risk and its connection to a trusting relationship, it is acknowledged as a necessary condition. Risk is therefore seen as a component in trust relationships.

4.4. A Review on Different Perspectives on Trust

Trust, as a relationship, is a concept that has been investigated by scholars in the social sciences from different perspectives, in which each discipline uses its own lens and approaches for its definition (e.g., Lewicki and Bunker, 1995; Mayer, Davis and Schoorman, 1995; Bhattacharya, Devinney and Pillutla, 1998). The reason for this diversity is that there has not been any clear definition of trust which fits all possible eventualities (Bhattacharya, Devinney and Pillutla, 1998). According to Kee and Knox (1970) and Cook and Wall (1980) the problem for defining trust is that there has not been any clear differentiation among the factors that contribute to trust, trust itself, and outcomes of trust. This is the result of researchers studying trust from different perspectives including anthropology, economics, psychology, political science and sociology that every discipline views trust from its own unique perspective. The integration of these different perspectives would be useful in the research on trust.

Lewicki and Bunker (1995; 1996) based on the research on three-part categorization of Worchel (1979) agreed with Worchel that the concept of trust may be categorized based on how trust is viewed: (i) as an individual characteristic that focuses on personality or dispositional perspectives on trust, (ii) as an institutional phenomenon that focuses on sociological and economic perspectives, or (iii), a characteristic of interpersonal transactions that focuses on development and dynamics of interpersonal and group level trust from a psychological perspective (social psychologists' perspective).

Firstly, personality theorists focus on individual characteristics (Lewicki and Bunker, 1996), e.g., Worchel (1979) described trust as a belief, expectancy, and a feeling. From this perspective, trust is conceptualised as a personality trait (Lewicki and Bunker, 1995) or propensity to trust (Mayer, Davis and Schoorman, 1995; Mayer and Davis, 1999) or a generalized response. Lewicki and Bunker (1995: p. 135) state "trust is conceptualised as a belief, expectancy, or feeling that is deeply rooted in the personality, with its origins in the individual's early psychosocial development" which is known as a disposition to trust. Rotter (1967: p.651) defines trust as "an expectancy held by an individual or group that the word, promise, verbal, or written statement of another individual or group can be relied on". By this definition, a financial analyst needs to have the disposition and expectation to trust a corporate manager.

Secondly, sociologists and economists focus on trust as an institutional phenomenon (Lewicki and Bunker, 1995; Lewicki and Bunker, 1996). Sociologists see trust as a social structure, but economists see it as an economic-choice mechanism (Lewicki and Bunker, 1995; McKnight and Chervany, 2001-2002) or a form of implicit contracting (Alchian and Demsetz, 1972; Arrow, 1974). Economists and sociologists are interested in how institutions create motivations to reduce the anxiety and uncertainty associated with transactions (e.g., Zucker, 1986). This perspective, concentrates mostly on trust as a phenomenon between institutions and on the trust that individuals put in these institutions (Lewicki and Bunker, 1996). Neu (1991: cited in Lewicki and Bunker, 1995) distinguishes the differences between trust in individuals and trust in institutions. He argues that one can have trust in an individual (personal trust) and trust in an organized system (institutional trust). The way to develop personal trust is by repeating interactions with others based on familiarity, interdependence, and continuity in relationships. In this view, the aim of developing personal trust is to meet an individual's need to reduce uncertainty in regularized social interactions with those whom they trust. Institutional trust is developed when individuals generalize their personal trust to large societies (e.g. organizations) which are made up of individuals with whom they have low familiarity, low interdependence, and low continuity of interaction (Lewicki and Bunker, 1995).

Thirdly, a social psychological perspective focuses on the transactions between individuals that create or destroy trust at interpersonal and group levels, unlike the personality construct approaches that focus on how early life experiences impact on trust development (Lewicki and Bunker, 1995) or briefly, on interpersonal transactions' characteristics (Lewicki and Bunker, 1996). From this perspective, trust has been characterized, in terms of the expectations and willingness of the trusting party in a transaction, the risk associated with acting on such expectations, and the related factors that either increase or inhabit the development and maintenance of trust. Boon and Holmes (1991, p. 194), for example, define trust as "a state involving confident positive expectations about another's motives with respect to oneself in situations entailing risk". This definition can be applied to a financial analyst who has the appropriate expectations and confidence in the corporate manager, to risk trusting him/her.

The social psychologists' view of trust has been chosen to investigate the relationship between the Iranian financial analysts and corporate managers because: Firstly, this relationship is a type of transactions between two parties. Secondly, financial analysts expect that: managers will report honestly, they are benevolent, and are consistent in their behaviour. Thirdly, the relationship between financial analysts and corporate managers is associated with the risk of error, fraud and earnings management. Fourthly, to reduce risk in the association, corporate managers should demonstrate that they possess qualities such as integrity, benevolence, competence and consistency in their behaviours (Sheppard, 1998; Mayer and Davis, 1999).

4.5. A Conceptual Definition of Trust

Trust is central to interpersonal and commercial relationships (Morgan, 1994) because it is crucial wherever risk, uncertainty, or interdependence exist (Mayer, Davis and Schoorman, 1995; McKnight and Chervany, 2001-2002). There is a diversity of opinion about trust among scholars but some have attempted to come to an agreement about it. For example, McKnight and Chervany (2001-2002) thought it was important to have a clear definition of trust for two reasons. One was to classify and evaluate findings across studies. Second was that following the same or a similar definition would help researchers to communicate better and provide better solutions. This typology of trust would be a very useful tool within analysing trust in a business environment where communication is vital.

McKnight and Chervany (2001-2002) compared different trust definitions in order to find theoretical trends and created an acceptable typology. They found that from about eighty articles and books on trust, sixty-five provided definitions of trust. The articles and books were from the fields of psychology/social psychology (23), sociology/economics/political science (19), and either management or communications (23). They divided the trust definitions into two large groups. They concluded that "many of them could be categorized into different conceptual types, such as attitudes, beliefs, behaviours, and dispositions, while others could be categorized as reflecting different referents: trust in something, trust in someone, or trust in a specific characteristic of someone (e.g., honesty). In terms of specific characteristics, sixteen categories of trust-related characteristics were identified" (McKnight and Chervany, 2001-2002, p.40). Table 4-1 shows sixteen categories that can be distilled into five second-order conceptual categories by comparing one type of characteristic with another. As Table 4-1 shows the four second-order categories (competence, benevolence, integrity, and predictability) cover 91.8 percent of the characteristics- based trust definitions found. They focus on these four second-order categories as the person's key characteristics of trustworthiness.

McKnight and Chervany (2001-2002) also categorize those definitions that were based on the summary of referent characteristics and conceptual types of definitions. They believe that both categorizations of trust definition are related and compliment each other because they are types of trust construct and objects of trust. They reduced the conceptual type of trust into six (structural/institutional, disposition, attitude, beliefs, intention, behaviour) and formed a five-by-six table (Table 4-2). The dimensions of that table are these two categories (referent characteristics and conceptual types). Each definition in the sixty-five articles and books was mapped into these two dimensions. The result was as expected; trust definitions ranged all over the map, as is shown in Table 4-2.

Based on this mapping (Table 4-2) and a conceptual analysis of how trust types, dispositional, institutional, and interpersonal trust, relate to one other (suggested by McKnight, Cummings and Chervany (1998) which will be discussed in detail later in this chapter), McKnight and Chervany (2001-2002) formulated an interdisciplinary model of trust types as is shown in Figure 4-1. This model includes all of the concepts in the columns in Table 4-2. Table 4-2's disposition column shows disposition to trust. The structural/institutional column shows institution-based trust. The attitude and belief columns were combined into trusting beliefs, which then were defined as having both affective and cognitive components (Rempel, Holmes and Zanna, 1985). Trusting intentions cover the intention column (McKnight and Chervany, 2001-2002, pp. 40-41). In this model, the trust related behaviour construct lies outside the trust typology.

Finally, based on the review on the different perspectives on trust (discussed in section 4-4) and the formulated model (Figure 4-1), McKnight and Chervany

(2001-2002), defined trust as “willingly become vulnerable to the trustee, whether another person, an institution, or people generally, having taken into consideration the characteristics of the trustee” (McKnight and Chervany, 2001-2002, p.42).

In this research, the definition of trust proposed by McKnight and Chervany (2001-2002) is used for a number of reasons. Firstly, in their definition there are at least two parties. This fits the partnership in a trust relationship of financial analysts and corporate managers. Secondly, willingness to be vulnerable is one of the critical elements of trust in their definition. This is mirrored in a vulnerable situation when the financial analyst expects the corporate manager to act honestly and benevolently toward him/her. Thirdly, this definition is based on the social psychologists view on trust that emphasizes the interpersonal relationships as the nature of trust. This also holds for the relationship between financial analysts and corporate managers. Finally, this definition considers the role of the context and participants in the relationship to enhance or maintain a trust relationship. Trust is, therefore, able to influence the quality of the relationship between financial analysts and corporate managers. This is an encouragement encourage the use of the trust theory in studying the relationship between the Iranian financial analysts and corporate managers. In the next section the modified model of trust is discussed.

Table 4-1: Trust Referent Characteristic-Based Definition Categories

Please see print copy for Table 4.1

Table 4-2: Mapping of literature trust definitions based on CT/ RC

Please see print copy for Table 4.2

Please see print copy for Figure 4.1

Figure 4-1: An Interdisciplinary Model of High Level Trust Concepts

4.6. The Modified Model of Trust

Trust is central to interpersonal and commercial relationships (Morgan, 1994) because it is crucial wherever risk, uncertainty, or interdependence exist (Mayer, Davis and Schoorman, 1995; McKnight and Chervany, 2001-2002). A number of models on how trust operates in these relationships have been developed. The type of model developed often depends on the perspective of the researcher and the issues which are the focus. For instance, models vary in their definition of 'trust', but in common, all models seek to: (i) identify the factors or variables that are significant in the building and maintaining of trust between individuals in a relationship; e.g., integrity, benevolence, competence, (ii) discover how these factors act and interact in the development of trust between parties.

However, most models are developed in a particular cultural and commercial context e.g., within developed countries such as the US or western European countries. These models may not work well in a different cultural context where highly significant cultural factors can influence the operation of trust in several ways. It is the intention here to demonstrate how a traditional trust models can be modified to assist in understanding how trust operates in business relationships in one particular context where religion is a dominant factor. In this research the theoretical trust model developed by McKnight and Chervany (2001-2002) is modified based on the particular Iranian culture and context. Islam is added to the model as a part of antecedent factors to trust (disposition of trust and institution-based trust) as well as an influential factor in trusting beliefs (key factors of managers' trustworthiness characteristics). This is consistent with McKnight and Chervany (2001-2002) who focus on an integrated perspective as a guideline for the study of trust (Figure 4-2).

The theoretical model developed by McKnight and Chervany (2001-2002) is chosen for this research for three reasons. Firstly, it is an interdisciplinary model that considers the three types of trust which feature in the trust literature. Secondly, it consists of a conceptual analysis of how trust types, dispositional, institutional, and interpersonal trust, relate to one other. Thirdly, it is based on conceptual analysis of the literature on trust that addresses referent characteristics and conceptual types of trust. Fourthly, it distinguishes components of trust (antecedent factors to trust, trust itself, and outcomes of trust) from each other. Fifthly, it focuses on the trustor (financial analyst)'s beliefs and attitudes about the trustee (corporate manager).

The model needs to be modified to fulfil the aims of this research because it has been developed in a culture which differs from the context of this research. In Iran, Islam is a significant cultural factor, which may influence the operation of trust in the relationships between financial analysts and corporate managers. It is therefore considered as a part of the proposed model. In the following sections this modified model is discussed.

Please see print copy for Figure 4.2

Figure 4-2: Comprehensive Trust Model

4.6.1. Three Parts of the Modified Trust Model

As Figure 4-2 shows, the theoretical model of trust consists of three parts: antecedent factors to trust, trust itself, and outcomes of trust. This was derived from the literature on trust which treats trust as a complex, not a unitary, concept (McKnight, Choudhury and Kacmar, 2002).

In the following subsections these three components of the trust model (antecedent factors to trust, trust, and outcomes of trust), their relationships as well as the relationship between Islam and these three components of trust are discussed.

4.6.2. Antecedents Factors of Modified Trust Model

Antecedent factors to trust are those groups of factors that impact on the trustor's perception about the trustee's characteristics and also his/her trust intention towards the trustee. Therefore, because in this research the model is multidimensional, antecedent factors to trust can all be defined as personal and sociological factors that impact on the individual's perception of the trustee's characteristics and their willingness to depend on the trustees. In the literature of trust, personal factors are considered as a dispositional-based trust and sociological factors as situational based trust. In this research Islam is included as a part of the antecedent factors to trust since Islam has both personal and sociological aspects for relationships (Figure 4-3). This includes business relationships. In the next section these two aspects are briefly discussed.

Please see print copy for Figure 4.3

Figure 4-3- Comprehensive Modified Trust Model

4.6.2.1. Dispositional Based Trust

Personal (dispositional) trust is the tendency to be willing to depend on others (McKnight, Cummings and Chervany, 1998). McKnight, Cummings and Chervany (1998) recognize two types of disposition to trust: (i) faith in humanity and (ii) trusting stance. They state that these two types of disposition to trust affect a trusting intention in different ways. Faith in humanity means that financial analysts believe that managers are, in general, well-meaning and reliable (e.g., Rosenberg, 1957; Wrightsman, 1991; McKnight, Cummings and Chervany, 1998). A trusting stance means that financial analysts believe that, regardless of whether managers are reliable or not, they will obtain better interpersonal outcomes by dealing with them as if they are well-meaning and reliable (McKnight, Cummings and Chervany, 1998). It is an example of a trusting stance when financial analysts believe that financial statements issued by corporate managers are useful tools for them to use when they are analysing a company's financial position.

According to the dispositional-based trust financial analysts display a propensity to use financial statements in their analysis because they trust corporate managers in general (faith in humanity) or they are willing to deal with them by using the companies' financial statements regardless of whether corporate managers are thought to be trustworthy. Financial statements are still useful tools (trusting stance). These are examples of dispositional-based trust.

In this thesis, the reputation of managers is considered as the pattern of personal factors for the purposes of examination of the model. Because there is some risk in the relationship between financial analysts and managers, in order to reduce it, financial analysts consider the managers' reputations. Thus, the belief in the reputation of managers covers both faith in humanity and a trusting stance for two reasons. Firstly, faith in humanity is a sign of a financial analyst's long experience with others (McKnight, Cummings and Chervany, 1998). Secondly, if financial analysts do not have any information about a situation, in their relationship with corporate managers, they will rely on their basic beliefs about human nature (Wrightsman, 1991; McKnight, Cummings and Chervany, 1998).

4.6.2.2. Institutional Based Trust

Institution-based trust means that one believes impersonal structures support a person's chance to be successful in a certain situation (McKnight, Cummings and Chervany, 1998). Situational normality and structural assurances are two types of institution-based trust that are discussed in the literature (e.g., see McKnight and Chervany, 2001-2002).

Situational normality is defined as "the belief that success is likely because the situation is normal" (McKnight, Cummings and Chervany, 1998, p. 478). It has its roots in the belief that if things appear normal and predictable and every thing seems to be suitably organized in structured setting, it is likely to be easy to make a successful interaction (McKnight, Cummings and Chervany, 1998). These researchers give a practical example of the situational normality in the following:

> a person who enters a bank tends to expect a setting conductive to both customer service and fiduciary responsibility that is reflected in the workers' professional appearance, the prosperous and secure physical setting, and the friendly, yet safe, money-handling procedures (McKnight, Cummings and Chervany, 1998, p.478).

The idea that a situation is normal helps the trustor feel comfortable enough to quickly form a trusting intention towards the trustee in the relationship (McKnight, Cummings and Chervany, 1998). Financial analysts' perception about the quality appearance of financial reports makes them confident that the process of providing financial reports is suitably organized. This helps them to think that the process is normal and predictable and consequently, the financial reports are reliable.

In this research, consistent with McKnight, Cummings and Chervany (1998) the quality appearance of the financial reports (classification and the quality of printing) is considered as the pattern for the situation normality belief in the relationship between financial analysts and corporate managers for four reasons. Firstly, the first relationship between financial analysts and managers is through the companies' financial reports which financial analysts use to judge corporate managers' performance. Secondly, financial reports are the output of the financial reporting process in which the corporate managers have an important role. Thirdly, the appearance of financial reports may impact on the perception of financial analysts about the quality of the financial reporting process. Fourthly, the financial analysts' perception that financial reporting process is suitably organized reduces the risk of lack of competence, benevolence, integrity and predictability. Consequently, the idea that the financial reporting process is normal, leads financial analysts to form a trusting intention towards the managers (McKnight, Cummings and Chervany, 1998).

Structural assurances is another type of institution based trust which comes from a sociological belief (McKnight, Cummings and Chervany, 1998). Sociologists have found that trust in people is supported by institutional structures (i.e., legal, governmental, contractual, and regulatory), which create an environment in which participants feel safe and secure enough to trust another party (Zucker, 1986; McKnight, Cummings and Chervany, 1998; McKnight and Chervany, 2001-2002). Culnan and Armstrong (1999) found that "procedural fairness (an organizational construct similar to structural assurances) helps build general trust" (cited in: McKnight, Choudhury and Kacmar, 2002, p.305).

Within the financial market, structural assurances imply a belief in the process to providing financial statements which are strictly governed by Law, professional standards, and legal structures (e.g., the Commercial Code, TSE's rules and regulations, accounting standards) which guarantee that financial statements are prepared properly. This relates to trusting beliefs about corporate managers who are unknown to the financial analysts who make judgement about a manager based on general feelings about the manager's environment (McKnight, Choudhury and Kacmar, 2002). The structural assurances of the process of providing financial statements affect a willingness to depend on corporate managers. This is because a high level of structural assurances means that the financial analyst has been able to overcome any uncertainties about the process of providing financial statements and that she/he is comfortable with using the financial statements provided in the process (McKnight, Choudhury and Kacmar, 2002).

In this research, structural assurances are considered to be the Iranian Commercial Code, accounting and auditing standards, and the TSE's rules and regulations for a number of reasons. Firstly, they are common measures that enable financial analysts and corporate managers to judge financial events. This assists them to distinguish between correct and misleading information. Secondly, regulations identify what financial analysts can expect from corporate managers. Thirdly, the existence of regulations also enables financial analysts to feel assured about their expectation of the managers' future behaviour (McKnight, Cummings and Chervany, 1998). Fourthly, regulations require that corporate managers report accurately. This reduces the risk of fraud that has its roots in any lack of integrity or benevolence. Fifthly, regulations and accounting standards reduce the risk of inconsistency in the behaviour of corporate managers.

4.6.2.3. The Relationship between Islam and Dispositional and Institutional Based Trust

It has already been shown in chapter three that the Iranian society is religiously based with a majority of the population professing to be Muslim. Islam has both personal and social dimensions and because it is an all encompassing religion, can impact on dispositional and institutional based trust. Thus, in Iran, because religion has an affect on most people's personal and social behaviour it also impact on dispositional-based trust. For example, Islam recommends that people trust all others unless they find a reason not to trust[1]. This is consist with the faith in humanity belief. In addition to this, the Islamic principles "God is the owner", "life is a test", and also the Islamic rule ***"La Zarar Wa La Zirar"*** support the faith in humanity belief as a personal dimension of trust and is an example of the Islamic ethical stance for relationships (see chapter 3).

Islam also encourages people to be involved in group activities. This also supports a trusting stance. In the social dimension of Islam, it is presupposed that people are trustworthy[2], and as a result society in general is trusting. This belief supports the normality situation as a part of situational based trust.

Another aspect of situational based trust is structural assurances (McKnight, Cummings and Chervany, 1998). Islam has rules about conducting social relationships which make for a safer environment and enables individuals to trust each other. This is not because people know each other personally, but because

[1] It is a general belief in Islam that other people are trustworthy unless proven otherwise.
[2] See footnote number 1.

the law provides assurances that the person they are trusting, as a result of possibility of punishment, is afraid to harm them (see chapter 3).

There are two reasons that cause structural assurances operate more effectively in an Islamic context. Firstly, the main goal for every Islamic believer is to prepare for the Day of Judgment. This is because, according to Islamic beliefs, this worldly life is temporary, permanent life is after death. Secondly, punishment in Islam has two dimensions: (i) punishment by law and (ii) punishment by Allah on the Day of Judgment. According to Islamic Law it is the duty of the government to protect the people's welfare. There are laws that require the government to punish those that harm others in any way. For example, in any situation of wrongdoing there are two types of rights: the rights of the person that lost his/her benefit because of the actions of the wrongdoer(s), and the right of society that has been affected by a wrongdoer's actions. The court sees that the benefit is returned to the victim from the lawbreaker. Law enforcement on the behalf of society is illustrated by the belief that people should feel safe in both public and social perspectives, lawbreakers are therefore punished based on the social effects of the crime. Because the Day of Judgment is considered more important and the final goal of all, the breaking of the law may result in punishment in this world and the loss of benefit on the Day of Judgement. Consequently, devout Islamic people will not become involved in those activities that might result in punishment. Thus, the Islamic rules impact on situational based trust and make it more effective.

In summary, adherencing to Islamic rules make the environment safer for business relationships. Firstly, believers in Islam are theoretically trustworthy because

Islam is related to ethical behaviour. Secondly, Islam has rules to punish lawbreakers for damaging others' welfare. Finally, based on Islamic beliefs, lawbreakers will be punished in the next and permanent life by God.

Although Islamic beliefs have both personal and social dimensions it is difficult to distinguish whether its effects are part of personal characteristics such as ethical behaviour or social contracts, rules, and legislations. Therefore, in the modified model to be used in this research, Islam is seen as a part of dispositional as well as situational based trust. The next section explains trust as the central part of the trust model.

4.6.3. Trust

Trust in managers, as the central part of the modified model, is defined as a multidimensional construct with two inter-related components: trusting intentions (willingness to depend) and trusting beliefs. These two aspects are discussed below.

4.6.3.1. Willingness to Depend

Willingness to depend is a trust construct (McKnight, Cummings and Chervany, 1998) that reflects volitional vulnerability (Mayer, Davis and Schoorman, 1995). The willingness to trust is the outcome of trust evaluation, which takes into account the levels of dispositional, institutional and interpersonal trust (Tan and Sutherland, 2004) and produces specific behavioural intentions (McKnight, Choudhury and Kacmar, 2002) such as the intention to use financial statements by financial analysts. If a financial analyst is willing to depend on a manager (i.e., willing to accept general vulnerability), he/she is then more likely to be willing to accept the specific vulnerabilities associated with using the financial statements that are provided by managers as the source of information for decision-making (McKnight and Chervany, 2001-2002).

4.6.3.2. The Relationship between Islam and Trusting Intention

Willingness to depend is a trust construct (McKnight, Cummings and Chervany, 1998) in that it reflects volitional vulnerability. According to McKnight, Choudhury and Kacmar (2002) displaying a general willingness to depend is the first step to trust construct, because it produces specific behavioural intentions. If one is willing to depend on another (i.e. willing to accept general vulnerability), one is then more likely to be willing to accept specific vulnerabilities associated with that person. Islamic beliefs encourage people to be willing to depend on other committed religious people in a relationship because of the following reasons.

Firstly, Islam supports the belief of faith in humanity and a trusting stance based on ethical principles. Secondly, Islam improves the situation normality and structural assurances since it has rules for these types of relationships. All of these reasons reduce the risks in relationship, for example, the risk of fraud. As a result of Islamic influences, financial analysts are willing to depend on corporate managers, especially those who are committed Muslims.

4.6.3.3. Trusting Beliefs

Trusting beliefs are perceptions of the trustworthiness of the object of trust (McKnight and Chervany, 2001-2002). Trusting beliefs are also the trustor's perception that the trustee possesses characteristics that would benefit the trustor

(McKnight, Choudhury and Kacmar, 2002). McKnight and Chervany (2001-2002) reinforce this opinion when they state that trust means that one believes that the other party has one or more characteristics beneficial to oneself.

Mayer, Davis, and Schoorman (1995), McKnight, Choudhury and Kacmar (2002) and Yousafzai, Pallister and Foxall (2003) in their analysis of previous research on trust, conclude that trusting beliefs come from a long history of research that considers the essence of trust to be perceptions about ethical characteristics (see also Ring and Van de Ven, 1994). These perceptions include integrity (Bulter, 1991), benevolence (Strickland, 1958), ability (Kee and Knox, 1970; Gabarro, 1978; Bulter, 1991), and predictability of the other party (Rempel, Holmes and Zanna, 1985; Bulter, 1991), or combinations of such characteristics (Mayer, Davis and Schoorman, 1995).

Over time, researchers have focused on three or four of such trust beliefs. These include integrity (trustee honesty and promise keeping), benevolence (trustee caring and motivation to act in the trustor's interests), competence (ability of the trustee to do what the trustor needs), and predictability (consistency of trustee behaviour) (e.g., Mayer, Davis and Schoorman, 1995; McKnight, Cummings and Chervany, 1998; McKnight, Choudhury and Kacmar, 2002). Most other trust beliefs cluster conceptually with these (McKnight and Chervany, 2001-2002; McKnight, Choudhury and Kacmar, 2002). Finally, McKnight and Chervany (2001-2002) conclude that the most common factors of trustworthiness of a trusted person proposed by scholars are integrity, benevolence, competence, and predictability.

In terms of characteristics, financial analysts want corporate managers to be willing and able to act in the shareholders' interest, honest in published information, as well as capable and predictable in their behaviour (McKnight and Chervany, 2001-2002). Mayer, Davis and Schoorman (1995) discuss that a trustee who possesses these qualities is very pleasing as an exchange partner. Thus, from the perception of financial analysts, managers who are honest, benevolent, competence, and predictable in their behaviour are trustworthy. The following sections explain these four trusting beliefs.

4.6.3.3.1. Integrity

Integrity is considered as an important determinant of trust in interpersonal and group relationships, and comprehensive perspectives about trust (e.g., Gabarro, 1978; Mayer, Davis and Schoorman, 1995; Lewicki, McAllister and Bies, 1998; McKnight, Cummings and Chervany, 1998; Wintoro, 2000; McKnight and Chervany, 2001-2002; McKnight, Choudhury and Kacmar, 2002). Integrity refers to the honesty and good moral character of the trustee as perceived by the trustor. This is consistent with Mayer, Davis and Schoorman (1995) who define integrity as "the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable"(p.719). McKnight and Chervany (2001-2002) describe integrity as the trustor's belief that the other party makes agreements in good-faith, tells the truth, acts ethically, and fulfils promises.

Moorman, Deshpande and Zaltman (1993) conducted a questionnaire to find the factors affecting trust in market research relationships. The result of this study indicated that respondents consider expertise and tactfulness as important factors in building trust.

Consequently, integrity is considered as a vital factor in trust relationships such as business relationships. For example, this is illustrated in the relationship between financial analysts and corporate managers, where financial analysts expect that managers report honestly and give accurate information. The financial analyst's perception about the managers' integrity may be a factor for the financial analysts in building the level of trust in managers.

4.6.3.3.2. Benevolence

A number of researchers have included benevolence (e.g., Strickland, 1958; Larzelere and Huston, 1980; Mayer, Davis and Schoorman, 1995; Wintoro, 2000) or characteristics similar to benevolence as a basis for trust (e.g., Kee and Knox, 1970; Cook and Wall, 1980). Benevolence is expressed in a number of ways, such as loyalty, motivation to take care about another's interests, and supportiveness (Bulter, 1991; Mayer, Davis and Schoorman, 1995; Wintoro, 2000; McKnight and Chervany, 2001-2002). For example "the trustee's goals include positive outcomes for the trustor" (Zolin, Fruchter and Hinds, 2003), "one believes that the other party cares about one and is motivated to act in one's interest" (McKnight and Chervany, 2001-2002, p. 49), "the extent to which a trustee is believed to want to do good for the trustor, aside from an egocentric profit motive"(Mayer, Davis and Schoorman, 1995, p. 718), or "the perception of a positive orientation of the trustee toward the trustor" (Mayer, Davis and Schoorman, 1995, p. 719).

In a work place relationship, Whitener, Brodt, Korsgaard and Werner (1998) considered benevolence as a part of trustworthy behaviour of the manager and that it consists of three actions: "(1) showing consideration and sensitivity towards the employees' needs and interests, (2) acting in a way that protects the employees' interests, and (3) refraining from exploiting others for the benefit of one's own interests" (p.517). These actions may lead employees to perceive managers as loyal and benevolent.

Benevolence therefore, in the trust literature, is considered as a significant factor in trust relationships between two parties. It seems that benevolence is also a significant factor in business relationships such as those between financial analysts and corporate managers because it reduces the risk of self-interest by managers.

4.6.3.3.3. Competence

Trust theorists in the literature (e.g., Strickland, 1958; Mayer, Davis and Schoorman, 1995; McKnight, Cummings and Chervany, 1998; Whitener, Brodt, Korsgaard and Werner, 1998; Wintoro, 2000; McKnight and Chervany, 2001-2002; McKnight, Choudhury and Kacmar, 2002) have proposed that competence is a key factor of trustworthiness. Several synonyms have been used for competence such as: ability, an essential element of trust, expertise, expertness, functional/specific competence, interpersonal competence, judgment, and business sense (Mayer, Davis and Schoorman, 1995; Zand, 1997). Zand (1997) explains his understanding of ability in the following example:

> People employ a locksmith to fix a lock, a cobbler to repair shoes, and a pilot to fly a plane. In each case, their willingness to trust the other person depends on their estimate of the person's competence to perform the task at hand (Zand, 1997, p. 114).

Mayer, Davis and Schoorman (1995) consider that competence and ability are similar and define ability as: "that group of skills, competencies, and characteristics that enable a party to have influence within some specific domain" (Mayer, Davis and Schoorman, 1995, p.717). The domain of the ability is specific because the trustee may be highly skilled in some particular area; this results in that person being trusted with related tasks. However, the trustee may have little skill, training, or be informed in another area. Thus, trust is domain specific (Zand, 1972).

McKnight and Chervany (2001-2002, p. 49) describe competence as the trustor's belief that "the other party has the ability or power to do for one what one needs done". Other scholars consider competence as the skills and resources needed to perform the task (e.g., Bulter, 1991; Sitkin and Roth, 1993; Zolin, 2002).

Competence is a necessary characteristic for managers to be trusted by financial analysts for two reasons. Firstly, financial analysts expect managers to have enough knowledge, experience, and ability to run the company properly. Secondly, competence reduces the risk of poor performance in the company and the risk of errors in the financial reports.

4.6.3.3.4. Predictability

Predictability is based on consistency (Rempel, Holmes and Zanna, 1985). It is reasonable for people to expect that others are consistent in their behaviour in order to make them comfortable with reasonable trustees' changing behaviour. McKnight and Chervany (2001-2002) describe predictability as the belief of a person that another's actions (good or bad) can be predicted in a certain situation because of their past consistency. Thus, predictability would be more important to trust in ongoing interactions between the trustor and trustee in the initial trust relationship (Mayer, Davis and Schoorman, 1995; McKnight and Chervany, 2001-2002).

Some researchers have considered predictability as a key determinant of trust. For example, Lane and Bachmann (1998, p. 66) define trust as "the probability with which an actor assess that another actor will act in a certain way". Luhmann (1979) cited in Lane and Bachmann (1998) argues that people make predictions (or have expectations) relating to the behaviour of others. If they are confident that their predictions will be fulfilled then they trust others.

4.6.3.3.5. The Relationship between Islam and Trusting Beliefs

As discussed in chapter three, Islam has both personal and social dimensions. Religious beliefs in general and Islamic beliefs in particular, are reflected in the action of the people involved. Therefore, religious beliefs help the person to form an opinion about those who hold the same religious belief. It can therefore be claimed that the level of religiosity behaviour can affect the perception of a trustor in a trustee's character.

Scholars have paid attention to formal rules and regulations of institutions as structural assurances but there has been no recorded attention on the important effects of religion on societies such as Iran. Therefore, the trustor's perception of the level of religiosity of the trustee can affect the perception of the trustor's trusting beliefs such as managers' integrity, benevolence, and predictability. The reason is that when somebody shows by their actions that they believe act upon in a set of religious beliefs, theoretically, this gives them confidence to believe the person is honest, benevolent and predictable. This also means that a group of practicing religious of people should have characteristics such as integrity. Consequently, religious people are thought to be honest and benevolent, and in general trustworthy.

The level of religiosity cannot affect competence because this ability is a technical factor not an ethical one although some see the situation differently. For example, the Islamic rule "***La Zarar Wa La Zirar***" does discourage a Muslim from self-harm or harm others. Therefore, Muslims should not accept a job that is beyond their capability. It could be claimed that in Islam, competence is an ethical factor like integrity and benevolence. Thus, Islam impacts on the trusting beliefs of financial analysts about the managers' characteristics.

4.6.4. An Interrelationship Among the Trustworthiness Key Factors

A trustworthy manager can be determined by four key factors: integrity, benevolence, competence, and predictability. These key factors should not be viewed separately but in combination to determine the overall level of trust (Mayer, Davis and Schoorman, 1995). A high level of one factor will be offset by a low level of another. Thus, "trustworthiness should be thought of as a continuum, rather than the trustee being either trustworthy or not trustworthy" (Mayer, Davis and Schoorman, 1995, p.721). For example, if a financial analyst perceives that a manager's integrity, benevolence, competence, and predictability is high, this manager would be judged trustworthy. In another example, if a financial analyst believes benevolence, integrity, and predictability are important factors in trust but a corporate manager displays low ability, but if he/she demonstrates strong benevolence, integrity and predictability towards the financial analyst then the financial analyst will still trust the corporate manager but the level of trust will not be as high as in the former example. If, however, the financial analyst believes that ability is the important factor in trust, he/she will not trust the corporate manager.

4.6.5. Behavioural Intentions

The final result of the trustor and trustee relationship is trustor behaviour (McKnight, Choudhury and Kacmar, 2002). For example, the final result of the relationship between financial analysts and managers is the financial analysts' behaviour (their intention to use financial information provided by managers). This study will focus on behavioural intentions instead of actual behaviour. Some researchers have used this research method (e.g., Agarwal and Prasa, 1998; Karahanna, Straub and Chervany, 1998; Venkatesh, 1999; Venkatesh, 2000; McKnight and Chervany, 2001-2002). Prior research has also confirmed a strong correlation between behavioural intentions and actual behaviour (Sheppard, Hartwick and Warshaw, 1988; Venkatesh and Davis, 2000; McKnight, Choudhury and Kacmar, 2002). Behavioural intentions are defined in terms of the financial analysts' intentions to engage in a specific behaviour i.e., using financial information in their decision-making. This intention relates to a behaviour that a user may perceive as risky. Some scholars believe that wherever there is risk then trust becomes an important issue (e.g., Sitkin and Roth, 1993; Rousseau, Sitkin, Burt and Camerer, 1998). Finally, the financial analysts' behavioural beliefs and intentions lead to related behaviour, as the theory of reasoned action shows (McKnight and Chervany, 2001-2002).

4.6.6. The Relationship between the Components of the Trust Model

Trust as a multidimensional and dynamic concept (Johnson-George and Swap, 1982) has different components which affect each other. In the following sections the effects of the components of the trust model on each other will be discussed.

4.6.6.1. The Relationship between Dispositional Based Trust and Institution Based Trust

A disposition to trust is defined as a generalized tendency across situations and persons which colours our interpretation of situations and actors in situations. Thus, the influence institution-based trust leads to a disposition to trust. This reflects the beliefs about the situation (McKnight and Chervany, 2001-2002, p.45).

Dispositional-based trust affects institution based trust in two ways. Firstly, faith in humanity affects structural assurances beliefs because faith in humanity reflects the person's life experiences with others. A person who believes that people in general, are honest, benevolent, and predictable may have stronger beliefs in the security afforded by human institutions. The quality of the person's feeling about people in general may be a part of the person's belief about structural assurances, because people play roles that are related to how secure the situation seems. Thus, what a person feels about people in general will possibly influence his/her structural assurances. This seems more likely to be true at the beginning of a relationship, when beliefs about the situation are based more on assumptions than on facts (McKnight, Cummings and Chervany, 1998). This idea is supported by Islamic beliefs, as Islam supposes that people are generally trustworthy. As a result, when financial analysts feel that corporate managers are trustworthy, this results in them having added confidence in the implementation of rules. This belief will be reinforced when they obey rules as the responsibility of Muslims.

Secondly, a trusting stance will affect belief in institutional trust. Trusting others in a formal group makes success easy, regardless of beliefs about specific people in the group. This is consistent with a perception that safety nets (i.e., rules and regulations and guarantees) are a protection against those involved in illegal activities. This means that a high level of trusting stance facilitates a high level of structural assurances belief (McKnight, Cummings and Chervany, 1998). For example, if financial analysts believe that their trust in corporate managers make it easier to analyse the company's future prospects, they will feel more comfortable in trusting the rules and regulations that govern the process of providing financial reports.

4.6.6.2. The Relationship between Dispositional Based Trust and Trusting Beliefs & Trusting Intention

A disposition to trust will affect trust in others only when new situations arise in which the actor and the situation are new (McKnight and Chervany, 2001-2002, pp. 45-46). Faith in humanity and a trusting stance are two types of disposition to trust which affect a trusting intention in different ways (McKnight, Cummings and Chervany, 1998). McKnight, Cummings and Chervany (1998) supposed that faith in humanity and trusting stance reflect personal tendencies across situations. They gave an example of this when they asked a respondent in a survey whether she trusted her new manager, who had just been hired from outside the company. She replied "yes", her reason for this reply was that "she generally trusts new people until they give her some reason not to trust them". This is an example of the relationship between a trusting stance and a trusting intention (willingness to depend). The time frame of the relationship is important in predicting the effects of disposition to trust. Johnson- George and Swap (1982) maintain that disposition to trust predicts trusting behaviour when parties are new to each other in new or unstructured situations. In these situations the person can rely on his/her generalized expectation.

Faith in humanity will probably affect the person's initial trusting beliefs because it reflects the degree to which a person believes that people in general are trustworthy (Kramer, 1994). In a new situation, faith in humanity will enable trusting beliefs to be high (McKnight, Cummings and Chervany, 1998).

A trusting stance influences a person to be purposely willing to depend on another, despite of his/her beliefs about the other person. A person with a high trusting stance probably believes that better results can be achieved when one is willing to depend on others, even though others may or may not be trustworthy. Thus, a trusting stance does not lead to beliefs about the other person, rather, it directly supports one's willingness to depend on that person (McKnight, Cummings and Chervany, 1998).

4.6.6.3. The Relationship between Institutional Based Trust and Trusting Beliefs & Trusting Intention

Institutional-based trust means that one believes that favourable conditions are in place to enable one to act in anticipation of a successful future endeavour (e.g., Luhmann, Burns and Poggi, 1979; Zucker, 1986; Shapiro, 1987; McKnight, Choudhury and Kacmar, 2002). For example, McKnight and Chervany (2001-2002), in their research about customer trust in web vendors in e-commerce believe that favourable conditions refers to the legal, regulatory, business, and technical environment perceived to support success. They state that this construct comes from the sociology tradition where people can rely on others because of structures, situations, or rules that provide assurances that things will go well (McKnight and Chervany, 2001-2002).

They believe that in the past the trust relationship between people was friendly and based on personal experience such as church and clubs. Since then, the basis of trust has shifted from personal knowledge to institutional knowledge because of the growth of urban populations, entry of the new comers to old communities, and geographic movement of the population because of widespread job search. People are willing to trust, for example, professionals such as lawyers or doctors whom they do not personally know but they can see the medical or legal certificates on the wall which indicates that the person possesses the desired qualifications and has passed the examinations and is properly qualified. People may trust professionals because of structures that provide assurances that the other party is an expert (McKnight and Chervany, 2001-2002).

Zucker (1986) examined the history of regulations and institutions in America that enabled people to trust one other. He found that people did not trust others because they knew them personally, but because licensing, auditing, laws, and government enforcement bodies were in place to make sure the other person was afraid to cause harm because they would be punished for doing so. As a result, institution based trust affects trusting beliefs and trusting intention.

McKnight, Choudhury and Kacmar (2002) concentrated on site quality in e-commerce. They believe that site quality is its physical appearance and that it impacts on the trust of the web vendor. Consistent with this notion, in this research, the quality appearance of financial statements is considered as an influential factor on trust in financial statements and consequently in managers as the providers of these statements. In the relationship between financial analysts and corporate managers the appearance of financial reports may affect the financial analysts perception about the trustworthiness of corporate managers as well as their willingness to depend on them. The reason is that the quality appearance of the financial reports may impact on their perception as to whether the process of providing financial reports is suitably organized (McKnight and Chervany, 2001-2002).

Structural assurances make the environment safe in such a way which people can trust in others easily in a particular situation (McKnight, Cummings and Chervany, 1998).

Structural assurances in capital markets; including the trading laws, regulations, rules, and accounting and auditing standards; enable financial analysts to believe that the financial market is a safe environment, and consequently the managers in the financial market are trustworthy. For example, they enable financial analysts to feel assured about their expectations of corporate managers' future behaviour (McKnight, Cummings and Chervany, 1998).

The structural assurances of the process of providing financial statements affect the willingness of financial analysts to depend on the corporate managers. The reason for this is that a high level of structural assurances means that the financial analysts are able to overcome uncertainties about the validity of the process of providing financial statements. It also means that financial analysts are comfortable with using financial statements provided by corporate managers through the process (McKnight, Choudhury and Kacmar, 2002).

Accordingly, influential laws, regulations, and rules in the capital market have an effect on the Iranian financial analysts' perception of corporate managers' trustworthiness characteristics (trusting beliefs) and their willingness to depend on corporate managers.

4.6.6.4. The Relationship between Trusting Beliefs and Trusting Intention

According to Mayer, Davis and Schoorman (1995) and McKnight, Cummings and Chervany (1998) trusting beliefs affect trusting intentions. Dobing (1993), quoted in McKnight, Choudhury and Kacmar (2002) found a strong relationship between trusting beliefs and trusting intention (willingness to depend). They also found that if a person believes that the other party is benevolent, competent, honest, and predictable, logically he/she is likely to form a trusting intention towards that person. This is a direct effect of trusting beliefs on specific behavioural intentions and therefore, trusting beliefs will positively impact on trust intention (Rousseau, Sitkin, Burt and Camerer, 1998).

4.7. The Summary of the Modified Model

The modified model to be used in this research is based on that of McKnight and Chervany (2001-2002) who proposed and described a model of trust between at least two parties. This research examines the trust between financial analysts and corporate managers. The model is a multidisciplinary construct that includes perspectives from psychology, sociology, and social psychology about trust. It consists of three parts: trust, antecedent factors to trust, and outcomes of trust.

Firstly, trust is the financial analyst perception about the corporate manager's trustworthiness characteristics which may be determined by four major elements: integrity, benevolence, competence, and predictability. The combination of these four elements determines the overall level of trust in the corporate manager, as perceived by the financial analyst. When a financial analyst perceived these four key factors in a corporate manager, he/she will be willing to depend on a corporate manager.

Secondly, antecedent factors to trust are both personal and sociological factors, which influence the perception of a financial analyst about the trustworthiness factors of a manager (as mentioned previously integrity, benevolence, competence, and predictability) as well as their willingness to depend on the manager. These are personal beliefs about human (faith in humanity) and human relationships (trusting stance), and institutional beliefs in relationships such as regulations, contracts, and guarantees. All of these antecedent factors impact the confidence of financial analysts in their relationship with corporate managers.

Thirdly, the result of trusting relationship between financial analysts and corporate managers is the behavioural intention of financial analysts to use financial statements (which are provided by corporate managers) in their decision-making.

In Iran it is important to take into consideration that Islamic religion has a significant role in business relationships. Islam[3] is therefore an additional cultural factor which requires modification of the model on which on the context of the

[3] Although in Iran four religions is accepted as the formal religions but 99% of people are Muslim and the government applies Islamic rules in the society. As a result, in this thesis Islam is applied as the religion to modify the theoretical model.

research is based. In chapter three it was shown that Islam has personal aspects from its roots in ethics, and social aspects from its rules and regulations for social relationships, such as business. Thus, Islam is considered as an antecedent factor in the trust relationship between the Iranian financial analysts and corporate managers.

The purpose of this research is to investigate whether the modified model enables the business relationship between the Iranian financial analysts and the Iranian corporate managers to be better understood. To achieve this aim the researcher considered four patterns of antecedent factors of trust to examine the model's appropriateness. These are: Islam (its ethical principles and rules), the reputation of managers, the quality appearance of the financial reports, and the Iranian Commercial Code, legal rules and regulations of TSE, and the accounting standards. The final model is as shown in Figure 4-4.

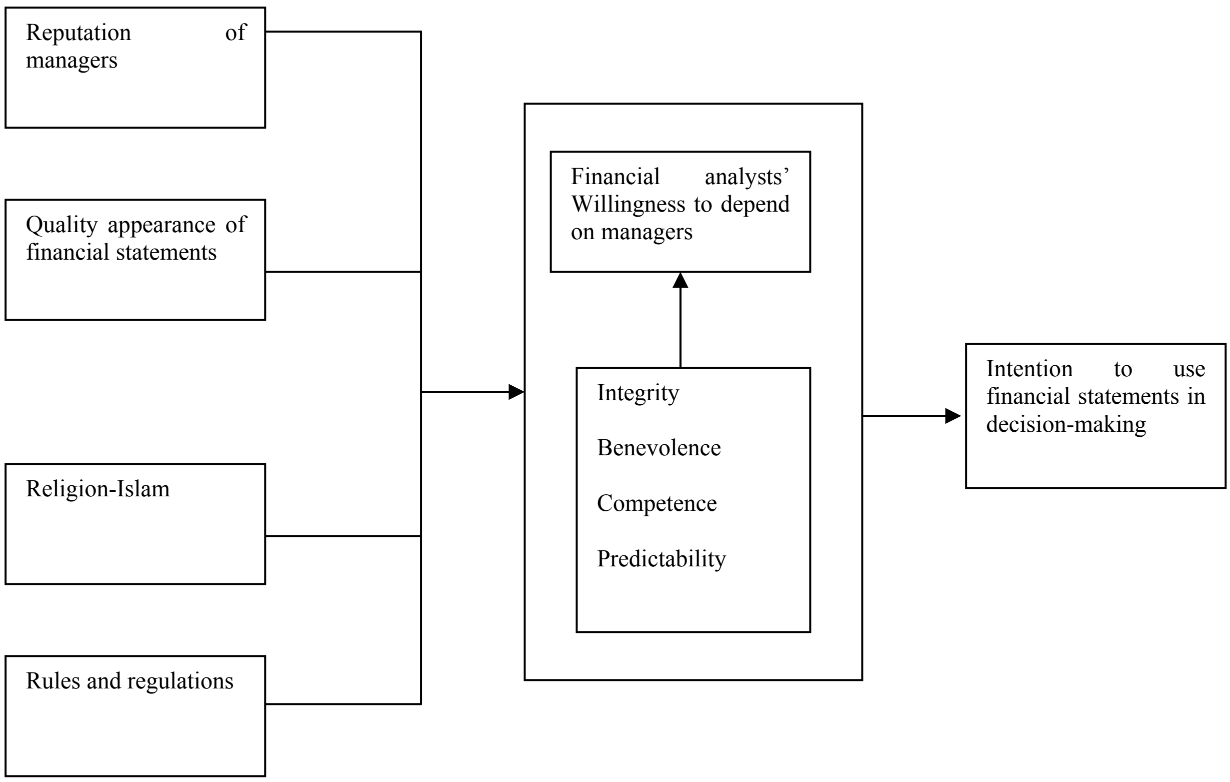

Figure 4-4- Modified Multidimensional Trust Model

4.8. Summary

Trust has been studied extensively from many perspectives including personal, social, and interpersonal trust. Because of this diversity of opinions, there have been attempts to integrate this diversity (e.g., McKnight and Chervany, 2001-2002) to reach a definition acceptable to most researchers.

Some researchers have developed models to study trust in a personal relationship in a multidimensional concept but most have been developed in a particular cultural and commercial context, such as those from the US and western European countries. As a result, these models may not work well in a different cultural context where other highly significant cultural factors may influence the operation of trust in several ways. Within these models religion has not been considered as a cultural factor in personal relationships even though it is inherent within many aspects of some societies, and may affect areas such as economics and cultural values.

Therefore, in this chapter, the western theoretical model was chosen as the most appropriate and then modified so it could be applied to a particular context, namely the Iranian capital market, in which religion is a significant and influential factor in business relationships. The model is modified by including the reputation of managers, quality appearance of the financial reports, the Islamic religion, and the legal rules and regulations requirements as the patterns of antecedent factors which may influence the perception of Iranian financial analysts about Iranian corporate managers' trustworthiness characteristics. The model also includes the corporate managers’ trustworthiness characteristics including integrity, benevolence, competence, and predictability.

To test if the modified model is effective in understanding trust in the Iranian context, it will be applied to a particular business relationship that is both very common and very important in financial markets. This is the level of trust that financial analysts place in corporate managers.

In next chapter the method of examination of the model in the business relationship between the Iranian financial analysts and corporate managers as well as reasons for applying the particular research method will be discussed.

Chapter 5. Empirical Research Method

5.1. Introduction

In the previous chapters, the roles and the functions of the financial analysts and corporate managers within the TSE environment in which they operate were discussed. There is a relationship between financial analysts and corporate managers. There are a number of aspects to the relationship that are important. These are the Iranian Commercial Code, TSE rules and regulations, and the effects of Islamic religion, but the most important aspect of this relationship is the trust between the financial analysts and corporate managers. It is accepted that trust decreases risk and increases the quality of the relationship. This was explained more fully when a western style developed model of the trust theory was examined for its relevance to the Iranian context. It is shown that with particular modification it could offer insides into the relationship between financial analysts and corporate managers in Iran.

The purpose of this chapter is to explain which data, which strategy and what method of collecting and analysing needs to be used. These procedures are necessary to examine the applicability of the modified trust model to the business relationship between the Iranian financial analysts and corporate managers. The qualitative approach was chosen as the most appropriate strategy. This is consists of semi-structured interviews and the purposive sampling to collect the required data for the following reasons: (i) the research is exploratory so the qualitative approach is most appropriate, (ii) the interview is applied since the research required some in depth personal information i.e., beliefs, attitudes, values, and knowledge, (iii) the interview is also used because it is the most common method in data collection in qualitative and business research, (iv) purposive sampling is used as it enables the researcher to select specific cases for collecting related information.

The pattern matching code is chosen to analyse the collected data which links the two patterns: theoretical and observed. The data analysis is classified into three steps: providing a summary of interview data, pattern coding to identify the groups, and pattern matching to identify the degree to which the observed pattern is explained by the theoretical pattern.

The chapter is organized around four sections: the first section introduces and outlines the content of the whole chapter. The second section focuses on the research strategy used to clarify the reasons for using the qualitative approach here (section 5-2). In this section, the reasons for choosing this particular approach and techniques for data collection and analysis are outlined. The third section explains the steps in the process of the data collection and analysis (section 5-3). The fourth section summarizes the whole chapter.

5.2. Research strategy

The nature of empirical research may be either exploratory, descriptive or hypothesis testing in nature. The nature of the study is determined by the extent of knowledge known about the research topic. Design decisions are based on qualitative assumptions. As the research progresses from the exploratory stage to the hypothesis testing stage it becomes even more quantitative. In the exploratory stage, new areas of research are explored while in the descriptive process the specific features of the topic under discussion are described. The hypothesis testing process, identifies whether the expected outcomes of the relationship do accrue and whether the hypothesis is correct (Cavana, Sekaran and Delahaye, 2001).

The research design also needs to be connected to the research questions. According to Cavana, Sekaran and Delahaye (2001) hypothesis testing is not applicable if the variables within the area of the research are not well known. Although there is some generalized research about trust in the relationship between two parties in the social sciences, there has been no research to date on the specific trust relationship between users of financial statements and corporate managers. This limitation of research is most obvious when researching a developing capital market such as the TSE. It is useful to observe the trust relationship between the users of financial statements and corporate managers. The Iranian capital market does not have a long history, and financial analysts who play a significant role in the TSE are new-comers to this market. As the result, there has been limited research in this area and this had led the researcher to choose the qualitative methods.

Based on the research question and the scant amount of knowledge in this area it must be acknowledged that some parts of this research are exploratory and some descriptive and this therefore reinforces the belief that a qualitative approach is the most suitable to achieve the aims of this research. The exploratory parts are the factors which may impact on the building of a trust relationship between financial analysts and corporate managers, such as, the integrity and the ability of managers. The descriptive parts are the Iranian Commercial Code, rules and regulations governing the activities in the TSE.

There are different ways of conducting exploratory and descriptive research in the social sciences. These include: surveys, experiments, case studies, histories, and the analysis of archival information (Yin, 2003). Each strategy has advantages and disadvantages, and their usefulness depends on three conditions: (i) the type of research question, (ii) the degree of control the researcher has over events, and (iii) the degree of attention paid to current in contrast to historical events (Yin, 2003).

A guideline on how to choose a research strategy (Table 5-1) was proposed by Yin (2003) who did not agree with that group of social scientists who believe that “case studies are only appropriate for that exploratory phase of an investigation, that surveys and histories are appropriate for the descriptive phase, and experiments are the only way of doing explanatory or usual inquiries” (p.3). He believes that each strategy can be used for all three purposes- exploratory, descriptive, or explanatory. For example, there may be exploratory case studies, descriptive case studies, or explanatory case studies or exploratory experiments, descriptive experiments, and explanatory experiments. There are three conditions that distinguish these strategies as shown (Table 5-1 below).

Table 5-1-Relevant situations for different research strategies

Please see print copy for Table 5.1

In this thesis, consistent with Denscombe (2003) and Yin (2003), the survey is used as the research strategy because the questions being posed are "what", or "how much" (section 5.3.1.2 along with interview questions), and the researcher has no control over the events, and also the focus is on current events within some real-life context (Yin, 2003).

The survey method is used to conduct the research into two important components of a trust relationship between financial analysts and corporate managers: (i) antecedent factors to trust, and (ii) trusting beliefs. In conducting this survey, purposive sampling and semi-structured interviews are used to collect qualitative data which are the financial analysts' perception of the trustworthiness of the corporate managers. The interview is employed as the method of data collection because the research is investigating the attitudes of financial analysts as the respondents. The pattern matching technique is used to analysis the data. The issues associated with using this technique are explained in the next section.

5.3. Research Design of Survey

> A research design is a plan that guides the investigator in the process of collecting, analysing, and interpreting observations. It is a logical model of proof that allows the researcher to draw inferences concerning causal

> relations among the variables under investigation (Nachmias and Nachmias, 1996, p.98).

The research design needs to be connected to the research questions, the empirical data and to the conclusions (Yin, 2003). A research design is a logical plan for gaining from the initial set of questions to be answered, some set of conclusions (answers) about these questions. Between these two steps there may be a number of major steps, including the collection and analysis of relevant data. Therefore, the research design of a survey consists of steps for: establishing the goals of the project, determining the sample, choosing the interviewing methodology, creating the questionnaire, a pilot study to pre-test the questionnaire, conducting interviews, and entering and analysing the data. These steps are explained in the following sections.

5.3.1. Establishing the Goals of the Project

The first step in any survey is determining the goals of the project. The subject of the research and the questions that should be asked are indicated by the goals of the project. Clear outcomes can only be achieved by clear goals. In this thesis, the goal is to identify the factors influencing the level of financial analysts' trust in corporate managers. The research is based on a theoretical trust model, which has three parts: antecedent factors to trust, trust, and trust behaviour as a result of trust relationship (Figure 4-4).

Antecedent factors are psychological and sociological factors, which in this research, are translated as the reputation of managers, rules and regulations, Islamic religion, and the appearance quality of financial reports. Trust is considered as the perception of financial analysts of corporate managers' characteristics (integrity, benevolence, competence, and predictability) and their willingness to depend on managers. One result of a trust relationship is the using financial reports to technically analyse the company's position by the financial analysts.

The study therefore focuses on the key factors of trustworthiness of a corporate manager from the perspective of a financial analyst who is defined as a one who: (i) is currently doing capital analysing in the Iranian financial market, (ii) has experience in the Iranian capital market as a financial analyst, (iii) is working in an investment company as a financial analyst or is known as a financial analyst in the capital market.

5.3.1.1. The Aim of the Research

> Trust in people or an organization is called behavioural trust. Like people, organizations can be the object of trust, in both their competence and their intentions. We can trust an organization to behave responsibly, regarding its stakeholders and the environment. Of course the organization itself does not have an intention, but it has interests and can try to regulate the intentions of its workers to serve those interests. The perceived interests of the organization are in turn the result of perceptions and communications of the people in the organization. One's trust in the individual may be based on one's trust in the organization he belongs to. Trust in an organization can be based on trust in the people in it. It can be affected by corporate communication, which aims to project a certain image (Nooteboom and Six, 2003, p.5).

Developing the capital market is one of the best ways to implement the policy of privatisation. This is demonstrated in Iran which, as a developing country, has began to transfer some public sections of economic activities to the private sector (Davani, 2003). Investment by the private sector in companies generates the development of the capital market and, consequently, assists in the change to a privatisation policy. Large companies in stock exchanges are usually run by managers who are not necessarily the owners. The providers and managers of capital are seen to be different. Shareholders delegate expert managers to use their capital with an expectation that managers will increase the value of their shares.

Financial statements are one of the sources by which shareholders can be made aware of a manager's performance. Shareholders expect that the information included in the financial statements is complete, accurate, and trustworthy. The problem is in the separation of management and control. Shareholders do not always know whether the financial statements show the real financial position and operating results.

As most investors do not have enough knowledge about capital markets they have to rely on financial analysts' advice, as an expert group, to make decisions when they select or revise their portfolio (Chung and Jo, 1996). Therefore, it can be claimed that the investors' decisions depend on the financial analysts' advice. Consequently, there is a relationship between managers, as the providers of financial statements, on the one hand and financial analysts as users of financial statements on the other.

Financial analysts, like other users of financial statements, expect that information will include some qualitative characteristics such as completeness, and accuracy. The important factor in this relationship is therefore the qualitative characteristics of information included in the financial statements. Financial analysts have to use the financial statements as one of the sources of their information even though there is a risk of been misled. Therefore, trust is necessary in the relationship because there is an element of risk and uncertainty between financial analysts and managers (Morgan, 1994; Mayer, Davis and Schoorman, 1995; Bhattacharya, Devinney and Pillutla, 1998; Das and Teng, 1998; Sheppard, 1998, for more information see chapter 4).

The collapse of some large companies in the US (e.g., Enron) and in Australia (e.g., HIH) even though their financial reports showed a healthy picture indicates that even respected managers may not always represent the true picture of the company. The problem is then what other means financial analysts have to rely upon and what other measure are available to support the trust in the relationship between financial analysts and corporate managers.

This research is limited to Iran and its aim is to identify the factors that influence the perception of the Iranian financial analysts' beliefs about the Iranian corporate managers' trustworthiness characteristics.

5.3.1.2. The Necessary Information in This Research

As already explained in chapter four, in an uncertain and risky situation trust is a relevant factor. To explain trust in the particular context of Iran the modified model of trust has been applied (Figure 4-4). As it can be seen in the model (Figure 4-4) the main purpose of this model is to show the relationship between factors that may determine the financial analysts' perception of a manager's trustworthiness. This investigation leads to the main research question:

> What sort of factors contribute to make the level of a financial analyst's trust in corporate managers?

As explained in chapter four the idea of trust has been investigated by disciplines such as psychology, sociology, and social psychology. Each discipline has viewed trust from its own unique perspective (McKnight and Chervany, 2001-2002). In this research, trust is considered as a multidimensional subject (see Figure 4-4) and the investigation covers multidimensional areas within this trust relationship. To achieve the goals of the research, the information should answer the research question throughout the model.

As is shown in the model, the influential factors on the level of a financial analyst's trust can be divided into two groups: antecedent factors and managers' characteristics. Trust is considered as the perception of a financial analyst's view of a manager's characteristics such as integrity and predictability which may be influenced by antecedent factors such as reputation of managers, quality appearance of financial reports, Islamic religion, and rules and regulations. Therefore, the relevant data needed to achieve the goals of the research are identified as those will reveal the antecedent factors to trust and a manager's characteristics in the Iranian capital market. Consequently, the main research question is divided into two sub-questions:

(i) What are the key factors of trustworthiness of the corporate managers from the perception of the financial analysts in Iran?

(ii) What are the influential factors on the perception of financial analysts about a corporate manager's trustworthiness characteristics in Iran?

These two sub-research questions should be answered based on the environment in which financial analysts and managers have their relationship. The stock market, in which the company's shares are traded, is the activity environment used by different participants such as companies, analysts, investors, and financial institutions e.g., banks. Investors rely on analysts to help them choose where to invest and determine the risk of their investment instead of having to research these companies themselves. They serve as intermediaries who gather, interpret, and analyse financial data to make recommendations about the quality of a firm's stock.

Financial analysts provide their recommendations based on information from different sources, such as, the firm, its financial reports, its competitors, suppliers, and customers. Financial analysts' trust in a firm plays a crucial role in their recommendations to investors. Financial reports, which are produced by managers, are the most important part of the information source in a financial analyst's judgment about the firm. Therefore, financial analysts obtain better insight into the company by dealing with managers (trusting stance). The process of producing financial reports is under the control of rules of accounting and auditing standards (structural assurances). Trust in a firm is based on trust in the people in it because a company perse cannot have any trust intention but it has interests. The firm tries to coordinate the intentions of its employees to serve those interests (Nooteboom and Six, 2003).

Within companies, managers are responsible for the employees and the achievement of the goals of the company. These responsibilities are given to the managers based on their beliefs trustworthiness. This also affects the level of trust that the users, such as financial analysts, place in the companies' financial reports.

The level of qualifications and experiences of financial analysts play a crucial role in their perception about the trustworthiness of managers. Thus, the researcher began by asking the interviewees information about their personal qualification. The requested information was concerned with their experience and academic qualifications. Although the researcher knew some general information about the interviewees the following question was helpful in the interview data collection.

> Could you please explain your experiences and your background?

Information was needed about the importance of company's financial reports in the financial analyst's job and how the information is used in this analysis. The reasons emerged as: Firstly, when a financial analyst trusts the financial reports he/she is willing to use them in their recommendations. Next, to direct the interview to the specific environment, that is the process of financial reports. Therefore, the first part of interview questions became:

> How important are financial reports in regards to what financial analysts do?
>
> Which financial reports are more important for the analysts and in each financial statement which parts are more important compared to the other parts?
>
> What are the other sources that financial analysts apply in their analysing?
>
> How important are those sources in comparison with financial reports?
>
> What are those characteristics that make the level of financial analysts' trust in financial reports?

There are two reasons why the second part of the required information concerns the managers specifically. Firstly, the financial analyst's opinion about the role of managers in the financial reports is crucial because managers are responsible for the companies' operations and this includes providing the financial reports. Secondly to centre the interview around managers' role as the focus point of this research. Therefore, logically, the following question arises:

> What is the manager's role in the trustworthiness factors of financial reports?

The above question moves from the environment of financial reports to that of the manager's specific characteristics. Therefore, the following question logically follows:

> Which characteristics of managers influence your (financial analyst) level of trust in managers?

According to the model there are some antecedent factors that influence a financial analyst's perception of a manager's trustworthiness. These factors are the reputation of a manager, the quality appearance of financial reports, Islamic religion, and rules and regulations (see chapter 4). Consequently, the following questions arose:

> What are the roles of the following factors in your perception of a manager's trustworthiness characteristics?
>
> a. The level of religiosity of managers,
>
> b. The quality appearance of the financial reports,
>
> c. Rules and regulations,
>
> d. Reputation of managers.

To be sure that all information in regard to the financial analyst's trust in managers has been collected, the last question asked was:

> Would you please explain any other influential factors which may affect your level of trust in managers that in this interview has not been addressed?

This last question allows the interviewee to contribute personal information from his/her own point of view or experience.

In summary, the interview questionnaire was as follows:

1. Would you please explain your qualification and background?

2. Would you please explain how much are financial statements important in your analysis?

3. Would you please explain which part of financial statements is more important in your analysis? (Income statements, cash flow, balance sheet, other information in financial reports).

4. Would you please explain what other sources you use in your analysis in addition to financial statements? How important are these sources in your analysis compare with financial statements?

5. Would you please explain which sort of factors makes your level of trust in financial statements?

6. Would you please explain what is the role of the managers in those factors (factors that make you trust in financial statements)?

7. Would you please explain which sort of factors or company managers' characteristics makes your level of trust in managers?

8. Would you please explain what is the role of the level of managers' religiosity in the level of trust that you put in the managers?

9. Would you please explain any other influential factors which may affect your level of trust in managers that in this interview has not been addressed?

5.3.2. Determining the Sample

There were two main steps in determining who would be interviewed. The first was deciding what kind of respondents should be interviewed. Correctly determining the target population is critical. If the researcher does not interview the right people, he/she will not meet his/her goals successfully. In this research, the target population is financial analysts in Iran. The criteria to select the Iranian financial analysts in this survey are defined as: (i) The financial analyst is a person who is currently doing capital analysing in the Iranian financial market, (ii) The financial analyst has experience in the Iranian capital market as a financial analyst, (iii) The financial analyst is working in an investment company as a financial analyst or is known as a financial analyst in the capital market.

The next step was to decide about the research sample size. The determination of sample size is based on the aims of the research. The number of participants in this survey was not defined in advance but it was ultimately only small in number since the sampling method applied was purposive sampling (Denscombe, 2003).

Sampling methods are classified as probability sampling and non-probability sampling. Probability sampling is based on the idea that the chosen people or events as the sample are representative of the people or events in the whole population being studied and each member of the research population has an equal chance of being included in the sample. Non- probability sampling is conducted without this expectation. The selection of the respondents or the events to be included in a sample is definitely not a random selection (Denscombe, 2003, pp.11-15).

As a result, a small-scale research using qualitative method was conducted. This was because the researcher found it would be difficult to use the principles and procedures of probability sampling for selecting financial analysts (Denscombe, 2003). The added reasons for this choice is that the research process is discovery rather than the testing of hypotheses (Cavana, Sekaran and Delahaye, 2001; Denscombe, 2003). As Denscombe (2003, p.15) stated:

> The researcher feels it is not feasible to include a sufficiently large number of examples in the study; and the researcher does not have sufficient information about the population to undertake probability sampling. The researcher may not know who, or how many people or events, make up the population.

In such a situation, consistent with Denscombe (2003), the researcher applied non-probability sampling as the basis for selecting the research sample.

There are different ways to conduct non-probability sampling. These include; purposive sampling, snowball sampling, and theoretical sampling. In this research purposive sampling is applied and in the following section this method of data collection is explained.

5.3.2.1. Purposive Sampling

> The idea behind qualitative research is to purposefully select participants or sites (or documents or visual material) that will best help the researcher understand the problem and the research question. This does not necessarily suggest random sampling or selection of a large number of participants and sites, as typically found in quantitative research (Creswell, 2003, p.185).

In this research purposive sampling is applied to select the financial analysts to be interviewed in line with the advantages that Denscombe (2003) pointed out. He further argued that with purposive sampling the researcher can select specific cases to collect related information. Purposive sampling also provides an opportunity for the researcher to clarify the research questions.

Firstly, purposive sampling allowed the researcher to focus on those groups of financial analysts that he believed it would provide a good basis for what is important in the research. Therefore, the sample is 'hand picked'. The reason behind this selection of interviewees is that the researcher already knew something about financial analysts and deliberately selected particular financial analysts because they were seen as the best representative of financial analysts as a whole and likely to produce the most valuable data. In fact, the researcher selects financial analysts with a specific purpose in mind which reflects their particular qualities and their relevance to the topic of the investigation (Dane, 1990; Denscombe, 2003).

Secondly, in purposive sampling the researcher can concentrate on different cases to clarify the research question. In this sense, purposive sampling is more economical and informative compared with conventional probability sampling (Dane, 1990; Denscombe, 2003, pp.15-16).

5.3.3. Choosing the Interviewing Methodology

Interviews can be conducted either by telephone, or face-to-face which can take place anywhere. Each method has advantages and disadvantages. The type and size of the population to be interviewed, the purpose of the study, the nature of the research question and resources available, will all determine the type of data collection method to be used (May, 1997, p.89).

Interviewing is most valuable when the research is related to beliefs, attitudes, values, knowledge, or any other subjective orientated content (Gorden, 1980, p.11). An interview is also the most common method in data collection in qualitative and business research (Cavana, Sekaran and Delahaye, 2001, p.137).

In this research the personal interview technique was applied because the research was investigating financial analysts' attitudes and perceptions as the respondents (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976; Gorden, 1980) and also because of its other advantages (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976; Gorden, 1980; Patton, 1990). The main other advantages of the interview technique include: providing the opportunity to encourage the interviewee to give accurate and complete information, to help the interviewee to know the aim of the questions, providing flexibility in the asking of questions by the researcher, control of the process of data collection, and being able to assess the quality of information. These are now briefly discussed to demonstrate the appropriateness of the technique for this study.

Firstly, the researcher has an opportunity to encourage the financial analyst to provide relevant, accurate and complete information (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976; Gorden, 1980; Patton, 1990). For example, Patton (1990, p.355) stated "People in interviews tell you things they never intended to tell". Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues (1976) also argue that many people enjoy talking to others who are friendly and interested in what they think.

Secondly, the researcher has an opportunity to help the interviewee to know the aim of the questions (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976; Gorden, 1980). If financial analysts understand the questions properly they will give proper answers (Gorden, 1980).

Thirdly, the researcher has the flexibility of asking questions of the financial analyst. This flexibility is important for exploring whether the questions are suitably phrased and they are in a logical order (Gorden, 1980).

Fourthly, the researcher has an opportunity to control the process of the interview, which can be stopped or continued as needed. If the incentive of the interviewee to answer the questions decreases, an additional question will be asked at the end the interview. The length of the interview is estimated to be at least 30 minutes and with a maximum of 60 minutes (Gorden, 1980). This should be enough time for providing relevant information.

Fifthly, the researcher has a chance to assess the validity of the information by observing the attitude of the financial analyst towards supplying information, and evaluating the quality and quantity of the information (Gorden, 1980).

Sixthly, the interview is more appropriate technique than others for collecting useful information about complex, emotionally full subjects or for interested the attitudes that may motivate an expressed opinion (Selltiz, Cook, Wrightsman and Society for the Psychological Study of Social Issues., 1976, p.297). Cavana, Sekaran and Delahaye (2001) also argue that the interview provides a unique opportunity to discover rich and complex information from interviewee.

5.3.3.1. The Selection of Interviewees

Interviewees were chosen by means of the selecting criteria suggested by Gorden (1980) was applied in this research for choosing the interviewees. By this method the interviewees must have relevant information, be accessible physically and socially, and be willing and able to give the required information.

Gorden (1980) classified interviewees into three main groups: key informants, special interviewees, and representative interviewees. Definitions and explanations of their roles are given below.

A key informant is a person who gives relevant information to any of the strategy problems of the research. In order to achieve to objectives of the research a key informant is needed because he/she understands the local situation, can obtain cooperation, locate or contact interviewees, and relay relevant information to the researcher during the progress of the research (Gorden, 1980).

A special interviewee is one who provides information that is directly relevant to the objectives of the research. A special interviewee is chosen because of his/her unique position in the interested community, group, or institution. The special interviewee is needed because his/her unique position enables him/her to provide special information. This information can be based on his/her thoughts and actions in that particular position as well as the information based on his/her observation of others' feelings, thoughts, and actions (Gorden, 1980).

A representative interviewee is one, similar to the special interviewee, but provides information directly relevant to the objectives of the interview. The representative respondent is chosen because of his/her similarity to other interviewees, and because of his/her membership of a particular group (Gorden, 1980).

Based on Gorden's (1980) suggestions on how to select ideal interviewees, three types of interviewees were selected: (i) key informants who could provide general and specific information about Iranian financial analysts and the Iranian financial market situation. This information was useful to improve the interview questions. (ii) Special interviewees who can provide specific information about the financial analysts' perception about trustworthiness factors in the business relationships. (iii) Representative interviewees who are the Iranian financial analysts because they could give useful information concerning the objectives of the interview.

The total number of interviewees was twenty three. Of this number there were three key informants. These key informants had a long experience in and knowledge of the Iranian financial market. The duration of the interviews with these key informants varied from 30 to 60 minutes. Two were interviewed twice. This length of time for each interview was needed in order to obtain information about the Iranian capital market, and the role of financial analysts. Of the remaining twenty financial analysts interviewees two were special interviewees. They were included because of their unique position in the financial analysts' community and the special information that they could impart about the Iranian capital market and the financial analysts. The duration of the interviews varied from 30 to 60 minutes. Eighteen other financial analysts were interviewed to collect the required data for the objectives of the research. The duration of these interviews was 30-60 minutes, but one was interviewed twice and each time for about 60 minutes. This length of interview was needed to get the perception of interviewees about the factors which affect the level their trust in corporate managers.

5.3.3.2. Selecting the Type of Interview

The advantages and disadvantages of the different types of interviews were considered in selecting the type of interview in this research. According to Breakwell, Hammond and Fife-Schaw (1995) and Cavana, Sekaran and Delahaye (2001) interviews can range from the completely structured to the fully unstructured. However, they also argue that most interviews fall between these categories.

In the structured interview the questions and their sequence for them to be asked are fixed in advance (Breakwell, Hammond and Fife-Schaw, 1995; Smith, 1995). In the structured interview, the interviewee is required to provide his/her answer by selecting one of the answers provided by the researcher. The answer may be in the form of a rating scale. The advantages of this method are easy to quantify and compare to the responses of other participants. The disadvantages of structured interviews are that they provide little chance for unexpected answers because they limit the interviewee to what has been identified in advance by the researcher and the possibility of missing the significant issues by some interviewees is high (Breakwell, Hammond and Fife-Schaw, 1995; Smith, 1995).

In the unstructured interviews, the researcher has a number of topics to cover but the precise questions and their order are not fixed. In this method the research questions can be developed during the interview as a result of the exchange with the interviewee (Breakwell, Hammond and Fife-Schaw, 1995, p.231). The assumption is that data will be created by interaction between the researcher and interviewee (Mason, 2002). The disadvantage of the unstructured interview for data analysis is that it is time consuming (Breakwell, Hammond and Fife-Schaw, 1995).

To get the maximum advantages and to eliminate the disadvantages of both the structured and unstructured interviews, a semi-structured interview is applied.

> With semi-structured interviews, the investigator will have a set of questions on an interview schedule but the interview will be guided by the schedule rather than be dictated by it (Smith, 1995, p.12).

In the semi-structured interview, the interviewee should be given the maximum opportunity to provide his/her perception of the questions since he/she is considered as the expert on the subject. The advantages of semi-structured interviews are (i) the researcher can gather complete perceptions from the interviewees about a specific topic or question and (ii) interesting topics raised during the interview can be followed up by asking further questions (Smith, 1995).

The semi-structured interview is chosen to explore the perceptions of financial analysts about corporate managers for the following reasons.

The first reason is the aim of the research. As Smith (1995) stated, the researcher uses semi-structured interviews in order to gain a complete picture of a financial analyst's beliefs about corporate managers.

The second reason is that the research questions of this study are in the form of “what and how much” questions which are derived from a trust theory. It is expected that applying the semi structure interview will provide the best answers to the research questions by collecting the relevant information within the expected time framework.

The third reason is that the semi-structured interview establishes a good relationship between the researcher and interviewee and during the interview process can encourage the interviewee to express his/her views freely.

5.3.4. Constructing the Semi-Structured Interview Schedule

In order to guide the interview process, an interview schedule is required. Smith (1995) identified three steps in making the semi-structured interview schedule: (i) specifying all the issues that should be covered in the interview, (ii) organizing the areas of analysis in the best arrangement, and (iii) developing relevant questions for each area.

Interviews with financial analysts were conducted to explore two issues: antecedent factors to trust, and trusting beliefs. Smith’s (1995) suggestion were applied as a guide in deigning the interview questions. These suggestions are: (i) the questions should be free from bias rather than leading, (ii) the questions should be open ended which will motivate the interviewee to convey his or her thoughts and feelings freely, (iii) the questions should be understandable for interviewee and be free from slang or jargon. These suggestions were applied in preparing the interview questionnaire as explained in section 5.3.1.2.

5.3.5. Conducting a Pilot Study

A pilot study is a small version of a major study and is a vital part of a good study design. The researcher conducted a pilot study to check the reliability and validity of the survey questions. This helped to identify the possible problems in the research process such as recording. It also helped to identify the strengths and weaknesses relating to format, wording and the order of the research questions (Cavana, Sekaran and Delahaye, 2001; Yin, 2003). In this research, to obtain the goals discussed about a pilot study was conducted using three financial analysts whose profiles fitted the target population (Cavana, Sekaran and Delahaye, 2001).

5.3.6. Conducting the Interview

Gorden (1980) and Smith (1995) suggested that the researcher should act as a facilitator for the interviewee rather than to dictating him/her what to do during the interview process. This suggestion was followed because the researcher knew that most of the interviewees did not have any experience in this process. All of this resulted in the interviewees providing the relevant information. Gorden (1980) also classified the interviewer's main responsibilities into: gathering relevant information, and enhancing the validity and reliability of the information. In gathering relevant information, Gorden (1980, p.77) proposed the following tasks:

> 1) Having a clear understanding of the purpose of the interview, 2) clearly communicating specific questions in accordance with the purpose, c) detecting and correcting misunderstandings of the question by the respondent, d) distinguishing between the irrelevant, the potentially relevant, and the clearly relevant, and e) guiding the respondent to avoid the irrelevant and

> probing, the potentially relevant to convert it into actually relevant information.

In retaining the validity and reliability of the information provided by the interviewees, the information has to be comparable and can be classified. Therefore the differences among the interviewees result in the differences among the answers not the interview questions (Gorden, 1980).

The researcher performed several activities to obtain relevant information from the interviewees. Firstly, an agreement letter was provided to the interviewees with general information about the research. In this letter it was emphasized that the information would be completely confidential and be anonymous. If it became necessary, the results of the interviews would be published by coding and as a general result of the research. Secondly, the researcher contacted the interviewees to seek their motivation for agreeing to be interviewed and to decide on the time and place of the interview, most convenient for the interviewee. Thirdly, at the beginning of the interview process, the researcher explained the aims of the study and encouraged them to ask any questions that they may have about the project. Fourthly, during the interview process, each question was fully explained to the interviewee. This allowed the researcher to identify and adjust the questions asked of the interviewees. If there was any misunderstanding, the question was rephrased and asked again. Fifthly, during the interview process, the researcher tried to distinguish between the relevant and irrelevant information. Sixthly, the researcher tried to lead the interviewee to provide the most relevant information.

The researcher had to perform several tasks in order to increase the validity and reliability of the information. Firstly, the researcher tried to keep an interpersonal relationship with the interviewees during the interview process. This was done by acknowledging that the interviewee is an expert in the topic of the interview, and by paying attention to the interviewees' answers during the interview process. Secondly, the attitude of the interviewee was monitored carefully during the interview. Thirdly, the researcher tried to understand the effects of each question on the interviewee, for example, whether the questions made the interviewee feel uncomfortable. Fourthly, the researcher tried to follow the interview schedule.

5.3.6.1. Recording and Transcribing Interviews

Before the interviews interviewees were asked whether their answers being e-recorded[1]. This is the best way to collect data because it allows a much fuller record than notes. Recorded interviews enable the researcher to focus on the topics of the interview and its progress (Smith, 1995). All interviewees accepted having their interviews e-recorded. The researcher had anticipated that if the interviewee did not accept the e-recording suggestion the researcher would take notes during the interview.

The following suggestions of Breakwell (1995) and Kvale (1996) were considered during the transcribing process.

> Transcripts are not copies or representation of some original reality, they are interpretative constructions that are useful tools for given purposes (Kvale, 1996, p.165).
>
> Transcription is sadly a slow and expensive business and it may be necessary to be selective about which elements of the interviews the researcher chooses to get transcribed fully…. Selection can be driven by

[1] Electronic recorded

> theoretical concerns (Breakwell, Hammond and Fife-Schaw, 1995, pp.241-242).

Kvale (1996) suggested that the researcher has to decide which parts of interview should be transcribed verbatim and which reduced or summarized. The decision is based on the aim of the transcription. In this thesis, only the answers related to the research questions are transcribed.

5.3.7. Analysis

The main purpose of data analysis is to achieve the objectives of the research. In this research the objectives were to find any observed pattern of the two important aspects of the relationship between financial analysts and corporate managers. These two important aspects are the key factors of trustworthiness of corporate managers and influential antecedent factors on the financial analyst's perception about these key factors. The second aspect is to identify an observed pattern and match it with the theoretical patterns that are based on the theoretical model of trust (Figure 5-1). According to Yin (2003) pattern matching, developed by Trochim (1989), is suitable for exploratory and descriptive studies, because it enables the researcher to match the observed pattern with the theoretical pattern, and to give explanations for the results.

Pattern matching is used as a method of data analysis in this thesis for two reasons. Firstly, the aim of this research is to find the influential antecedent factors on the financial analyst's perception of trusting beliefs, and trusting beliefs of financial analysts as the key factors of corporate managers' trustworthiness. These finding can be considered as an observational pattern. Secondly, a theoretical model is used which can provide theoretical patterns of the key factors of trustworthiness of corporate managers and the antecedent factors to trust (Figure 4-4).

Please see print copy for Figure 5.1

Figure 5-1: Process Pattern Matching

5.3.7.1. Pattern Matching Model

According to Trochim (1989: p.356)

> … a pattern is any arrangement of objects or entities. The term "arrangement" is used here to indicate that a pattern is by definition non-random and at least potentially describable. All theories imply some pattern, but theories and patterns are not the same thing. In general, a theory postulates structural relationships between key constructs. The theory can be used as the basis for generating patterns of predictions.

The purpose of pattern matching is to link the two patterns: theoretical and observed. A theoretical pattern is the result of a theory which is useful to define expected results from the data. An observational pattern is the result of the data which is applied to investigate the theoretical patterns. In this research, the pattern matching model is adopted from Trochim's (1989) pattern matching model as shown in figure 5.1.

The top part of the pattern-matching model is the theoretical area, which may be an outcome of a well developed theory, the ideas of the researcher, or a combination of ideas and theory (Trochim, 1989). In this study, the theoretical areas are a modified theoretical model of trust based on a developed model by McKnight and Chervany (2001-2002).

In the model (Figure 4-4) four key factors of trustworthiness of a person have been identified which could be applied to a corporate manager. These factors are called in this thesis trusting beliefs. These are competence, benevolence, integrity, and predictability. These four factors can be considered as a theoretical pattern. Some antecedent factors to trust have also been considered as influential factors in the perception of a person, who by his/her trusting beliefs trusts others. These are psychological and sociological factors which can be considered as the theoretical pattern.

The lower part of the pattern-matching model demonstrates the area of observations which are the outcome of the data collection. In this study the observational pattern is the view of financial analysts about the key factors of trustworthiness of corporate managers, and influential antecedent factors on their perception of those key factors.

The middle section of the pattern matching model is the process of matching the observed and theoretical patterns. In this study, the first process is to match the observational and theoretical patterns of the key factors of trustworthiness of a corporate manager. The second process is to match the observed and theoretical patterns of the influential antecedent factors on financial analysts' perception of those trustworthiness factors.

5.3.7.1.1. Conducting Pattern Matching

In the process of pattern matching as a method of data analysis, the survey data are reduced, categorized (pattern coding), and matched. These steps are explained in the following sections.

5.3.7.1.1.1. Data Reduction

According to Miles and Huberman (1994) data reduction is a part of an analysis which "sharpens, sorts, focuses, discards, and organizes data in such a way that final conclusions can be drawn and verified" (P.11). They also state:

> Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written-up field notes or transcriptions. Qualitative data can be reduced and transformed in many ways: through selection, through summary or paraphrase, through being subsumed in a larger pattern, and so on (Miles and Huberman, 1994, pp.10-11).

Data reduction refers to the entire collected data which are reduced by applying the research questions and the related answers. The purpose of the data reduction is to locate a reasonable relationship among the observational patterns (McCutcheon and Meredith, 1993: cited in Wintoro, 2000). In this study, the result of the survey data reduction is reported in the summary of interviews data (Table 6-4 and Table 6-9). This report is arranged in a set of questions and answers as suggested by Yin (2003). Although, question-and-answer format may not represent all the information, as the answers to the research questions are obtained immediately the format has been applied. The report of the whole survey was helpful to identify the observed pattern of the sample in the form of groups.

The clustered matrix format is applied to present the data in the form of a cluster response to the research questions. The format "clustered matrix has rows and columns arranged to bring together items that belong together" (Miles and Huberman, 1994, p.127). The format of the report of the summary of the data collected from interviews is shown in Table 6-4 and Table 6-9.

5.3.7.1.1.2. Pattern Coding

The second task of analysis activity is data display. “Generally, a display is an organized, compressed assembly of information that permits conclusion drawing and action” (Miles and Huberman, 1994, p.11). The researchers try to reduce the complex information into easily understood patterns because they deal with a large amount of information and they are not powerful enough to process (1994).

Pattern Coding is the term for generating codes to find the observed pattern of the sample from the summary of interviews data. The observed pattern consists of key factors of trustworthiness of the corporate manager, the influential antecedent factors in those key factors from the perspective of the financial analyst.

Pattern codes are explanatory codes that identify a developing theme, relationship, or reason (Miles and Huberman, 1994). They are a kind of meta-code, which summarizes a mass of information into a meaningful unit. Miles and Huberman (1994) classified coding into two steps: first level coding and pattern coding. They define the first level coding as a mechanism for summarizing parts of the data. They defined pattern coding as “a way of grouping those summaries into a smaller number of sets, themes, or constructs" (p.69). According to Miles and Huberman (1994, p.69), pattern coding has four important roles for qualitative researchers:

> (1) It reduces large amounts of data into a smaller number of analytic units.
>
> (2) It gets the researcher into analysis during data collection, so that later fieldwork can be more focused.
>
> (3) It helps the researcher elaborate a cognitive map, an evolving, more integrated schema for understanding local incidents and interactions.
>
> (4) For multiple case studies, it lays the groundwork for cross-case analysis by surfacing common themes and directional processes.

In this study, pattern coding is applied to reduce the data into a small number of concepts and observed patterns. This process includes unit identifying analysis, deciding the groups of unit analysis, and locating the observed patterns. Firstly, the researcher identified the unit analysis according to the interview questions. For example, the researcher asked the financial analyst 'which factors lead to the level of your trust in managers?' This question is considered as a unit analysis of factors that are based on the financial analyst's perception of trustworthiness factors of a corporate manager. Secondly, the researcher defined the groups of each unit analysis according to the theoretical patterns of the interviewees. For example, it was established that the factors that are important for financial analysts to trust in a corporate manager are integrity, benevolence, competence, and predictability. In this research factors such as integrity and benevolence are key trustworthiness factors of corporate managers from the financial analysts' perspective. Similar factors, in the form of phrases or words, are classified into the same group. Thirdly, the researcher defined the observed pattern of the unit analysis according to the groups.

5.3.7.1.1.3. Matching the observed to the theoretical pattern

The observed patterns are the outcomes of pattern coding. The theoretical patterns stem from the modified theoretical model of trust based on theoretical models developed by (McKnight and Chervany, 2001-2002). At this stage the aim was to find a way of explaining the observational patterns by the trust theory. A theoretical pattern is an assumption of what is anticipated in the data, and an observed pattern is the data which are applied to study the theoretical model (Trochim, 1989). Firstly, the theoretical pattern of the key factors of trustworthiness of the corporate manager is derived from the modified theoretical model by the researcher. Secondly, in this exploratory research, the observed pattern is the result of pattern coding. This consists of the observed pattern of the key factors of trustworthiness of the corporate manager from the view of the financial analysts. It also consists of the observed patterns of the influential antecedent factors on the financial analysts' perception of the trustworthiness factors of managers.

5.4. Summary

In this chapter, the survey has been explored as a relevant research method for the exploration of the financial analysts' perception of corporate managers. The findings of this exploration provided a guideline to develop a survey design which includes the framework of the survey, data collection through interviews, and data analysis. The reasons for this design are: Firstly, the research is concentrated on the relationship between the financial analysts and corporate managers. This is important because financial analysts rely on information provided by managers by their technical analysis to provide recommendation to investors. Secondly, the main data are gathered by conducting semi-structured interviews with key informants, special interviewees, and representative interviewees who are Iranian financial analysts. Thirdly, the data analysis is classified into three steps: providing a summary of interview data, pattern coding to identify the groups (Miles and Huberman, 1994), and pattern matching to identify the degree to which the observed pattern is explained by the theoretical pattern (Trochim, 1989).

The next chapter presents the processes of data collection and analysis.

Chapter 6. Data Gathering and Analysing

6.1. Introduction

In the previous chapters, the role and function of the financial analysts and corporate managers as well as the environment in which they operate were discussed. It was found that the TSE is an emerging market in which trust plays a significant role in the relationship between financial analysts and corporate managers. A theoretical model was selected and modified to be applied in this context. The required data, the strategy of the research, and the method of collecting and analysing data were also explained. It was concluded that applying the qualitative approach by conducting semi structure interviews by the purposive sampling method is the best alternative to collect the required data and that the pattern matching code is the best for analysing the collected data.

In this chapter the procedures applied to collecting and analysing the data are presented followed by the results of the data analysis process. These procedures and processes are discussed in the following sections and the results used to identify the applicability of the model to the Iranian context. This chapter presents the empirical steps taken to examine the modified theoretical model in the relationship between the Iranian financial analysts and corporate managers.

The required data for investigating the trustworthiness of the corporate managers were collected by conducting interviews with financial analysts and then, analysing the results in two stages. In the first stage, using the summary of interview data (Table 6-4 and Table 6-9), the researcher implemented the pattern coding technique of Miles and Huberman (1994). This indicated those factors that affect the financial analysts' perception of the corporate managers' trustworthiness characteristics. These were found to be: firstly, antecedent factors to trust which are personal and sociological factors and secondly, the key trustworthiness characteristics of the corporate managers, which together form the financial analysts, trusting beliefs about managers' characteristics. This is considered as an observational pattern. In the second stage, the researcher used the pattern matching technique suggested by Trochim (1989), to match the observational with the theoretical pattern of antecedent factors and the key trustworthiness characteristics of the corporate managers. These were derived from the modified theoretical model of McKnight and Chervany (2001-2002) (Figure 4-4). The result of matching the observational and the theoretical patterns were then explained.

The data analysis provided several important results. Firstly, the main reason for financial analysts to build a relationship with corporate managers is to obtain accurate and up to date information about the company. Secondly, it proves that trust is a vital component in building a relationship between financial analysts and corporate managers. Thirdly, the Iranian financial analysts apply components of trust as criteria for evaluating the trustworthiness of the corporate managers as a means of providing recommendations to buy, hold, or sell shares in an individual company. Fourthly, this research found that the antecedent factors which influence the Iranian financial analysts' perception of corporate managers' trustworthiness characteristics are: financial reports, factors relating to managers, external auditing, Islamic religion, and TSE rules and regulations. Fifthly, this research found that the Iranian corporate managers' trustworthiness characteristics from the perspective of the financial analysts are integrity, benevolence, competence, and predictability.

The two main topics are presented in this chapter are: data collection and data analysis. Data collection includes the process of data collection, profiles of the interviewees, and a summary of data collection activities. The analysing of data includes: analysing antecedent factors and trusting beliefs.

6.2. Data collection

The first section of this chapter explains the issues which the researcher found in collecting data. The first was to process the data collection but this was found to have some problems. These were solved by methods that will be explained later (section 6.2.1). The next step was a brief discussion of the process of financial analysis used by financial analysts in Iran. This leads into one of the most important aspects to this survey which is the selection of the participants, therefore, at this point the profiles of the participants are given. Finally, an account of the activities associated with the collection of the data was outlined. All these steps are presented in the following subsections.

6.2.1. Data Collection Process

The researcher was familiar with the Iranian financial market but felt there was a need to develop a deeper understanding of recent issues connected with the TSE. This would be helpful for collecting the required data in the most appropriate manner. First of all, it had to consider whether it was possible to conduct interviews with financial analysts in Iran, since data collection by means of interview in the Iranian accounting and financial profession was uncommon. This was a big challenge for the researcher. Secondly, the TSE is in the developing process itself, and because of this, the researcher had to continually update his information about the market.

It was shown in chapter five that the required data was collected by conducting interviews. This is because the degree of knowledge in the area of the research is small and the type of data necessary for this in-depth study is related to attitudes and beliefs. The interview is a technical method of data collection which is affected by the general circumstances of the research area especially by cultural issues and these needed to be considered consistently during the data collection process. There were some problems in collecting the data. The first was the general belief, in Iran, that the research in accounting and finance should be by the quantitative not qualitative method. This made arranging interviews difficult.

The second problem was that cultural issues may affect the process and the purpose of the interviews. For example, generally Iranian people are not concerned about passing judgement on others' beliefs and actions unless a particular situation arises. Because of this, researchers in other disciplines such as psychology and sociology were consulted to find the best way of conducting interviews regarding Iranian culture. This was helpful in understanding the social and personal behaviour of the Iranian financial analysts. Based on this information, the researcher encouraged the interviewees to express their opinions frankly about others' beliefs by giving an assurance that their views would be kept strictly confidential. In addition, getting to know some of these financial analysts was helpful to researcher. Finally, the selected financial analysts agreed to provide their opinions about the impact of the religiosity of managers on the level of their trust in them.

The third problem was that the TSE is in the primary stages of development and the financial analysts are new comers without any professional association or standing. This situation made this area of research more confusing because it was difficult to contact them. In order to solve this problem the researcher found some key informants who were helpful in explaining the real situation in the TSE and providing access to professional financial analysts.

To solve the problems concerned with data collection, the researcher had a meeting with a key financial analyst in the TSE. He was able to supply specific information about current issues in the TSE and give some information about the general situation in the TSE. The researcher also attended a meeting of major private shareholders at which they were attempting to formally register an association to support their interest in the TSE crises. They believed that such an association would be helpful in resisting or influencing some of the decisions made by the TSE or other authorities which impact on their welfare. At that meeting there was discussion on TSE, general government policy and its effects on the TSE as well as the TSE's policies were discussed. Generally, their aim was to find a way to support their particular interests in the TSE and its activities.

The researcher also attended two meetings of financial analysts employed by one of the biggest investment companies in Iran. This company employs specialist analysts for different sectors of the capital market. They are responsible for reporting the current issues in their sector to the manager at a weekly meeting. At these meetings, the previous week's events are reported, analysed, and then the future perspectives are revised. After this they give their considered opinions about the company's portfolio. A general consensus needs to be reached at these discussions. At the conclusion of this meeting the chief executive officer and investment manager make decisions about the company's portfolio. Attendance at these meetings helped the researcher to become familiar with the current issues in the TSE and the Iranian capital market in general. It was also helpful in seeing at first hand how financial analysts come to their decisions and what influential factors in the TSE and the Iranian financial market are considered important in the analysing and decision making. Furthermore, the researcher found that financial analysts have a network of relationships amongst themselves. This facilitates the quick exchange of information. All of these experiences put the researcher in a good position for conducting the interviews to obtain in-depth information.

The collected data can be summarized into four categories: (i) the source of information that financial analysts use in their analysis. These sources include financial reports and other sources such media and personal relationship with managers, (ii) the relative importance of financial statements and their different parts from the financial analysts' perspective, (iii) influential factors which shape the level of financial analysts' trust in the financial statements such as the role of managers, (iv) influential factors which shape the level of financial analysts' trust in managers. These influential factors include the financial analysts' perception about managers' trustworthiness characteristics.

6.2.2. Financial Analysis in Iran

This research is seeking which factors influence the level of financial analysts' trust in corporate managers. In Iran, for financial analysts the starting point for analysing a particular company begins with analysing the industry. This can be achieved by considering the degree of importance which financial analysts place on financial reports in their analysis and, may, in fact, be a pointer to indicate the significance of the role of the managers in the preparation of the financial reports.

For example, F8 states "in analysing it is necessary to study the industry which the company is related to in order to find out whether this industry has a good prospect for investment or not. Then the company would be analysed". In the analysis of a company its financial reports would be considered.

In this process different financial statements have different levels of importance for different financial analysts. For example for some, earning per share (EPS) may have the highest level of importance (e.g., F4), while for others, the balance sheet may be the most important (e.g., F17 and F18). These differences are the result of financial analysts' different objectives which are based on their clients' needs. For example, some investors may want short term investment while others may prefer a long-term investment. Analysts use other sources of information in addition to financial reports such as, direct access to managers, TSE reports, and the media.

6.2.3. The Profile of Financial Analysts Interviewees

The interviewees are the Iranian financial analysts who have academic qualifications in accounting and finance (Table 6-1). There were twenty two interviewees but only twenty were included in this study because two interviewees did not allocate enough time for in-depth interviews. As can be seen from Table 6-1 and Figure 6-1 all interviewees have tertiary accounting and finance qualifications. 75% hold a Master or Ph.D degree. The age of interviewees is between 28 and 57 years. Their work experience varied from 4-31 years, their directly related experience to the capital market was between 3-20 years (Table 6-2). The decision to limit the number of interviewees to this small number is based on the needs of purposive sampling and the aim of the research.

Table 6-1-Interviewees' Academic Qualification Background

Degree	Number
Ph.D	9
Master	6
Bachelor	5
Total	20

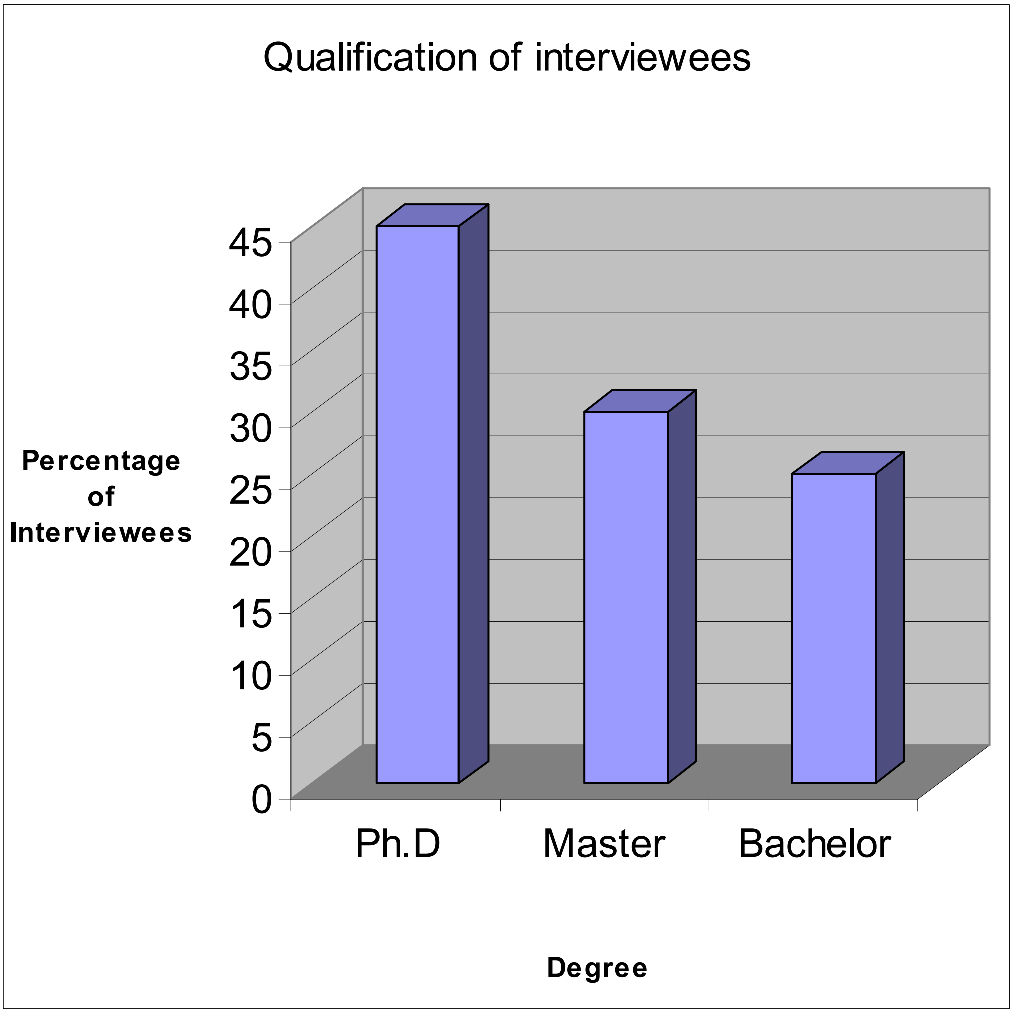

Figure 6-1: Interviewees' Academic Qualification Background

Table 6-2: Interviewees' Experiences in Financial Market

Interviewees' Code		Financial analysts																			
		F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	F 10	F 11	F 12	F 13	F 14	F 15	F 16	F 17	F 18	F 19	F 20
Experience (Years)	Stock market	20	5	5	5	3	3	3	5	6	5	11	10	6	4	7	6	5	4	4	4
	Other experiences	-	3	3	3	3	2	10	10	-	6	-	-	25	2	9	6	11	11	-	16
	Total	20	8	8	8	6	5	13	15	6	11	11	10	31	6	16	12	16	15	4	20

6.2.4. Primary Data Collection

The primary data was collected by conducting semi-structured interviews with the financial analysts. The interviews were focused on the antecedent factors and trusting beliefs. The semi-structured interview technique were used to identify antecedent factors that influence on financial analysts' perception of managers' trustworthiness characteristics and trusting beliefs from the perspective of financial analysts about managers. The duration of interviews ranged from 30-110 minutes. The activities undertaken by the researcher in conducting interviews with financial analysts are summarized as follow.

Firstly, the researcher prepared an agreement letter (Appendix 6-1), and obtained a letter from his University supervisor addressed to the interviewees. Secondly, the researcher telephoned the interviewees and let them know about the aims of the research and the confidentiality clause relating to nondisclosure of their names as well as the provided data. In this telephone conversation the interview questionnaire was explained. Thirdly, if the interviewee accepted the offer to participate in the research, an appointment was made to for an appropriate time and place for the interviewee to attend. Fourthly, if a copy of the questionnaire or the agreement letter was required these would be given to interviewee personally or by email. Fifthly, at the interview the researcher again explained the aim of the research and the importance of the interviewee's explanations. The researcher also re-emphasised the confidentiality of the data provided and the promise to withhold the interviewee's name. Sixthly, if the interviewee needed more time to prepare for the interview or if he/she was unable to attend at the agreed time, the researcher asked for another appointment time.

This happened frequently in which cases the researcher delivered the agreement letter, interview questionnaire, and the supervisor's letter to the interviewee personally with a brief explanation about the topic. Seventhly, before the beginning the interview the researcher asked whether he/she agreed to the interview being recorded. All of them agreed. Eighthly, at the end of the interview the data was filed and the researcher kept the interview in a safe place.

To test the validity and reliability of the prepared research questions a pilot study was conducted. As a result of this, interview research questions were revised and then subsisted into the main interview.

The duration of the interviews is shown in Table 6-3 and reflects the high level of interviewees' cooperation in providing the required data. The average time of recorded interviews is fifty minutes. If the time taken before and after the recorded interview is taken into account average duration of interviews was sixty minutes. Eighteen interviews were conducted in the interviewee's office. Two interviews were conducted in a place made available to the researcher. In conducting the interviews, the researcher's aim was to obtain relevant information and to ensure its reliability. For example, every interview started with a statement by the researcher of the objective of the interview, the interviewees were then free to answer the questions in his/her own way. However, some interviewees gave some irrelevant information.

The transcript of the interview data is presented in the form of a summary of interview data (Table 6-4, Table 6-5, and Table 6-9). The interview questions, which were used to collect the required data, were based on the theoretical framework and the research model presented as Figure 5-5. The analysis is presented in the following section.

Table 6-3: Duration of Interview

Interviewees' Code	Financial analysts																			
	F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	F 10	F 11	F 12	F 13	F 14	F 15	F 16	F 17	F 18	F 19	F 20
Duration of interview (minutes)	62	37	45	92	45	45	34	45	42	55	47	45	66	41	44	39	83	58	34	30

6.2.4.1. Antecedent Factors to Trust

It has already been stated in chapter five, in this research, antecedent factors to trust are the personal and sociological factors that affect the perception of financial analyst of the corporate managers' trustworthiness characteristics. As shown in the research model (Figure 5-5), antecedent factors are the influential personal and sociological factors that affect the level of financial analysts' trust in managers. In this research religion has been considered as one of the antecedent factors.

The model is modified based on the literature on trust and the research context-Iran. The semi-structured interview questionnaire was prepared and conducted in the TSE to collect the required data (see chapter five). Based on the model, four patterns were considered as antecedent factors of financial analysts' perception of corporate managers' trustworthiness characteristics: reputation of managers, appearance of the quality of financial reports, Islam, and formal rules and regulations. The results of interviews show that antecedent factors are not limited to these four factors (Table 6-4, Table 6-5, Table 6-6, Table 6-7, and Table 6-8). This is a research contribution of this study. Table 6-4 shows the different antecedent factors to trust which are considered by the interviewees to affect their perception of corporate managers' trustworthiness characteristics. As the table shows, the number of these factors is sixteen.

Different factors are considered as important by different analysts. For example, history of financial reporting is considered important by F3 but not F2. Accounting errors are considered as the most important factor by all analysts but the managers' code of conduct and managers tenure are considered the least important. All the interviewees believe that accounting errors are important and forty percent believe that fraud in financial reports is important.

In this research, these factors are categorized into five groups as is shown in Table 6-5. These groups include: financial reports, managers, external auditing, religion, and rules and regulations. As can be seen from Table 6-5 the financial reports category includes seven sub factors (Table 6-6). There are five factors in the managers' category which are presented in Table 6-7. The external auditing category includes two factors. This is shown in Table 6-8. Each of the other categories includes one factor only.

It can be seen from Table 6-5 four of the categories, which include financial reports, managers, auditor, and religion are considered important by all interviewees. Ninety percent of the interviewees believe that rules and regulations are important. These figures indicate that the financial analysts' perception of corporate managers' trustworthiness characteristics are mainly affected by specific groups. These include financial reports, factors related to managers, external auditing, religion, and rules and regulations.

Table 6-4: Antecedent Factors to Trust

No.	Antecedents factors to trust	Interviewee code (Financial analysts)																				N 20	%
		F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	F 10	F 11	F 12	F 13	F 14	F 15	F 16	F 17	F 18	F 19	F 20		
1	Accounting errors	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100%
2	Company accounting system	×	×	×	×	×	×	×	-	×	×	×	×	×	×	×	×	×	×	×	×	19	95%
3	Fraud in financial reporting	×	×	×	×	×	-	-	×	×	×	×	×	×	×	×	×	×	×	×	×	18	90%
4	History of financial reporting in the company	×	-	×	×	-	×	-	-	×	-	×	×	×	-	×	-	×	×	×	×	13	65%
5	Legal accounting manipulation	×	×	-	×	-	-	-	-	-	-	×	-	×	-	×	-	×	×	×	×	10	50%
6	The quality appearance of financial reports	×	×	-	-	-	-	×	-	×	×	×	-	-	-	-	-	×	-	-	×	8	40%
7	The amount of adjustments in the company	-	-	-	×	-	-	-	-	×	×	×	-	-	-	-	-	×	-	×	-	6	30%
8	Reputation of managers	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100%
9	Long association with managers	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100%
10	Ownership structure	×	×	×	×	×	×	-	-	×	-	×	×	×	-	-	-	×	-	×	-	13	65%
11	Managers' code of conduct	-	-	-	-	×	-	-	-	-	-	-	-	×	×	-	×		-	-	-	4	20%
12	Management tenure	×	-	-	×	-	-	-	-	-	-	-	-	-	-	-	-	×	-	-	×	4	20%
13	Audit firm	×	×	×	-	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	19	95%
14	Audit report	×	-	-	-	-	-	-	-	×	×	-	-	×	-	-	-	×	-	-	-	5	25%
15	Religion	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100%
16	Rules and regulations	×	×	×	×	×	-	×	×	×	×	×	×	×	-	×	×	×	×	×	×	18	90%

6.2.4.2. Trusting Beliefs

Trusting beliefs are the financial analysts' beliefs about the managers' trustworthiness characteristics. In this research, consistent with McKnight and Chervany (2001-2002), four characteristics are considered as trusting beliefs. These include; integrity, benevolence, competence, and predictability. According to McKnight and Chervany (2001-2002) when managers are willing and able to act in the shareholders' interests, are honest in the published information, capable and predictable in their behaviour then financial analysts consider that they are trustworthy. Mayer, Davis and Schoorman (1995) had the same idea when they argued that a manager who posses these qualities is very pleasing as an exchange partner. As can be seen from the Table 6-9 and Figure 6-2 integrity, benevolence, and competence are considered as trusting beliefs by all the interviewees. In addition, seventy five percent of interviewees indicated predictability as a trusting belief.

Table 6-5: Summary of Antecedent Factors to Trust

No.	Antecedents factors to trust	NF	Interviewees code (Financial analysts)																				NI	Percent
			F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	F 10	F 11	F 12	F 13	F 14	F 15	F 16	F 17	F 18	F 19	F 20		
1	Financial reports	7	6	4	4	6	3	3	3	2	6	5	7	4	5	3	5	3	7	5	6	6	20	100
2	Managers	5	4	3	3	4	4	3	2	2	3	2	3	3	4	3	2	3	4	2	3	3	20	100
3	External Auditing	2	1	1	1	1	1	1	1	1	2	2	1	1	2	1	1	1	2	1	1	1	20	100
4	Religion	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	20	100
5	Rules and regulations	1	1	1	1	1	1	-	1	1	1	1	1	1	1	-	1	1	1	1	1	1	18	90

- NF= number of sub factors of each category. For example, financial analysts have 7 sub factors and managers 5.
- NI =the number of interviewees that considered each factor are important. For example, 20 interviewees considered financial reports are important and 18 interviewees considered society rules and regulations are important.
- F1-F20 are interviewees' code.
- Last column (percent) shows the percent of interviewees that considered a factor is important. For example, 100% of interviewees considered financial reports as important factor.
- The number in each cell of interviewee code shows the numbers of sub factors in each main category are considered as an important factor by a financial analyst. E.g., F1 considered 6 sub factors as important factors in financial reports and F2 four (4) sub factors.

6.3. Data Analysis

The analysis is based on the summary of the interview data and was divided into two parts. The first part analyses the antecedent factors to trust, the second focuses on the financial analysts' trusting beliefs about corporate managers' trustworthiness characteristics.

6.3.1. The Analysis the Antecedent Factors to Trust

The factors which affect the Iranian financial analysts' perception of the corporate managers' trustworthiness characteristics are categorized into five groups. These include (Table 6-5); financial reports, related factors to managers, external auditing, religion-Islam, and rules and regulations. In the following sections these groups are explained.

6.3.1.1. Financial reports

According to the collected data, financial reports are one of the key factors which affect the perception of the Iranian financial analysts about the Iranian corporate managers' trustworthiness. The results of the interviews (Table 6-5) show that all interviewees considered financial reports as one of the influential factors in the level of trust that they place in corporate managers. This percentage indicates the importance of financial reports in the TSE.

Financial analysts considered different aspects of financial reports as important factors, which affect their perceptions of corporate managers' trustworthiness. These aspects include; the history of financial reporting in a company, its accounting system, legal accounting manipulation, fraud in financial reporting, accounting errors, the quality appearance of financial report, the amount of adjustments needed in financial statements, and the style of financial reporting.

Table 6-6 shows the different aspects of financial reports and the opinion of the interviewees about them. The interviewees, as can be seen from the table, consider these factors differently. For example, all of the interviewees considered accounting errors as an influential factor in their perception about trustworthiness of corporate managers but only fifty percent considered legal accounting manipulations as an influential factor. These factors are explained briefly in the following subsections.

Table 6-6: Sub Factors of Financial Reports

Sub factors of financial reports	NO.	Percent
Accounting errors	20	100%
Company accounting system	19	95%
Fraud in financial reporting	18	90%
History of financial reporting in the company	13	65%
Legal accounting manipulation	10	50%
The quality appearance of financial reports	8	40%
The amount of adjustments in the company	6	30%
No. This column shows the number of interviews from 20 which considered each sub factor is important in their perception about financial analysts' trustworthiness characteristics. For example twenty interviewees considered accounting errors are important and eighteen considered fraud in financial reporting.		

6.3.1.1.1. Accounting errors

Accounting errors are unintentional mistakes in the financial statements. All the interviewees believed that accounting errors are important in their perception of managers' trustworthiness characteristics and consequently in the level of their trust in corporate managers. Observed errors in financial reports can affect financial analysts' perception of managers' competence. For example, F2 says "even though errors are not a big problem in financial reports (and they do happens), it is a sign of a low level of control over the financial reporting process and the company's activities". F17 considered errors as a sign of a low level of managers' ability to run the company. He stated, "errors affect the level of trust in managers because whenever errors happen this implies that the management's ability for running the company is low".

It can be argued that accounting errors are a sign that the accounting department is inefficient. In this situation the risk of lack of competence in managers increases and may cause the level of financial analysts' trust in managers to decrease. This confirms the idea of previous researchers such as

McKnight, Cummings and Chervany (1998) and Mayer, Davis and Schoorman's (1995).

Some financial analysts worried about repeated errors because they believe that they are a sign of the managers' lack of ability. For example, F5 stated:

> Errors in financial reports are important but they will not affect the level of trust that I put in financial reports too much. Repeated errors decrease the level of trust that I put in managers because I assume that the manager does not have the ability to manage the company.

F3, F6, and F12 had the same idea. Financial analysts believed that although errors will be discovered and adjusted later, they affect some decisions before the adjustment. This may result in some wrong decision-making. For example, F9 stated:

> Errors affect the level of my trust because I feel that employees do not care about their work. There is no effective management to govern the company. Even though errors may not be repeated they may have some effect on the trust relationship because previous decisions have been made based on incorrect information.

All of the statements indicate that when errors happen in the financial reports analysts may feel that the situation is not under control and not trust the managers. This confirms McKnight, Cummings and Chervany's (1998) idea indicating that situation normality helps financial analysts to feel comfortable enough to form a trusting intention towards the manager in a particular situation.

6.3.1.1.2. Accounting system

The accounting system of a company includes recording, summarizing, and reporting the financial information. This process also consists of some controls designed to make sure that all the activities are performed as they should be. Kimmel, Carlon, Loftus, Mladenovic, Kiseo and Weygandt (2003, p.68) defined the accounting information system as “the system of collecting and processing transaction data and communicating financial information to interested parties”. Trustworthy managers may install an efficient accounting system in order to achieve the financial reporting objectives and as a result, an efficient accounting system can be a sign of the manager’s integrity, benevolence and competence. As can be seen from Table 6-6, ninety five percent of the interviewees believe that the existence of an efficient accounting system is an important factor which affects their perception about corporate managers’ trustworthiness. This high percentage indicates the significant role that an efficient accounting system can play in the relationship between financial analysts and corporate managers in Iran. For example, F2 believes that an efficient accounting system in the company is necessary because it results in accurate and on-time reporting. In addition F14 says, “managers who do not install an efficient accounting system may be self interested”. Furthermore, F2 believes that the installation of an efficient accounting system shows the competence of the management and vice versa.

As a result, all of these options indicate that financial analysts believed the existence of an efficient accounting system may provide accurate and on time information. The lack of an efficient accounting system in the company may be intentional or unintentional. If a manager intentionally does not install an efficient accounting system it could be a sign of lack of honesty and benevolence in the manager.

These ideas show the impact of the accounting system in the financial analysts' perception of managers in positive and negative ways. This is consistence with McKnight, Cummings and Chervany's (1998) idea that situation normality helps financial analysts feel comfortable enough to form a trusting intention towards the manager in that situation. The reason for the unintentional alternative could be lack of the manager's ability to run the company. This confirms the idea of McKnight, Cummings and Chervany (1998) that financial analysts place their trust in managers with characteristics such as ability (to fulfil their expectations). This is also consistent with Mayer, Davis and Schoorman's (1995) idea that financial analysts trust in managers because they possess some qualities, such as ability.

Both probabilities can impact on the financial analysts' perception of managers' trustworthiness characteristics such as benevolence, integrity, and competence but the lack of an efficient accounting system increases the risk of the relationship between financial analysts and corporate managers producing perception the lack of integrity, benevolence, and competence.

6.3.1.1.3. Fraud in Financial Reports

Another sub-factor of financial reports which affects the financial analysts' perception of managers' trustworthiness characteristics is fraud. As explained in chapter three, fraud is an intentional manipulation of accounting information to mislead users of financial reports. According to the interviewees' opinions fraud can affect their perceptions of the managers' integrity and benevolence. Competence will not be affected by fraud since managers who involve themselves in fraudulent financial reports have a high level of ability and knowledge (competence) but they use these for misleading the users. Ninety percent of interviewees believed that fraud in financial reports affects their perception about managers' trustworthiness characteristics (Table 6-6). This high percentage shows the significant effect of the fraud on the perception of financial analysts in assessment of the reliability of financial reports and consequently the level of trustworthiness of managers. For example, F11 says "fraud in financial reports impacts strongly on the level of trust which I put in managers". This provides empirical evidence to support the idea of previous researchers such as McKnight, Cummings and Chervany (1998) and Mayer, Davis and Schoorman (1995) which indicate that financial analysts trust in managers with characteristics such as benevolence and integrity. In fact, fraud increases the risk of the relationship between financial analysts and corporate managers in terms of the lack of benevolence and integrity as well as the predictability of the managers' behaviour.

Alternatively, some financial analysts believe that fraud in financial reporting does not have any effect on their perception of managers. They argue that there are different control mechanisms in a company (e.g., the board of directors and auditors) which reduces the possibility of fraud in the financial reports. There are a number of steps taken in providing financial reports every step should be checked for its correctness by the person responsible for the next step. For example F15 says, "Fraud is an important factor which affect in my perception about managers' characteristics such as integrity but it rarely happens in a company. There are different internal and external (e.g., external auditors and investigators) controls which controls each previous work stage. So, it is difficult for fraud to happen". This belief is consistent with McKnight, Cummings and Chervany's (1998) idea which indicates that when the financial reporting process is suitably organized and has an appropriate structure in place, financial analysts feel comfortable enough to form a trusting intention towards the manager (situation normality belief).

6.3.1.1.4. The History of Financial Reporting

As can be seen from Table 6-6 sixty five percent of the interviewees stated that the history of the financial reports impacts on their perception of corporate managers' trustworthiness characteristics. The history of financial reports in a company represents a summary of a manager's characteristics and shapes the financial analysts' willingness to depend on the managers. For example, F3 stated:

> The first factor which affects our trust in the financial reports is the history of financial reports whether they have had consistency during last three years and also whether they had any earnings manipulation.

A judgment of financial analysts about managers is firstly based on previously provided financial reports. This confirms McKnight, Cummings and Chervany's (1998) idea that situation normality helps financial analysts feel comfortable enough to from a trusting intention toward the manager in a particular situation.

6.3.1.1.5. Legal Accounting Manipulation

The legal manipulation of the financial information which has some basis in the rules and standards is another sub-factor of financial reports which influence the perception of financial analysts about the managers' trustworthiness characteristics. There are different views about the effects of the legal accounting manipulation on the financial analysts' perception of managers.

Fifty percent of interviewees believe that legal accounting manipulation affects their perception of managers' trustworthiness characteristics because it window dresses the financial statements and may mislead the users. This group believes that the manipulation indicates that the management does not posses benevolence and integrity. For example F2 believes that all manipulations (legal or illegal) affect his level of trust in managers. He said "when we feel that a manager manipulates the figures, we will be more sensitive to him/her, even though he/she may have some legal reasons for the action taken". It indicates that this group of financial analysts perceives that legal accounting manipulations increases the risk of the relationship in terms of the lack of benevolence and integrity. This result provides empirical evidence to support the idea of McKnight, Cummings and Chervany (1998) that financial analysts trust in managers because they possess qualities such as ability, integrity, and benevolence to the standard they required.

The other fifty percent of interviewees believe that legal accounting manipulation is sometimes necessary and that it indicates the ability of the managers. This group believes that accounting manipulation does not have any negative effect on the level of their trust in managers. For this group legal accounting manipulation may represent a high level of the managers' competence. For example, F7 believes that legal accounting manipulation causes maximization of the company's value. He stated "legal accounting manipulation is acceptable because the aim of the management is to maximize the value of the company.

This action indicates the ability of the management to achieve the aim". This idea indicates that legal accounting manipulation shows the high level of managers' competence and consequently decreases the risk of the relationship between financial analysts and corporate managers. This empirical evidence is also consistent with McKnight, Cummings and Chervany's (1998) and also Mayer, Davis and Schoorman's (1995) ideas which indicate that a high level of management competence decreases the risk of relationship.

In summary, it can be said that different financial analysts perceive the legal accounting manipulations differently. The types of effect depends on the financial analysts' opinion about these manipulations, but regardless of their types, they influence the level of trust that financial analysts put in managers.

6.3.1.1.6. The Quality Appearance of Financial Reports

The quality appearance of financial reports is another factor which affects the level of trust. Thirty percent of interviewees stated that the appearance quality of financial reports affects their perception about trustworthiness characteristics of managers (Table 6-6). For example, F10 stated, "the good appearance of financial reports implies that all situations in the company are under control". This is consistent with that of McKnight and Chervany (2001-2002) who believe that whenever financial analyst feel that things are suitably organized in the process of financial reporting, they can easily trust managers. This is an example of situation normality belief. McKnight and Chervany (2001-2002) stated that the appearance for example of a bank, impacts on the trusting level of its clients.

6.3.1.1.7. The Amount of Adjustments

Another aspect of financial reports that affects the financial analysts' perception of corporate managers' trustworthiness characteristics is the amount of the adjustments that will needed in a company's financial reports each year. As can be seen from Table 6-6 thirty percent of interviewees believe that the seriousness of adjustments affects their perception about the trustworthiness characteristics of managers.

The results of the interviews indicate that from the Iranian financial analysts' perspective adjustments can be divided into two categories: firstly, adjustments on previously provided financial statements and secondly, adjustments on the predicted figures such as earnings per share (EPS). The adjustments on the financial statements may be caused mainly by errors which may reflect the lack of competency of the managers. The necessary adjustments on the predicted figures represent the inability and also the lack of integrity and benevolence of managers. For example, F10 states "there is a low level of trust in financial reports and managers of companies that have big adjustments in their financial reports". In general, because of the adjustments in the financial reports the financial analysts may feel that the situation is not normal for trusting the managers (McKnight, Cummings and Chervany, 1998) or managers do not have the required qualities to be trusted (Mayer, Davis and Schoorman, 1995; McKnight, Cummings and Chervany, 1998).

6.3.1.2. Managers

Managers play a vital role in companies, especially in the providing of financial reports. F1 stated, "Although there are standards that must be complied with, still managers play an important role in the level and type of information published." The results of the interviews show that there are different management related factors which affect the level of the financial analysts' trust in managers. These factors include; the reputation of managers, a long association with managers, the degree of independency of managers from shareholders, professional behaviour, management tenure and management ownership in the company (Table 6-7). Table 6-7 shows different aspects of management related factors and the opinion of the interviewees about them. As can be seen from the table these factors are considered differently by the interviewees. For example, all of the interviewees considered the reputation of managers as an influential factor in their perception about trustworthiness of corporate managers while only twenty percent considered management tenure an important factor. The research findings about these factors are presented in the following sections.

Table 6-7: Managers' Influential Factors in Financial Analysts' Level of Trust in Managers

Factors	No.	Percent
Reputation of managers	20	100%
Long association with managers	20	100%
Ownership structure	13	65%
Managers' code of conduct	4	20%
Management tenure	4	20%
No.: This column shows the number of interviews from 20 which considered each sub factor is important in their perception about financial analysts' trustworthiness characteristics. For example twenty interviewees considered reputation of managers is important and thirteen considered Ownership structure.		

6.3.1.2.1. The Reputation of Managers

As it is shown in Table 6-7, the reputation of managers is one of the most important factors that influence the financial analysts' perception of corporate managers' trustworthiness. All financial analysts interviewees stated that managers' reputation impacts on the level of their trust in them. This indicates the significance of managers' reputation on building the relationship between the Iranian financial analysts and corporate managers. For example F9 says "based on the reputation of managers' we can judge the level of managers' trustworthiness in terms of honesty, ability, benevolence and also consistency of their behaviour". This means that managers' good reputation can reduce the level of risk in the relationship between financial analysts and corporate managers in terms of integrity, benevolence, competence and the inconsistency in their behaviour. In fact, the good reputation of managers gives confidence to financial analyst to believe that managers are able and honest in publishing information to support the investors' welfare. This allowed the financial analysts to feel confident about investors' welfare. Consequently, if financial analysts find that managers have a good reputation, they will trust them (McKnight, Cummings and Chervany, 1998).

6.3.1.2.2. Duration of Association between Financial Analysts and Managers

The length of the association between financial analysts and managers is another factor which can affect financial analysts' perception of corporate managers because financial analysts have had sufficient time in which to judge the managers' reputation and trustworthiness characteristics. As can be seen from the Table 6-7, all interviewees considered a long-term association with managers as an important factor which affects their relationship. This confirms that duration of association is a significant factor which affects the relationship between the Iranian financial analysts and corporate managers. For example, F8 states, "when we have an association with managers it helps us to judge their characteristics." In addition, F7 state "culturally, personal relationship plays an important role in the Iranian society. A long association with managers put the financial analysts in a better position to judge characteristics of the managers' behaviour such as honesty, ability, benevolence, and predictability."

According to these interviewees the association between financial analysts and managers helps the financial analysts to find out whether managers posses specific qualities such as honesty in publishing information, ability and willingness to act in shareholders' interests, and predictability of management behaviour. These behavioural characteristics all reduce risk in the relationship between financial analysts and corporate managers in terms of fraud, errors, and earnings managements in financial reports and confirm the idea of trust of Mayer, Davis and Schoorman (1995) and McKnight and Chervany (2001-2002).

6.3.1.2.3. Ownership Structure

In the research interviews with the Iranian financial analysts it was revealed that the combination of shareholders is one of the factors that influence the level of trust that they place in corporate managers (Table 6-7). As can be seen from Table 6-7 sixty percent of the interviewees indicated that the ownership structure of a company affects their perception about the managers' trustworthiness. The results indicate that the presence of major shareholders and also any possible management ownership in the company, affects the relationship between the Iranian financial analysts and corporate managers.

The Iranian financial analysts differ in their opinions about the effects of major shareholders on their trust in managers. Some believe that the existence of major shareholders has a negative effect on their perception about trustworthiness of managers. They argue that managers have to consider the interest of the major shareholders otherwise they will be dismissed. This means that managers may not be independent of major shareholders and may not consider the interest of all shareholders equally. This increases the risk of the relationship between financial analyst and corporate managers in terms of the lack of the managers' benevolence. For example, F1 states "major shareholders can affect the amount and quality of published information because managers usually have a close relationship with major shareholders or their representatives and they usually agree with them." He went on to emphasize that, "despite standards and rules and regulations managers have an important role in the amount of published information and its transparency". In addition, F6 stated, "ownership structure of the company is one of the factors that influence the level of trust that we place in financial reports because shareholders select managers, auditors, and the company's inspectors." Indeed, he believes that major shareholders can impact on selecting managers and direct the way the company is to be run. This is extended to the auditing and investigating process. This situation is not a normal part of the antecedent factors of trust as given by McKnight, Cummings and Chervany (1998).

The other group opinion about the major shareholders is that they have a positive impact on their perception about managers' trustworthiness characteristics. The reasons for this opinion were given as: major shareholders play a significant role in monitoring and controlling the managers behaviour (Shilifer and Vishny, 1986; Shilifer and Vishny, 1997) and the existence of major shareholders reduces the possibility of opportunistic management behaviour. For example, F15 believes that the presence of major shareholders is an advantage to the company because they capable of steering a company through any crisis.

Management ownership is another factor which influences the relationship between the Iranian financial analysts and corporate managers. The results of previous studies about the relationship between ownership and performance are inconsistent. Some studies indicate that there is a significant relationship between management ownership and the performance of managers. For example, Short, Keasey and Duxbury (2002) studied a sample of companies listed on the London Stock Exchange Official List for the period 1988 to 1992. The result of this research shows that the risk of bankruptcy in the company is low when the manager is a shareholder. Some other studies discovered a non-linear relationship between the firm's management ownership and performance. For example, Chen, Lawrence and Michael (1993) found that in large companies, the company's value is a sign of management ownership. They found that the q increases when management ownership is between 0% and 5-7% and decreases as the ownership increases to 10-12%. Morck, Shleifer and Vishny (1988) also found that q first rises as management ownership increases to 5%, then falls as ownership increase to 25%, and increases slightly at higher levels of ownership.

These Iranian financial analysts that believe management ownership affects the company's performance negatively do so because they believe that managers are concerned with self-interest. For example, F12 stated, "management ownership in Iran is different from that in developed countries. My level of trust in managers who are shareholders of the company, is lower than the situation which in managers are not shareholders." It can be said that, in this situation financial analysts' perception about the managers' benevolence and integrity is low and the risk of self-interest and fraud increased. This situation confirms McKnight, Cummings and Chervany's beliefe (1998) in the situation normality. Financial analysts feel that these circumstances not preclude situation from being a normal one in which it is possible to trust in managers' characteristics such as honesty, and benevolence (McKnight, Cummings and Chervany, 1998).

6.3.1.2.4. Managers' Code of Conduct

The managers' code of conduct is another factor which impacts on the financial analysts' perception about managers' trustworthiness. The code of conduct of each group reflects a set of rules of what is considered right and wrong behaviour. This code of conduct leads to the application of value judgments in their decision making. As can be seen from the Table 6-7 twenty percent of the interviewees stated that the degree to which managers' comply with the code of conduct affects their relationship with the managers. For example, F7 believes that following the code of conduct results in providing reliable information which serves the interest of all stakeholders. This means that if managers follow the code of conduct risk, in terms of the lack of integrity and benevolence, is reduced. This provides empirical evidence to support the ideas of previous researchers (e.g., Mayer, Davis and Schoorman, 1995; McKnight and Chervany, 2001-2002) which found that trust is result of believing that others have some qualities, such as, integrity and benevolence with which meet their expectations.

6.3.1.2.5. Management tenure

Management tenure is another factor which affects the financial analysts' perception of managers' trustworthiness characteristics. Some financial analysts believe that management tenure is an indication of management ability and good performance (Table 6-7). For example, F17 believe that there is a direct relationship between managers' characteristics such as ability and integrity and their tenure. If managers have these expected qualities they are more likely to stay in the position for a longer period. It can be concluded that management tenure can be a sign of managers' reputation. This may reduces the risk in the relationship between financial analysts and corporate managers. This is explained further in the section 6.9.3.1.

6.3.1.3. External Auditing

External auditing is another factor that impacts on the financial analysts' perception of managers' trustworthiness characteristics. As can be seen from Table 6-5 all interviewees considered external auditing as an important factor which affects their perception of the level of the managers' trustworthiness. Financial analysts considered that there are two important factors which need to be considered in external auditing (Table 6-8). These factors are the reputation of the audit firm and the type of audit report given. These factors are described in the following subsections.

Table 6-8: External Auditing Factors

Factors	No.	Percent
Audit firm	19	95%
Audit report	5	25%

No.: This column shows the number of interviews from 20 which considered each sub factor is important in their perception about financial analysts' trustworthiness characteristics. Nineteen interviewees considered Audit firm is important and five considered Audit report.

6.3.1.3.1. Audit firm

Table 6-8 shows that ninety-five percent of the financial analysts interviewees believe that the audit firm affects their relationship with managers.

They believe that managers have a role in choosing auditors even though it may be an informal. Different auditors have different audit quality (DeAngelo, 1981). Therefore, trustworthy managers may choose a higher quality auditor who is honest and knowledgeable. Financial analysts believe that choosing a trustworthy audit firm may be a sign of trustworthy managers. Choosing a higher quality audit firm would reduce risk in the relationship between financial analysts and corporate managers in terms of the managers' lack of benevolence, integrity, and ability.

Signalling theory literature considers auditors are a means of signalling future cash flows to outside investors in a company and supposes that companies with more positive prospects select higher quality auditors (e.g., Big Four) to highlight these prospects (Weets, 1999). Because of this the risk of litigation and the possibility of losing their reputation and wealth, high quality auditors usually avoid risky clients (e.g., Firth and Smith, 1995; Raghunandan and Rama, 1999). Therefore, when a high quality auditor is selected it means that the company is less risky and has good future prospects. Indeed, when the audit firm is trustworthy, financial analysts feel that the situation is normal enough to trust in the managers (McKnight, Cummings and Chervany, 1998).

For example, F10 states, "the independence of the auditor is important factor which affects the level of my trust in the managers". Different auditors may have different levels of auditor independence. Some financial analysts believe that auditors in the Iranian Auditing Organization are more independent. F10 stated "I have more trust in government auditors than the private sector's auditors, since they are more independent". Indeed, when auditors are independent, financial analysts feel managers are trustworthy.

6.3.1.3.2. Audit report

Another factor related to auditing is the type of audit report. The type of the audit report affects the perception of financial analysts about the level of trustworthiness of managers. The type of audit report represents the difficulties that may exist in the company and in the financial reports. The trend of auditing reports shows the quality of the financial reports and consequently, the trustworthiness of the managers. If the some problems are repeated every year or the number of comments in auditing reports increases, and the manager does not have a logical reason to refute them, this might be a sign of a lack or weakness in some of the manager's trustworthiness characteristics. For example, managers do not have enough ability (power or knowledge) to improve the situation or the manager is trying to manipulate information for his own or some specific groups' benefits (lack of honesty and benevolence). F10 stated, "The trend of the auditing report is an important factor in trust in financial reports. Changes in the number of paragraphs in the audit reports are important. If the number of comments in the audit report increases it shows that the situation is becoming worse." This result is consistent with the previous research such as Firth (1978) and Ball, Walker and Whittred (1979) which indicates that because they contain significant information a relationship exists between a certain type of qualified audit reports (e.g., subject to qualifications) and portfolio decision making.

This confirms McKnight, Cummings and Chervany's (1998) believe that things are normal or predictable if every thing seems to be suitably organized, and in an appropriately structured setting. This shows "success is likely because the situation is normal" (McKnight, Cummings and Chervany, 1998, p.478).

6.3.1.4. Rules and Regulations

Another factor that affects the relationship between financial analysts and corporate managers is the existence of rules and regulations (Table 6-5). Eighty five percent of the interviewees stated that the existence of the rules and regulations affect their relationship with corporate managers. This indicates the importance the role that rules and regulations can play in the financial analysts' perception about the reliability of managers. For example, according to F13 the existence of rules and regulations which govern the activities of the managers in TSE listed companies gives some assurance to financial analysts that managers are more likely to act in the best interests of the shareholders. Therefore, the existence of rules and regulations may give assurance to the financial analysts when conditions are favourable and will assist them to achieve the expected outcomes. This result provides empirical evidence which is consistent with previous research (e.g., Zucker, 1986; McKnight and Chervany, 2001-2002; McKnight, Choudhury and Kacmar, 2002).

6.3.1.5. Religion

Religion is another factor which affects the relationship between financial analysts and corporate managers in Iran. All financial analysts believed that religion is an important factor in the level of their trust in managers (Table 6-5). This result indicates the significant role religion can play in the relationship between the Iranian financial analysts and the corporate managers. For example, F8 said:

> Regarding the manager's trustworthiness, the religiosity of manager is a very important factor for us. We trust religious managers more than non-religious ones, because religious managers will not publish wrong or manipulated information to the market.

All financial analyst interviewees believe that religion affects the integrity, benevolence and predictability of corporate managers. F8 also believes that in his perception the manager‘s ability to run the company is enhanced by the managers' religious beliefs.

F3 believed all religions invite their believers to have ethical behaviour. He stated, "Indeed ethical behaviours such as honesty are appreciated in all religions". F5 confirms F3's idea. He says:

> I believe religion strongly influences trust relationship. Religion includes all good ethical characteristics such as integrity and benevolence. The reason is that when a person believes in some principles, he/she tries to act in accordance with them.

All of these indicate that as Islam has ethical values which encourage its adherents to support these ethical values in practice.

This implies that from the perspective of the financial analysts, religious managers have ethical characteristics such as integrity, benevolence and predictability in their behaviour. This belief is encouraged by Islam. The existence of the Islamic rules also give assurance to financial analysts that the managers act honestly, benevolently, and are predictable. This confirms that in an Islamic country such as Iran religion affects all financial activities (Taheri, 2005) and support the idea of McKnight and Chervany (2001-2002) who maintain that faith in humanity and a trusting stance support financial analysts' intentions to depend on managers. It also supports the idea of structural assurances, those who believe others are trustworthy because of the existence of rules and regulations in society.

6.3.2. Trusting beliefs

Trust plays a key role in business relationship. In this research following McKnight and Chervany (2001-2002) the focus is on four characteristics of corporate managers which shape the financial analysts' trust in managers. In this research trust is considered as the financial analysts' perception of corporate managers' characteristics in a risky situation. These characteristics are integrity, benevolence, competence and predictability of managers (Table 6-9 and Figure 6-2). The results of analysing the collected data related to trusting beliefs are presented in the following sections.

Table 6-9: Managers Trustworthiness Characteristics

Trusting beliefs	Interviewees' code (Financial analysts)																				N	Percent Of Interviewees
	F 1	F 2	F 3	F 4	F 5	F 6	F 7	F 8	F 9	F 10	F 11	F 12	F 13	F 14	F 15	F 16	F 17	F 18	F 19	F 20		
Integrity	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100
Benevolence	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100
Competence	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	20	100
Predictability	×	-	×	×	×	×	-	×	×	-	×	×	×	×	-	×	×	×	×	-	15	75

- N =the number of interviewees that considered each characteristic as trusting belief. For example, 20 interviewees considered integrity, benevolence, competence as trusting belief and 15 considered predictability.
- F1-F20 are interviewees' code.
- Last column (percent of interviewees) shows the percent of interviewees that considered a characteristic as trusting belief. For example, 100% of interviewees considered integrity and benevolence as trusting beliefs.

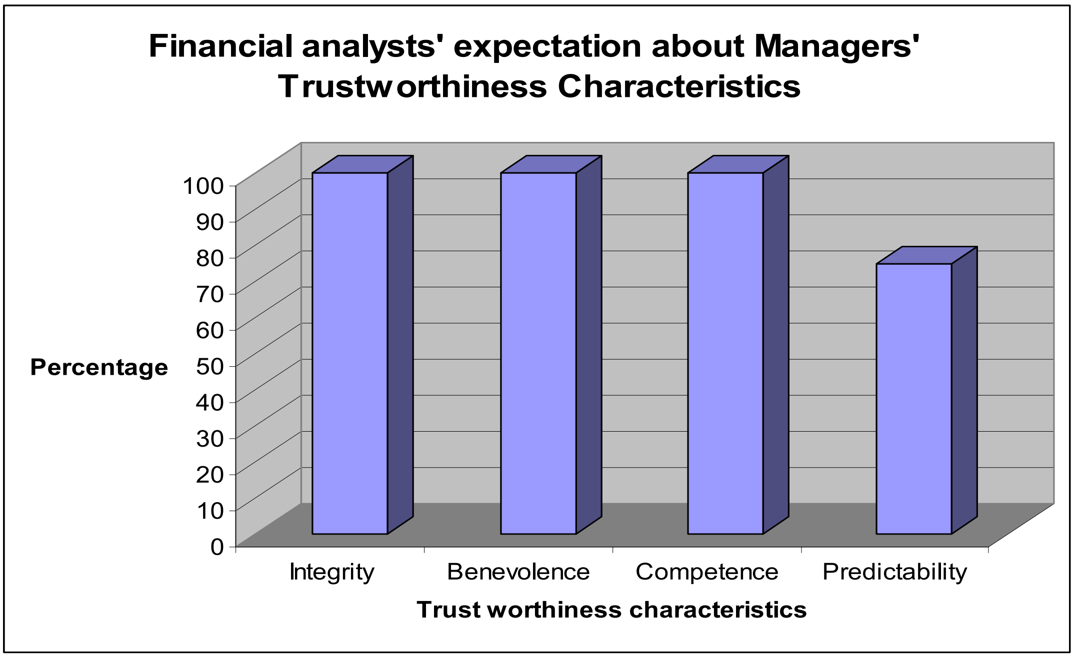

Figure 6-2: Managers Trustworthiness Characteristics from the Financial Analysts' Perspective

6.3.2.1. Integrity

In this research, integrity is defined as the extent to which the corporate managers act consistently on their verbal agreement and with remain consistent in their execution responsibilities. This research found that integrity is a significant factor of trustworthiness of the corporate manager (Table 6-9). This finding is consistence with the previous studies (e.g., Bulter, 1991; Ring and Van de Ven, 1994; Mayer, Davis and Schoorman, 1995) which found that integrity is significant determinant of trust in interpersonal and group relationships. For example, F3 states, “Integrity is the most important factor which affects the trust in managers”.

Financial analysts expect corporate managers to be honest, to provide accurate financial reports and to keep promises. For example, F19 states: “a manager should be honest. He/she should act as expected”. This is consistent with Mayer, Davis and Schoorman (1995: p.719) who define integrity as “the trustor’s perception that the trustee adheres to a set of principles that the trustor finds acceptable”. McKnight and Chervany (2001-2002) describe integrity as the trustor’s belief that the other party makes good-faith agreements, tells the truth, acts ethically, and fulfils promises.

Consistent actions may result in the reducing the financial analysts’ perceived risk in trusting corporate managers (Whitener, Brodt, Korsgaard and Werner, 1998). The consistency in managers’ behaviour helps the financial analysts to predict the corporate manager’s future action based on previous actions. This increases the manager’s reliability. Therefore, if the corporate manager has integrity, he/she will act reliably and deliver what has been promised. The Iranian financial analysts assess the integrity of the Iranian corporate managers by using some criteria such as honesty.

This research argues that the Iranian financial analysts have at least two reasons to be sure that corporate managers have integrity. Firstly, managers who have integrity follow rules and regulations (Commercial Code and accounting standards) and secondly, they do not engage in fraudulent behaviour, such as fraud in financial reports. The confidence of financial analysts about the corporate managers' integrity reduces the risk in the relationship between them in terms of fraud and accounting manipulations.

It is concluded here that integrity is a key factor of trustworthiness of the Iranian corporate managers who are expected to demonstrate their integrity in terms of providing accurate information, keeping promises, and maintaining and adhering to regulations, rules, and accounting standards.

6.3.2.2. Benevolence

In this research, benevolence is defined as the degree to which a corporate manager gives assurances and is concerned with the shareholders' interests. The result of this research indicates that benevolence is a significant factor in the trustworthiness of a corporate manager (Table 6-9). As Table 6-9 shows all interviewees indicated that the benevolence of manager is an important factor in the trustworthiness of a corporate manager. This supports the findings of previous studies (e.g., Gabarro, 1978; Bulter, 1991; Wintoro, 2000) indicating that loyalty, supportiveness and concern are important elements in building a trust relationship.

The interviewees expect managers to act benevolently. For example F10 said, "We expect that the managers will care about the investors' welfare. The manager should consider him/herself as an investor when publishing information".

Financial analysts recommend to their clients to buy or keep the shares of the company when its manager express his/her concerns in the benefit and interests of the investors (McAllister, 1995; Mishra, 1996; Wintoro, 2000). This concern can be demonstrated in different ways, such as, consideration for the investors’ expected returns and interests by providing accurate information, acting in such a way as to protect the investors’ capital and avoiding self-interested decisions.

The Iranian financial analysts evaluate the benevolence of corporate managers by using criteria such as: willingness of the manager to transfer company information to the users, and taking care of all shareholders’ welfare, not specifically the major shareholders. This thesis argues that the reasons for applying these criteria for evaluating the benevolence of a corporate manager are to obtain accurate information about the company’s performance and financial position, and to know the degree of concern the corporate manager has for the care of the shareholders’ interests.

It can be concluded that benevolence is a key factor of trustworthiness of the Iranian corporate managers who are expected to represent their benevolence in terms of intention to provide company information to the users, treating all shareholders interests equally, and not being motivated by self-interest.

6.3.2.3. Competence

In this study, the term competence is used to indicate the extent to which company managers possess the necessary abilities, skills, techniques, and experiences to run the company and providing accurate financial reports. Competence includes inherent personal characteristics such as sharpness and power of thinking, and acquired skills such as education and experience. This research found that competence is a key factor of trustworthiness of the Iranian company managers (Table 6-9). From Table 6-9 it can be seen that all interviewees considered competence as an important factor which affects the level of the financial analysts' trust in managers. For example, F8 states "ability is an important factor in making a trust relationship". In addition, F10 states, "we trust managers because of their abilities".

This result supports the previous findings of Wintoro (2000) and Moorman (1993). Previous studies also indicate that trust is received when individual demonstrates his/her competency, ability, and expertise to others. Financial analysts therefore tend to recommend the purchase of shares in those companies that have skilful managers.

The interviewees assessed the competence of corporate managers by using certain criteria. These criteria are: management knowledge, management experience, the ability to manage companies in a crisis, management tenure or his ability in a big company to past performance record in such areas as the increasing share prices, increasing the earning per share, and preventing the disclosure of incorrect information by. For example, F7 states, "we perceive managers' characteristics, such as competence, through the published reports". In addition, F19 states, "managers should be smart, brainy, and innovative. Managers should have related technical ability." Furthermore, F17 states, "If managers do not have sufficient ability they will provide incorrect information".

In conclusion, competence is a key factor which affects the perception of financial analysts of the trustworthiness characteristics of an Iranian corporate manager who is expected to demonstrate his/her ability in running the company.

6.3.2.4. Predictability

In this research, predictability is defined as the extent to which a corporate manager's behaviour is predictable and to what extend the corporate manager's behaviour is likely to be consistent in the future. This research found that predictability is a key factor of trustworthiness of the Iranian company managers (Table 6-9). As can be seen from Table 6-9 most of interviewees (75%) considered predictability as an important factor which affects their level of trust in managers. This research found that consistency of corporate managers' behaviour is vital for financial analysts. This is consistent with Shaw (1997) who stated "for trust to solidify, words and actions must be consistent across situations. People trust those who are seen as being 'straight,' sharing the same information with different groups or individuals" (Shaw, 1997, p.65). Consistent actions serve to reduce the financial analyst's perceived risk in trusting corporate managers (Whitener, Brodt, Korsgaard and Werner, 1998). If the corporate manager acts consistently, the financial analyst can predict the corporate manager's future actions based on his/her past actions and can measure the manager's reliability.

The financial analysts expect corporate managers to act consistently. For example, F16 believes that managers whose behaviour is predictable are more trustworthy. Therefore, the shares of these companies with managers whose behaviour is predictable may be recommended more frequently by the financial analysts to their clients.

Iranian financial analysts assess the predictability of the corporate managers by using criteria such as consistency in providing financial reports and consistency in applying accounting principles, standards, and procedures. The reasons that financial analysts apply these criteria for assessing the predictability of corporate managers are to compare the company's financial reports with its previous ones, and with those of other companies in the same industry.

It is concluded that predictability is a key factor of trustworthiness of the Iranian corporate managers who are expected to present their predictability in terms of applying the same accounting standards, policies, procedures and methods in providing financial reports.

6.3.3. Interaction amongst the Key Factors of the Trustworthiness of a Corporate Manager

This research has focused on four key factors in the trustworthiness of Iranian corporate managers. These are:

Integrity: honesty and keeping promises

Benevolence: concern

Competence: knowledge and experience

Predictability: consistency in their behaviour.

These four factors are not separable and their combination determines the overall level of trustworthiness of the Iranian corporate managers. A weakness in one of these factors may be offset by strength in the others. Thus, "trustworthiness should be thought of as a continuum, rather than the trustee being either trustworthy or not trustworthy" (Mayer, Davis and Schoorman, 1995, p.721).

Shaw (1997) suggested that in order to achieve and to maintain a level of trustworthiness, that corporate managers must perform adequately in each of the four factors of the trustworthiness of a corporate manager. His suggestion is represented as the following equation:

Quality of trustworthiness of the corporate manager = integrity + benevolence +competence + predictability

Shaw (1997) also believes that the relative importance of each characteristic may be different in different situations. Some conditions may require more emphasis on one component than another, for example, in a crisis, a greater competence to control the crisis may be required but the presence of all four characteristics are necessary over time otherwise the overall level of trust will decrease. Trust can be thought as an equation which in managers have to perform satisfactorily in each of these areas to achieve and maintain trust. In addition, trust characteristics may affect each other. For example, a low level of integrity, competence, benevolence, or predictability can decrease progress in other areas and weaken trust (e.g., F10).

6.4. Summary

In this chapter the factors that affect the relationship between financial analysts and corporate managers were investigated and analysed. The required data was gathered by conducting interviews with the Iranian financial analysts and was analysed by applying the pattern matching code. The findings indicate that:

The level of trustworthiness of the Iranian corporate managers is a function of their supposed competence, integrity, benevolence and predictability in their activities, especially financial reporting.

Trust is a significant element of the relationship between the Iranian financial analysts and corporate managers.

The antecedent factors to trust significantly affect the perception of the Iranian financial analysts about trustworthiness of the corporate managers. These factors are: financial reports, related factors to managers, external auditor, Islam, and rules and regulations,

Religion-Islam, as a particular antecedent factor to trust in the Iranian context, which impacts strongly on the building of business relationships between the Iranian financial analyst and corporate managers

The Iranian financial analysts apply components of trust as the criteria for evaluating the trustworthiness of the corporate managers by providing recommendations to buy, hold, or sell shares in the companies.

In the next chapter the findings and contributions of this research will be discussed.

Chapter 7. Conclusion and Summary

7.1. Introduction

This thesis investigated the role of trust in the business relationship between financial analysts and corporate managers in the TSE. Trust plays an important role in the relationship between financial analysts and corporate managers but because the TSE is an emerging market current models of trust could not be applied successfully. Therefore a modified theoretical model was applied to suit the Iranian context. A qualitative approach by conducting semi structured interviews was used to collect the data, which was then analysed using the pattern matching code. The procedures applied to collect and analyse the data were explained in detail. In general, the results of the data analysis procedures supported the applicability of the modified trust model in the Iranian context.

In this chapter the aims and findings of the study are presented (section 7.2) followed by a discussion on its contribution to the literature on trust (section 7.3). This is followed by a discussion on the implications of the research findings (section 7.4) and finally limitations of the research (section 7.5) and future research prospects (section 7.6) are explained.

7.2. Findings

This thesis investigated the role of trust for building the relationship between the Iranian financial analysts and corporate managers in the TSE. This investigation has concentrated on two critical aspects of the relationship. These are: (i) the key factors of trustworthiness of the corporate managers needed by the financial analysts to reduce their risks in the relationship, (ii) the antecedents factors which affect the perception of the financial analysts about key factors of the trustworthiness of the corporate managers.

The results of the study indicate that: (i) trust is important in the relationship between the financial analysts and corporate mangers, (ii) the degree of trust that the financial analysts put in the corporate managers is identified by the corporate managers' level of trustworthiness, (iii) the key factors of trustworthiness of a corporate manager are integrity, benevolence, competence, and predictability in his/her behaviour, (iv) a model of trust relationship which explains how financial analysts build their relationships is suggested, (v) the main reason for financial analysts to build the relationship with corporate managers is to get accurate information about the company especially inside information.

7.3. Contributions

Whetten (1989) believes that the contribution of a research can be judged by the following criteria: (i) including in new variables or excluding current variables from an existing model of a theory, (ii) indicating the effect of new variables or excluding the current variables on the existing relationship, (iii) identifying and explaining the deviation of a theory that may alter the relationship, or (iv) providing evidence for unrealistic hypotheses of the model.

This research fulfils these objectives because it provides theoretical contributions in the form of including new factors to the model and indicating their effects on the relationship between financial analysts and corporate managers. These are: suggesting trust as a significant element in the relationship between financial analysts and corporate managers, including new variables to the theoretical model of trust of McKnight and Chervany (2001-2002), providing empirical evidence of the influential factors on the trust relationship between financial analyst and corporate managers, and suggests a new model of trust relationship between the financial analysts and corporate managers.

7.3.1. Adding Trust as an Important Element in Business Relationship

The result of this research shows that trust is a significant element in the relationship between Iranian financial analysts and corporate managers because financial analysts are concerned with the degree of the managers' trustworthiness. Trust is vital for financial analysts as a basis for building a relationship with corporate managers because of the general characteristics of the business relationship between them. These characteristics are: (i) a one-sided reliance in which financial analysts rely on corporate managers to obtain accurate information about the managers' performance and company financial position, (ii) financial analysts cannot control the managers' behaviour in the provision of financial reports, (iii) corporate managers have a responsibility to take care of shareholders' interest by providing reliable financial reports, (iv) financial analysts need to have a long term relationship with the corporate managers because the benefit of the long term relationship may be more than a shorter relationship.

The characteristics of a business relationship require financial analysts to consider the trustworthiness of the corporate managers in their relationship. This is because the financial analysts' decisions are vulnerable because of the possible opportunistic behaviour of the corporate manager which may lead to e.g., fraud (McKnight and Chervany, 2001-2002). Therefore, a high degree of trustworthiness is necessary to make sure that the corporate managers represent their ability to manage, are not motivated by self-interest, act with integrity, and consistency.

It can be concluded that financial analysts take into account the benefits and risks from the relationship with corporate managers. For maximum benefits and a low level of risk, financial analysts establish a relationship with corporate managers who have shown a high level of trustworthiness. The relationship between financial analysts and corporate managers is established by the corporate managers' ability, benevolence, integrity, and predictability of their behaviour. These are important elements of trust.

7.3.2. Providing Empirical Evidence of the Key Factors Trustworthiness

The results of this research indicated that the Iranian financial analysts consider four key factors to judge the trustworthiness of the corporate managers. These are integrity, benevolence, competence, and predictability. The results of the thesis provide empirical evidence of the key factors of trustworthiness of a trusted person which are identified in the theoretical model of trust developed by McKnight and Chervany (2001-2002). They argued that trustworthiness of a person is measured by integrity, benevolence, competence, and predictability. This empirical evidence forms part of this research's contribution to the literature on trust.

It can be concluded that these four factors are not separable and their combination determines the overall level of trustworthiness of the Iranian corporate managers as stated by Mayer, Davis and Schoorman (1995) and Shaw (1997).

7.3.3. Providing Empirical Evidence of the Influential Factors on Trust Relationship between Financial Analysts and Corporate Managers

The findings of this research indicate that some factors affect the perception of the Iranian financial analysts about the trustworthiness characteristics of managers. These are antecedent factors to trust which include: financial reports, related factors to the previous behaviour of the managers, external auditing, Islamic religion, and rules and regulations.

The results of this thesis provide empirical evidence to believe that the antecedent factors to trust which affect the perception of a person about the trustworthiness of a person which are identified in the theoretical model of trust developed by McKnight and Chervany (2001-2002). They argued that the antecedent factors shape the environment in such a way that the person feels safe enough to trust others in a particular situation. This empirical evidence is a contribution of this research to the literature on trust.

It can be concluded that these antecedent factors to trust impact the degree of perceived risk by financial analysts in their relationship with managers and consequently shape the level of trust which financial analysts put in managers.

7.3.4. Proposing a New Model of Trust Relationship between the Financial Analysts and Corporate Managers

The results of this research can be combined to propose a model of trust relationship between financial analysts and corporate managers (Figure 7-1). This model is based on the theoretical model of McKnight and Chervany (2001-2002) which considered trust as an interpersonal relationship in a risky situation that forms in terms of the perception of a person (e.g., financial analysts) about the other person (corporate manager) whether the other person possesses characteristics such as integrity and competence. The proposed model also is consistent with the theoretical model of McKnight and Chervany (2001-2002) in that it considers personal and sociological factors which may impact on the perception of a person (e.g., financial analysts) about others' trustworthiness (corporate manager) as the antecedent factors to trust. This research found that antecedent factors to trust from the perception of the Iranian financial analysts are:

1. financial reports including:

    a. the history of company's financial reports
    b. the quality of the company's accounting system
    c. fraud in financial reports
    d. errors in financial reports
    e. legal accounting manipulation
    f. appearance quality of financial reports
    g. the amount of adjustments in financial reports

2. management related factors including:

    a. reputation of managers

b. managers tenure
c. ownership structure
d. duration of association between financial analysts and managers
e. managers' code of conduct

3. external auditor related factors including:

    a. Audit firm
    b. Audit report

4. rules and regulations

5. Religion-Islam

The model of a trust relationship will be helpful as a justification of how a financial analyst builds his perception about trustworthiness of a corporate manager. The model may provide at least two contributions to our understanding of the role of the trust relationship between financial analysts and corporate managers in Iran.

The model of trust relationship describes the stages of building a relationship between a financial analyst and a corporate manager. These stages include: (i) the financial analyst reasonably believes that the benefits received (information about the company) from his/her relationship with managers will be much more than the costs, (ii) the financial analyst evaluates the key factors of the trustworthiness of a corporate manager to get maximum benefits and decreases his/her risk in the relationship, (iii) the financial analyst assesses constantly the benefits and costs of the relationship and the level of trustworthiness of the corporate manager. Based on this assessment, the financial analyst decides whether to continue the relationship or not.

The model of trust relationship indicates that the level of trust is the results of assessing the trustworthiness of the corporate managers. The level of trustworthiness of a corporate manager is also identified by his/her integrity, benevolence, competence, and predictability of his/her behaviour. The financial analysts build a relationship whenever the level of trust of the corporate managers is higher than the degree of risk. Moreover, for financial analysts, the perception about the risk of their relationship with corporate managers may be determined based on the antecedent factors. These antecedent factors are information related to previously published financial reports, information about the managers, external auditing, rules and regulations, religion-Islam, and ownership structure. As a result, these antecedent factors may affect the level of trust that financial analysts put in managers.

It can be concluded that the trust relationship between the financial analysts and corporate mangers is determined by the level of trustworthiness of corporate managers from the perspective of financial analysts. This perception may be affected by the antecedent factors.

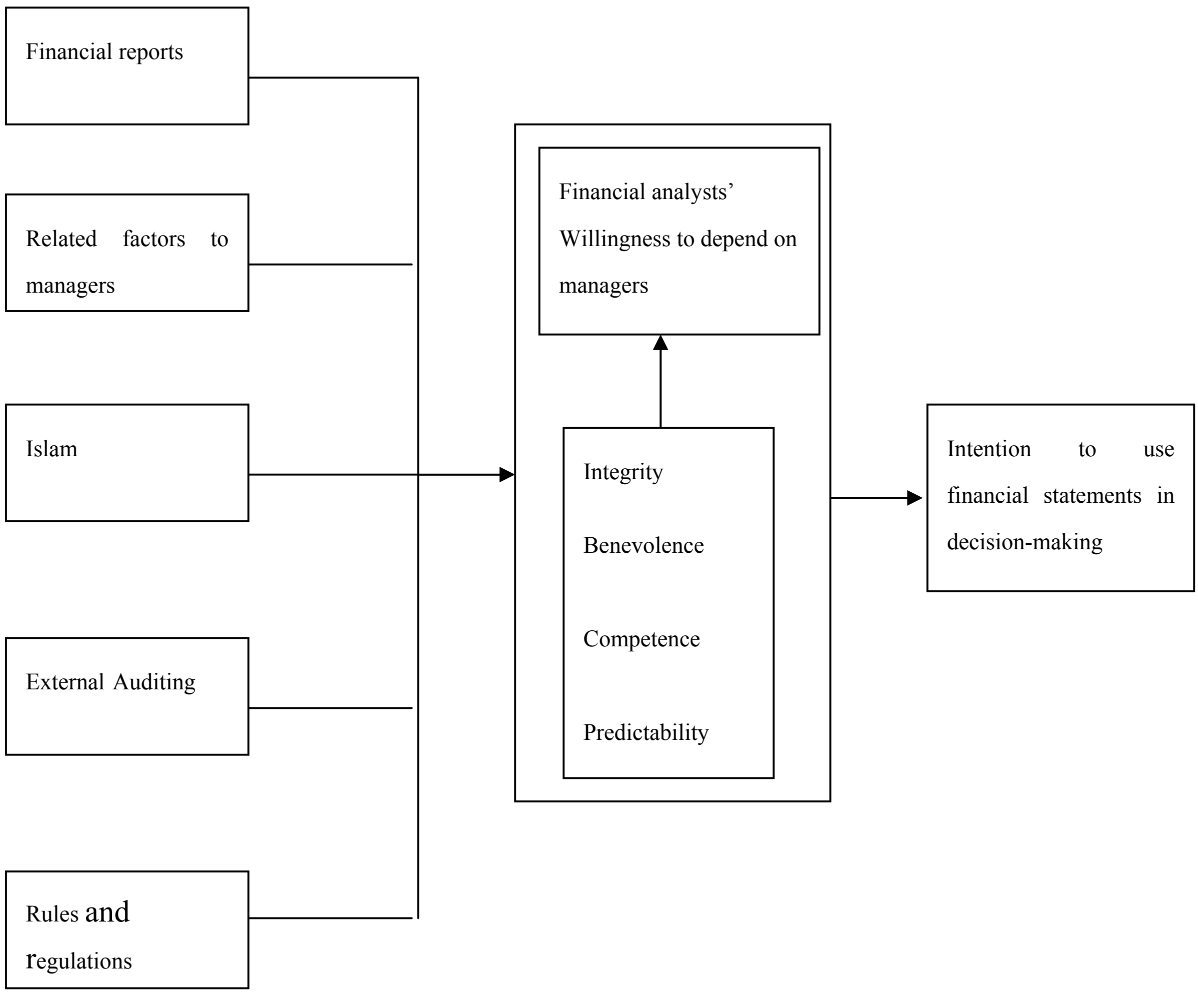

Figure 7-1: Obtained Trust Model

7.4. Implications

The results of this research indicate that a financial analyst evaluates the level of the trustworthiness of a corporate manager based on the manager's integrity, benevolence, competence, and predictability in his/her behaviour. Moreover, the findings indicate that the antecedent factors affect this evaluation. These findings are useful for the following groups: (i) the TSE's regulators, (ii) financial analysts, (iii) corporate managers, (iv) shareholders, and (v) researchers.

The finding of this research will be helpful to the TSE's regulators to issue appropriate regulations to protect the interest of all participants in the TSE particularly shareholders. The research provides the factors that may affect the trustworthiness of corporate managers and consequently the provided financial reports which can affect the shareholders' decision-making process. Knowing these factors help regulators to provide the regulations which will result in increased management trustworthiness and finally more reliable financial reports. All of these may increase the market efficiency.

The result of this research also provides some criteria for the financial analysts to identify the level of managers' trustworthiness. This will help the financial analysts to provide the best recommendations to their clients based on the relationship with corporate managers. Providing the appropriate recommendations will create a good reputation for financial analysts and consequently will increase their interests.

The findings help managers to understand the factors may affect their trustworthiness from the financial analysts' perspective. Because of this understanding, managers may act in such a way that increases their trustworthiness. The increase in trustworthiness may have two consequences. Firstly, it helps the managers to achieve their main objective which is to maximize shareholders' interest (share prices). This also may increase managers' bonuses. Secondly, the increased trustworthiness may increase the reputation of the managers which in turn will improve their future prospects in the corporate management arena.

The results of the research are also useful for both current and potential shareholders because they may help current shareholders to choose managers who are more trustworthy. The selection of a good manager is essential to protect and increase their interests in the company. In relation to the potential shareholders, the results should give them some criteria which will be helpful in their investment decision making and finally reducing the risk of their investment in the company.

The proposed model of this research can be a basis for future studies in the business relationships, especially in the financial market.

7.5. Limitations

The limitations of this research are related to choosing Iran as a country to study and the particular data collection methods used. Firstly, in the selected sample, the relationship between the financial analysts and corporate managers was very specific. This is because: the Iranian financial market, the Iranian financial analysis industry, and the TSE all are in an early stage of development. For example, the financial analysts do not have any professional association and there are no regulations governing their activities. Therefore, the findings of this research are limited to generalisations.

Secondly, the required data were collected through conducting semi-structured interviews with financial analysts only. It was not possible therefore to directly monitor the actual relationship between financial analysts and corporate managers. As a result of this restriction, the researcher had to accept the statements made by financial analysts and the data analysis had to be limited to the results of these interviews.

Thirdly, because the beliefs and attitudes of financial analysts had to be translated from Farsi into English in the process of translation some concepts may not have been conveyed correctly because of the linguistic differences.

Fourthly, there is a lack of previous research in this area especially in the Iranian financial market.

7.6. Suggestion for Further Research

This research explored the role of trust in the relationship between the financial analysts and corporate managers in the TSE by focusing on two important aspects of the trust relationship. These are key trustworthiness factors and the influential factors to perceive these key factors. This research proposed a model of the trust relationship between the financial analysts and corporate managers which could be applied to research in the following areas:

Firstly, investigating to identify of other potential factors which may affect the relationship between the financial analysts and corporate managers. This would reduce the risk on the business relationship between financial analysts and corporate managers. The reduced risk will increase the level of trust in the relationship between the financial analysts and corporate mangers which result in increased market efficiency.

Secondly, investigating to identify the factors which build the level of the financial analysts' trust in corporate managers from the perspective of the corporate managers. This will be helpful in identifying the expectation gap between financial analysts and corporate managers by comparing the results of the current conducted and the suggested research. This will help to reduce the gap by financial analyst and corporate managers which should result in a higher level of trust in the business relationship between financial analysts and corporate managers.

Thirdly, investigating the factors which build the level of the investors' trust in corporate managers from the perspective of both the corporate managers and investors. This will be helpful in identifying the expectation gap between them by comparing their different points of view. It should also reduce the gap by investors and corporate managers and result in a higher level of trust in their relationship.

Fourthly, investigating those factors which build the level of the investors' trust in financial analysts from the perspective of both financial analysts and investors. This will be helpful in identifying the expected gap between them by comparing their views. This should result in a higher level of trust in their relationship.

The results of these suggested studies may be helpful to build a general model of trust which would be applied in different business relationships.

7.7. Summary

This study was exploratory in nature because very little is known about the relationship between the financial analysts and corporate managers. It has provided contributions to the literature of trust which include: (i) Adding trust as an important element in business relationship (ii) Providing empirical evidence of the key factors of trustworthiness (iii) Providing empirical evidence of the influential factors on the trust relationship between financial analyst and corporate managers (iv) Proposing a new model of a trust relationship between the financial analysts and corporate managers.

The findings of this research are also useful for the TSE's regulators, financial analysts, corporate managers, shareholders, and researchers. However, there are some limitations in the type of the data collected and its processing. These areas require further research.

Appendix 1: English Consent Form

Dear Participant,

Thank you for agreeing to participate in my research project “Influential factors in the trust relationships existing between financial analysts and corporate managers in Iran”. This consent form, a copy of which has been given to you, is only part of the process of informed consent which is prepared according to the Australian laws and University of Wollongong rules. It should give you an idea of what the project is about and what your participation will involve. Your participation in this project would be helpful to finish it and its results would be helpful in development the Iranian financial market.

Thank you for your participation

Mehdi ArabSalehi

Consent Form

Research Project Title: Influential factors in the trust relationships existing between financial analysts and corporate managers in Iran
Researcher: Mehdi ArabSalehi
Supervisor: Associate Professor Michael McCrae
Purpose of study: Financial market is the centre for investors' participation. The private sector has the main responsibility for trading activities in free and competitive economics. Investment in companies' shares is one of the ways for this participation. Investors usually try to increase their wealth. They obtain the information about the increasing their wealth in one hand through the increasing shares indexes and prices, and on the other hand through financial reports. Investors directly do not have any role in managing the company and providing financial reports. Consequently they have to trust in provided financial reports by managers to make their investment decisions. Investors may not have enough knowledge or time to analysis financial reports. They may rely on financial analysts as the expert group to make their investment decisions. The goal of the research is to investigate to identify the factors which impact the level of financial analysts' trust in corporate managers.
Duration Time for Interview: 30-45 minutes
Interview Questions: 1. Would you please explain your qualification and background? 2. Would you please explain how much are financial statements important in your analysis? 3. Would you please explain which part of financial statements is more important in your analysis (Income statements, cash flow, balance sheet, other information in financial reports)? 4. Would you please explain what other sources you use in your analysis in addition to financial statements? How important are these sources in your analysis compare with financial statements? 5. Would you please explain which sort of factors makes your level of trust in financial statements?

6. Would you please explain what is the role of the managers in those factors (factors that make you trust in financial statements)?
7. Would you please explain which sort of factors or company managers' characteristics make your level of trust in managers?
8. Would you please explain what is the role of the level of managers' religiosity in the level of trust that you put in the managers?
9. Would you please explain any other influential factors which may affect your level of trust in managers that in this interview has not been addressed?

Informed consent: Before we can begin the interview, I need your informed consent. You can provide this by reading and signing this form. I will tape your interview only if you give me signed permission to do so. Your participation is entirely voluntary and you can withdraw at any time, including after the interview begins and after the interview is finished. If you withdraw, any material collected during my contact with you will destroyed and will not be used in any way in the analysis and writing of the research results. You are free to request more information about the study and you are also free to refuse to answer any specific questions during the interview.

Storage of materials: All materials, including tapes, transcripts of tapes, and any notes I might make, will remain confidential and will be stored in a locked cabinet in the school of accounting and finance. They will be destroyed after five years after the report is written.

Publication of results: Your interview, and any other material I collect, will be used as the basis for completing the researcher's Ph.D thesis. Any information that I collect will remain strictly confidential. Names and identities will be disguised in my final report, and care will be taken to ensure that any descriptions of situations or direct quotes cannot be connected to you. In order to preserve anonymity, the researcher will choose a code for every interviewee. If it became necessary the result of the interview would be published by coding and in general.

Explanation: Your signature on this form indicates that you have understood to your satisfaction the information regarding participation in the research project and agree to participate as a subject. In no way does this waive your legal rights nor release the investigator

or involved institutions from their legal and professional responsibilities. You are free to request more information about the study or to withdraw from it at any time, and you are also free to refuse to answer any specific questions during the interview. Your continued participation should be as informed as your initial consent, so you should feel free to ask for clarification or new information throughout your participation. If you have further questions concerning matters related to this research, please contact the researcher's by masn10@uow.edu.au or with the researcher's supervisor by Michael_mccrae@uow.edu.au.
Final confirmation: Do you agree to participate in the study according to the conditions outlined above? Yes No May I tape record your participation in this interview? Yes No **Participant's Signature** ________________________________ **Date**________________ **Investigator's Signature** _________________________________ **Date**_________________

Appendix 2: Farsi Consent Form

به نام خدا

پاسخ دهنده محترم

ضمن تشکر از جناب عالی به خاطر مشارکت در این مصاحبه علمی، به پیوست فرم توافق انجام مصاحبه مطابق با استانداردهای علمی و اداری دانشگاه ولونگونگ استرالیا جهت تایید ایفاد می‌گردد. امید است با حسن نظر حضرتعالی بتوانیم گام مفیدی در راستای اعتلای نظام حسابداری و همچنین بازارمالی کشور عزیزمان برداریم.

با تشکر و احترام
مهدی عرب صالحی

به نام خدا

فرم اطلاعات مربوط به انجام مصاحبه

موضوع تحقیق: بررسی عوامل موثر بر سطح اعتماد تحلیلگران مالی بورس اوراق بهادار نسبت به مدیران شرکتها.
محقق: مهدی عرب صالحی نصرآبادی
استاد راهنما: پروفسور مایکل مک کری. دانشگاه ولونگونگ استرالیا
اهداف تحقیق: بازار مالی مرکز مشارکت سرمایه‌گذاران مختلف در هر کشور است. در نظامهای اقتصادی رقابتی، بار اصلی معاملات بازارهای سرمایه بر دوش سرمایه‌گذاران بخش خصوصی است. این مشارکت معمولاً از طریق سرمایه‌گذاری در خرید سهام شرکتها انحام می‌شود. معمولاً سرمایه‌گذاران به دنبال افزایش سرمایه خود هستند. سرمایه گذاران اطلاعات مربوط به افزایش میزان سرمایه خود را از یک سو با مشاهده افزایش قیمت‌ها و شاخص‌های سهام در بازارهای سرمایه کسب می‌نمایند و از سوی دیگر با مراجعه به گزارشات مالی شرکتها به بخشی از چنین اطلاعاتی نایل می‌شوند. بدیهی است که سرمایه گذاران به طور مستقیم در اداره شرکتها و تهیه اطلاعات مالی آنها نقش نداشته و بنا بر این بایستی با اعتماد به صورتهای مالی که توسط مدیران تهیه می شود تصمیم گیریهای خود را انجام دهند. معمولاً همه سرمایه گذاران قادر به تحلیل و درک صحیح از صورتهای مالی نیستند و در بیشتر مواقع نظر تحلیگران مالی را به عنوان افراد متخصص در سرمایه‌گذاریهای خود در نظر می‌گیرند. بنا بر این در این تحقیق سعی بر این است که نظر تحلیلگران مالی را در مورد عواملی که سطح اعتماد آنها را نسبت به مدیران شرکتها می‌سازد، بررسی نماییم.

مدت زمان لازم: سی الی چهل و پنج دقیقه
سئوالات اصلی: 1- لطفا سوابق تحصیلی و کاری خود را بفرمایید. 2- صورتهای مالی تا چه حد برای شما در تحلیلهای مالی شما مهم هستند؟ 3- کدام قسمت از صورتهای مالی بیشتر برای شما مهم هستند (صورت حساب سود و زیان، صورت جریانهای نقدی، ترازنامه، سایر اطلاعات در گزارش شرکتها)؟ 4- علاوه بر صورتهای مالی چه منابع دیگری را شما در تحلیلها و تصمیمگیریهای خود استفاده می‌کنید؟درمقایسه با صورتهای مالی آن منابع تا چه حد بر تحلیلها و تصمیمگیریهای شما تاثیردارند؟ 5- چه عواملی سطح اعتماد شما را نسبت به صورتهای مالی شکل می‌دهد؟ 6- نقش مدیران شرکتها در آن عوامل (سوال شماره 5) چیست؟ 7- چه خصوصیاتی از مدیران شرکتها سطح اعتماد شما را نسبت به مدیران شکل می‌دهد ؟ 8- شناخت شما از مدیران و میزان پايبندي مدیران به مذهب تا چه حد در سطح اعتماد شما نسبت به مدیران مؤثر است؟ 9- عوامل دیگری که ممکن است در سطح اعتماد شما نسبت به مدیران شرکتها تاثیرداشته باشد و در این مصاحبه به آن اشارهای نشد را توضیح دهید
محل نگهداری متن و نوار مصاحبه: طبق قوانین استرالیا و مقررات دانشگاه ولونگونگ، متن اصلی و نوار مصاحبه برای مدت پنج سال از تاریخ اتمام پروژه در محل امنی به صورت اطلاعات محرمانه و غیر قابل دسترسی نگهداری و سپس معدوم خواهد شد.

انتشار نتایج:

این مصاحبه به صورت گروهی با تعدادی از همکاران شما انجام می‌شود. نتایج این مصاحبه جهت تکمیل پایان نامه دکترای محقق استفاده می‌شود و نتایج تحقیق با اسم افراد یا شرکتها در متن پایان نامه یا انتشار نتایج تحقیق به صورت مقاله علمی یا سایر موارد ذکر نمی‌شود بلکه در صورت لزوم اسامی به صورت رمز و کد مثل الف، ب، یا کد 1، کد 2 و امثال اینها اشاره می‌گردد.

توضیحات:

امضای شما در این فرم به مفهوم موافقت شما با انجام مصاحبه و شرایط فوق است. همچنین جنابعالی مجازید درخواست اطلاعات بیشتر در باره موضوع تحقیق نموده و یا در صورت تمایل اطلاعاتی را در طی انجام کار حذف نموده یا در صورت انتشار انکار نمایید. در صورتی که نیاز به اطلاعات بیشتری در مورد این تحقیق داشته باشید میتوانید با اینجانب با آدرس پست الکترونیکی Masn10@uow.edu.au یا با استاد راهنمای اینجانب آقای پروفسور مایکل مک کری با آدرس پست الکترونیکی Michael_mccrae@uow.edu.au تماس حاصل نمایید.

تایید نهایی:

آیا شما مایلید که در این مصاحبه با شرایطی که در این فرم ذکر شد شرکت نمایید؟

آیا مصاحبه کننده اجازه دارد صدای شما را در این مصاحبه ضبط نماید؟

امضای مصاحبه شونده: تاریخ:

امضای مصاحبه کننده: تاریخ:

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