The Influence of Company Size on Accounting Information: Evidence in Large Caps and Small Caps Companies Listed on BM&FBovespa

Abstract

In this study, the relation between accounting information aspects and the capitalization level o companies listed on the São Paulo Stock Exchange was investigated, classified as Large Caps or Small Caps, companies with larger and smaller capitalization, respectively, between 2010 and 2012. Three accounting information measures were addressed: informativeness, conservatism and relevance, through the application of Easton and Harris' (1991) models of earnings informativeness, Basu's (1997) model of conditional conservatism and the value relevance model, based on Ohlson (1995). The results appointed that, although the Large Caps present a higher level of conservatism, their accounting figures were less informative and more relevant when compared to the Large Caps companies. Due to the greater production of private information (predisclosure) surrounding larger companies, the market would tend to respond less strongly or surprised to the publication of these companies' accounting information, while the lack of anticipated information would make the effect of disclosing these figures more preponderant for the Small Caps companies.

Key words: Capitalization Levels; Company Size; Aspects of Accounting Information.

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1. Introduction

Research on the importance of accounting information, particularly in emerging markets, is in line with contemporary international and Brazilian studies (Almeida, 2010; Fan-fah, Mohd, & Nasir, 2008; Lima, 2011; Lopes, 2002) that examine the importance of accounting information quality for external users and its determinants as the capital market in these countries develops.

Academic studies have tried to evidence the impact of companies' specific characteristics on different aspects of accounting information, including company size, like Collins, Kothari and Rayburn (1987); Fan-fah *et al*. (2008); Papadatos and Bellas (2011) and Kouser, Awan, Gul-e-Rana and Shahzad (2011).

Collins *et al*. (1987) found that theoretical and empirical studies suggest a positive correlation between a company's capitalization and the amount of information disclosed to the market.

In line with these studies and adopting the classification per capitalization size that is usual in the capital market (Large Caps and Small Caps), the following research problem emerges: **How does the company size, measured by the capitalization level, influence the accounting information disclosed by companies traded on BM&FBovespa?**

For this study, the following analyses were used, based on the application of consecrated models: informativeness of earnings, conditional conservatism and value relevance, due to the fact that they demonstrate attributes like the relevance and timeliness of the information disclosed in the capital market. Hence, the objective in this study is to analyze the different properties of the accounting information between 2010 and 2012, disclosed in the context of Brazilian companies' capitalization level.

The informativeness model, based on Easton and Harris (1991), expresses the relation between stock returns and accounting earnings – the stronger the relation, the greater the informativeness of the earnings (Sarlo Neto, 2009). Based on Ohlson (1995), the value relevance model analyzes the relevance of the financial information through the strength of the association between the accounting figures: net equity and abnormal earnings on stock price. Hence, the stronger the predictive power of these variables, the more relevant the accounting information will be. The conservatism model was structured based on Basu (1997), who rests on the thesis that "*the earnings reflect bad news faster than good news*", so that the relation between the earnings and the stock returns is stronger when these are negative.

This paper is divided in two parts. First, the main theoretical foundations of this study are presented, investigating considerations on the association between the company size and the information capacity of the accounting figures in the accounting and financial literature. In the second part, the empirical study is investigated, based on companies listed on the São Paulo Stock Exchange (BM&FBovespa), classified according to the index that consider the capitalization. In that topic, the development of the research hypotheses is discussed, as well as short theoretical discussion on each model employed, followed by a detailed explanation on the data collection and treatment method. Finally, the main results found are discussed through multivariate regressions and the consequent conclusions.

Although there are studies in the international literature that aimed to investigate the relation between company size and accounting information aspects, the approach according to the company's market capitalization was hardly explored, leaving important space for scientific contributions, especially in Brazil, where the production on this specific theme is scarce. The size effect, present in the literature, studies the impact of company size on accounting information, based on an accounting measure, usually the assets or revenues. Alternatively, however, this study adopts the market capitalization as a measure that, differently from the accounting measures, can reflect the market expectations on its market value.

2. Theoretical Framework

2.1 The influence of company size on accounting information

The effect of company size on company's market value is a frequent theme in the international literature, without a definitive consensus on this relation (Banz, 1981; Dijk, 2011). One research current interprets the company size as a proxy of the amount of information available, which can interfere in the relevance of the accounting information. Next, the results these authors found are described.

Atiase (1985) suggests that the stock price return is inversely proportional to the company size, using the market value of the ordinary stock as a proxy. The proposed hypothesis is that the production of private information is an increasing function of the company size. Large companies offer a greater demand for information, due to the fact that the investors, analysts and press are more interest. Thus, the amount of information in the accounting earnings disclosure is greater in companies with less predisclosure of specific information, and the reaction in the prices is lesser in companies targeted by the market. Differently from the company size approach, but with a similar understanding, Grant (1980) compares companies with greater and lesser predisclosure of specific information and reaches similar conclusions on the disclosure of accounting earnings.

Based on empirical studies, Freeman (1987), in line with Atiase (1985), found that the stock prices of large companies (with greater capitalization) tend to anticipate the accounting earnings faster than small companies. According to the researcher, large companies have a greater demand for information by investors and analysts, who are willing to employ resources to produce non-accounting information that supports the available accounting and financial data. In addition, larger companies tend to be the focus of specialized media attention and disclosure requirements by regulatory entities, expanding the existing information with a view to a more accurate preview of future earnings. According to the author, it is expected that, while the marginal information costs are lower than the transaction costs based on this information, the production of information will be encouraged. Freeman (1987) also examined the magnitude of these relations, empirically proving the hypothesis that, as non-accounting information was not expected to be concentrated in larger companies, the market value of smaller companies is more probably based on the actual accounting information (time series of non-adjusted earnings). Therefore, an inversely proportional relationship is supposed to exist between the firm size and the magnitude of the abnormal returns, related to the good and bad news associated with the accounting earnings (Freeman, 1987).

Collins *et al.* (1987) investigated the information content of the stock price for different company sizes (capitalization value), confirming, through empirical tests, the theoretical hypothesis that larger companies have a larger amount of available information and probably a larger number of professionals analyzing the existing information, so that, *ceteris paribus*, the stock prices would contain greater informativeness.

Dijk (2011) reviewed the scientific literature on the effect of the company size on the stock return, concluding that there are contradictory results about the existence of these effects, so that the production of empirical studies about the theme remains relevant for the robustness of the results found. The author cited, for example, results like Banz (1981) and Chan, Hamao and Lakonishok (1991).

Banz (1981) examined the effect of company size on the returns, using the companies' market value as a proxy of the size. The author investigated the hypothesis that the returns are higher in smaller companies, as the investors avoid maintaining these companies' stocks for a long time due to the lack of information. The effect of company size is non-linear and more enhanced in smaller companies, while no significant difference was found between medium and large companies.

Chan *et al.* (1991) studied the company size as one of the fundamental variables in the stock return in companies from the Tokyo stock exchange. In the analysis, it was verified that the variable was significant and that the effect was more pronounced in smaller companies. In addition, they observed that the significance of this variable is very sensitive to the specified analysis model, and may not be significant in some models.

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Another very strong research current previews that large companies used earnings management techniques more frequently than small companies, in most cases aiming to reduce the present earnings. That is so due to the fact that size is an estimator of the political attention the company might receive. If the administrators perceive that the company is under strong political observation, which may entail high costs, they can choose accounting procedures to postpone the present earnings. This attitude departs from the premise that high profits attract the attention of regulatory entities, press, environmentalists and others (Iudícibus & Lopes, 2008).

The research results by Jones (1991) prove the hypothesis that most large and consequently more politically visible companies adopt accounting procedures aiming to reduce the present earnings. Similar studies like Wong (1988) and Sutton (1988) sustain the hypothesis that relates the level of visibility with the earnings quality.

Watts and Zimmerman (1979) affirm that the contents of the financial statements in the regulatory process influences the government commissions and legislative actions, providing incentives towards the managers' discretion in the accounting procedures, aiming to reduce the political costs or increase the benefits deriving from the regulatory decisions.

2.2 Large Caps and Small Caps Companies

The main differences between Large Caps and Small Caps companies refers to the level of capitalization. Companies with larger capitalization are called Large Caps, while companies with smaller capitalization are called Small Caps. In other words, large companies with a high volume of daily stock trade (high liquidity) are considered Large Caps, while companies with a low demand for their assets, and generally with low liquidity in the capital market, are considered Small Caps. In Brazil, BM&FBovespa has two indices to indicate this behavior: Mid-Large Cap (MLCX) and Small Cap (SMLL).

In the context of the European stock market, Glaser and Schaarschmidt (2012) affirm that the stocks with low market capitalization, considered Small Caps, started to gain the investors' interest. Hence, they look for assets with a weak correlation when they diversify their portfolios. The authors also comment that stocks considered as Small Caps can be considered an autonomous class of assets, as Eun, Huang and Lai (2008), in suggesting that the Large Caps and Small Caps have different return mechanisms, argue that the Large Caps' return is driven by common global factors, while the Small Caps' return is driven by local idiosyncratic factors and characteristics.

Eun *et al.* (2008) also appoint the investors' influence, especially institutional investors, who monitor market ratios and contribute to the capitalization trend of Large Caps stock.

2.3 Accounting Measures

The studies elaborated in the Brazilian market about the importance and quality of accounting information were developed based on consecrated measures in the international literature, such as Value Relevance, Timeliness, Informativeness and Conservatism. Among many studies developed based on some of these measures, the following can be mentioned: Costa, Lopes and Costa (2006), Sarlo Neto, Rodrigues and Almeida (2010); Almeida, Sarlo Neto, Bastianello and Moneque (2012); Hungarato and Lopes (2008); Macedo, Machado, Murcia and Machado (2011) and Brugni, Neto, Bastianello and Paris (2012)

Recently, Dechow, Ge and Schrand (2010) elaborated an extensive study about the different proxies used in the international literature to measure the quality of accounting information. The proxies surveyed in this study were classified in three categories: (i) Properties of earnings; (ii) Investors' responsiveness to earnings; and (iii) External indicators of misstatements.

In view of the universe of measures presented in Dechow *et al.* (2010), in this study, a more restricted number of measures is adopted, used in a large number of studies present in the Brazilian literature. In the proposal by Dechow et al. (2010), the measures Value Relevance and Conservatism would be classified in the category Properties of earnings, and Informativeness in the category Investors' responsiveness to earnings.

2.3.1. Informativeness of earnings

The importance of accounting information has been studied through analyses of accounting variables used to present the information to the different users. Among the variables: "net equity" and "earnings" (profit or loss, evidence was found with informativeness (Lopes & Martins, 2005).

In that line of thought, due to their power in performance measuring, accounting information users pay considerable attention to accounting earnings, becoming useful for investors when they use earnings as information to adjust their expectations. Containing new information, earnings can provoke adjustments in the investors' expectations and, consequently, in the stock prices (Sarlo Neto, 2009).

Departing from the premise that accounting information is related with the stock price, the informativeness of the earnings can be represented by the association between the stock return and the accounting earnings.

The theoretical foundations to explain the importance of accounting information (earnings and equity) for the stock return emerged in the 1960's with the pioneers Ball and Brown (1968) and Beaver (1968), who verified the market reaction to the disclosure of accounting information that contained new information not known to the market yet, and which could alter the investors' expectations. These studies drove further research and the development of models on the impact of accounting earnings on stock prices, such as Easton and Harris (1991) and Francis and Schipper (1999).

Some studies developed in the last decade aimed to verify the influence of different aspects on the informativeness of earnings. Studies in the American market, such as Francis, Schipper and Vincent (2005), investigated the informativeness of accounting earnings and dividends, with divergences between the voting and cash flow rights, and the influence of family participation in the informativeness of accounting earnings, such as Wang (2006). In Brazil, Sarlo Neto *et al.* (2010) investigated the influence of the property structure on the informativeness of the earnings disclosed, and Brugni *et al.* (2012) analyzed the impact of the dividends on the informativeness of the earnings.

2.3.2. Value relevance of accounting information

The accounting literature identifies relevance as one of the qualitative characteristics or properties of accounting information (Almeida, 2010). Different definitions are available (Barth, Beaver, & Landsman, 2001; Lima, 2011).

The concept of value relevance adopted in this research consists in the thesis about the capacity of accounting figures to summarize or capture information underlying the stock prices. In the same sense, according to Barth *et al.* (2001), accounting information is considered relevant if it is associated with the market value of the company or stock.

According to Liu and Liu (2007), in the value relevance literature, two main types of assessment models exist: the annual return model, based on the studies by Easton and Harris (1991), which relates the stock return with the accounting earnings; and the price model, improved based on the Ohlson model (1995). According to Kothari and Zimmerman (1995), empirical studies appointed lesser tendentiousness of the earnings coefficients in the price model in relation to the annual returns model.

Ohlson's model (1995) indicates the relation between the market value, the future abnormal earnings and the net equity, therefore adding up current and future information (Santos, Lopes & Silva, 2010).

Considering its application, the Value Relevance model, elaborated based on Ohlson (1995), has a difference from the informativeness model. While the informativeness model seeks to associate the return (price variation) with the earnings variation, the Value Relevance model intends to associate the price level with the value level of the accounting measures, usually Net Equity and Accounting Earnings.

The use of models developed and improved based on Ohlson (1995) in empirical accounting research, aiming to assess the impact of certain characteristics or conditions on the quality of the accounting information, is frequently cited in the international (Holthausen & Watts, 2001) as well as in the Brazilian literature (Hungarato & Lopes, 2008; Macedo *et al.*, 2011), being appropriate for the research objectives.

2.3.3. Accounting conservatism

Conservatism, according to Basu (1997), derives from the trend for accountants to require a higher degree of verification to recognize, in the financial statements, the good news from the bad news. Thus, the accounting earnings reflect the bad news faster than the good news. Nevertheless, this does not mean saying that all cash flows from revenues should be received before the earnings are recognized, but simply that these cash flows should be verifiable (Watts, 2003).

Hence, accounting conservatism influences the asymmetric recognition of the accruals. Hence, the losses (bad news) tend to be fully recognized, while the same does not happen with the gains (good news) (Paulo, Antunes, & Formigoni, 2008).

According to Watts (2003), accounting conservatism can also be considered as a tool to face the moral risk, as it can contain the opportunistic behavior of the administration in reporting the accounting figures, and also reduce the political costs imposed by the regulators and standard-setters and the litigation (Watts, 2003). In general, conservatism aims to reduce the asymmetry and protect the stockholders from the expropriation of resources or excessive payments of executive remunerations linked to the accounting earnings (Almeida, 2010).

Costa *et al.* (2006) investigated accounting conservatism in five countries in South America (Argentina, Brazil, Colombia, Peru and Venezuela) and found that conservatism exists in the accounting earnings, due to the asymmetric recognition between the bad and good news in the accounting earnings.

Investigating whether the characteristics of the Brazilian companies' property structure, concentration of votes and stockholder agreements are associated with conditional conservatism, Sarlo Neto *et al.* (2010) discuss that the concentration of votes contributes to reduce the level of conservatism, while the stockholder agreement contributes to increase it. In a study of the effect of regulation on accounting conservatism, Costa *et al.* (2006) rejected the hypothesis that the companies belonging to regulated sectors are more conservative.

Finally, Almeida *et al.* (2012), in an analysis of income smoothing from the perspective of conditional conservatism, found evidence indicating that the firms classified as not income smoothing have a higher degree of conditional conservatism.

3. Method

3.1 Models and expected results

In view of the research problem, models will be adopted as measures to weight important aspects of the accounting information, which consist in the modification of three other models: conservatism, informativeness of earnings and value relevance. In addition, control variables were included in the model: indebtedness (IND) and market-to-book (MB) ratio, with a view to isolating their effects on the relation between the dependent and independent variables in the model.

The models were estimated using the minimal least squares model (MLS) and, to mitigate the heteroscedasticity problem in the regressions, the standard errors were adjusted using the White method. No multicollinearity problems were detected.

For each measure, one main model was estimated, with the interaction of a dummy and, then, regressions were estimated with the separate data. Hence, in models 1.2, 2.2 and 3.2, only the data regarding the companies classified as Large Caps were used while, for models 1.3, 2.3 and 3.3, only the data regarding the companies classified as Small Caps were used.

3.1.1. Model 1: Accounting conservatism

According to Almeida *et al.* (2012), the model departs from the premise that, when a future economic loss is recognized in the earnings of a certain entity, the market acknowledges that loss timely in the stock return. Basu's model (1997) is expressed as follows:

$$LLA_{i,t} = \beta_0 + \beta_1 D_{i,t} + \beta_2 RE_{i,t} + \beta_3 D_{i,t} \times RE_{i,t} + \varepsilon_{i,t} \tag{1}$$

Where: $LLA_{i,j}$ = net earnings for period t, adjusted by market value at t-1. The value considered as the market value departs from baseline data March 31st; $D_{i,t}$ = Dummy variable, equal to 1 if the economic return is negative and zero in the other cases; $RE_{i,t}$ = represents the stock price variation in the twelve months before the publication date of the balance sheet, adjusted by the payment of dividends – for all observations, March 31st was considered as the baseline data for the publication of the accounting information; $\varepsilon_{i,t}$ is the error term; β_2 reflects the opportunity of the accounting earnings, that is, the recognition of the economic return through the accounting earnings; and β_1 and β_3 reflect the asymmetric recognition of the economic return in the good and bad news, through the accounting earnings.

The dummy variable captures the sensitivity of the accounting earnings to the negative results. The regression coefficients β_1 and β_3 reflect the conservatism, while β_2 reflects the recognition of the economic return, whether through profits or losses.

Model 1.1: Aims to analyze the influence of the Large Caps and Small Caps companies in the accounting conservatism of the companies listed on BM&FBovespa. The main modification is the inclusion of the dummy variable Large Caps (LC).

$$LLA_{i,t} = \beta_0 + \beta_1 D_{i,t} + \beta_2 RE_{i,t} + \beta_3 D_{i,t} \times RE_{i,t} + \beta_4 LC + \beta_5 D_{i,t} \times LC + \beta_6 RE_{i,t} \times LC$$
$$+ \beta_7 D_{i,t} \times RE_{i,t} \times LC + \beta_8 END + \varepsilon_{i,t} \tag{1.1}$$

Where: $LLA_{i,t}$, $D_{i,t}$, $RE_{i,t}$ correspond to the same definition as in equation (1); LC = dummy variable equal to 1 for Large Caps companies and 0 for Small Caps companies; END = Indebtedness and $\varepsilon_{i,t}$ is the error term.

Models 1.2 and 1.3: Aim to analyze the accounting conservatism separately in Large Caps and Small Caps companies, respectively, listed on BM&FBovespa.

3.1.2. Model 2: Informativeness of earnings

The second model is an approach that considers the informativeness of the earnings disseminated by accounting as a qualitative aspect, in which one intends to measure the market reaction to the disclosure of earnings. Different authors have used this approach, including Easton and Harris (1991), Sarlo Neto (2009) and Wang (2006). The modification of the model departed from the premise that the measuring of informativeness can be conditioned to the company size, classified as Large Caps and Small Caps. The original model is expressed as follows:

$$RA_{i,t} = \beta_0 + \beta_1 LLA_{i,t} + \varepsilon_{i,t} \tag{2}$$

Where: $RA_{i,t}$ = abnormal stock return of company i in period t, ($RA_{i,t} = R_{i,t} - RM_t$) in which $R_{i,t}$ is the stock return of company i in period t, and RM_t is the market return for period t. As a measure for the market return, the variation in the Mid-Large Cap (MLCX) index was used when the firm is considered Large Cap and the Small Cap (SMLL) index if the company is considered a Small Cap. $LLA_{i,j}$ = net earnings of period t, adjusted by the market value at t-1. The baseline date for the value considered as the market value is March 31st; $\varepsilon_{i,t}$ is the error term; β_1 reflects the market reaction to the disclosure of the earnings.

Model 2.1: Aims to analyze the influence of Large Caps and Small Caps firms on the informativeness of the earnings disclosed by the companies listed on BM&FBovespa. The main modification is the inclusion of the dummy variable Large Caps (LC).

$$RA_{i,t} = \beta_0 + \beta_1 LLA_{i,t} + \beta_2 LC + \beta_3 LLA_{i,t} \times LC + \beta_4 LLA \times END + \beta_5 LLA \times MB + \varepsilon_{i,t} \tag{2.1}$$

Where: $RA_{i,t}$ and $LLA_{i,t}$ correspond to the same definition as equation (2); LC = Dummy variable equal to 1 for Large Caps and 0 for Small Caps; Indebtedness (END)= value of the existing relation between capital from third parties and total assets at time t, found in the balance sheet; and market-to-book (MB)= relation between the market value and the value registered in the equity, with March 31st as the reference month; $\varepsilon_{i,t}$ is the error term.

Models 2.2 and 2.3: Aim to analyze the informativeness of the earnings separately in Large Caps and Small Caps companies, respectively, listed on BM&FBovespa.

3.1.3. Model 3: Value Relevance

The third model aims to measure the predictive capacity of accounting to provide new information, not inserted so far into the stock price and which is capable of altering the investors' expectation about the company's future performance. Alterations in the stock price thus indicate greater value relevance of accounting information (Lopes & Martins, 2005). The model used consists in the alteration of the model proposed by Ohlson (1995) and aims to analyze the information impact of the Net Equity and Earnings on the stock price after the publication of the financial statements, conditioning to the company size. The initial model is expressed as follows:

$$P_{i,t} = \beta_0 + \beta_1 LPA_{i,t} + \beta_2 PLA_{i,t} + \varepsilon_{i,t} \tag{3}$$

Where: $P_{i,t}$ = stock price, adjusted by the dividends of the stock of company i three months after the end of period t; $LPA_{i,t}$ = earnings per share of company i in period t; $PLA_{i,t}$ = net equity per share of company i in period t; $\varepsilon_{i,t}$ is the error term; β_1 and β_2 reflect the relevance of the earnings and the NE, respectively, for the investors.

In this type of study, the regression coefficients of the variables are verified, so that the accounting figure is considered value relevant if its coefficient is statistically different from zero.

Model 3.1: Aims to analyze the influence of the Large Caps and Small Caps firms on the relevance of the accounting information of the companies listed on BM&FBovespa. The main modification is the inclusion of the Large Caps variable (LC).

$$P_{i,t} = \beta_0 + \beta_1 PLA + \beta_2 LPA_{i,t} + \beta_3 LC + \beta_4 PLA_{i,t} \times LC + \beta_5 LPA_{i,t} \times LC + \beta_6 MB + \varepsilon_{i,t} \tag{3.1}$$

Where: $P_{i,t}$, $LPA_{i,t}$ and $PLA_{i,t}$ correspond to the same definition as equation (3); LC = dummy variable, equal to 1 for Large Caps and 0 for Small Caps companies; and market-to-book (MB) ratio = relation between the market value and the value registered in the equity, with March 31st as the reference month; $\varepsilon_{i,t}$ is the error term.

Models 3.2 and 3.3: Aim to analyze the relevance of the accounting information separately in the Large Caps and Small Caps companies, respectively, listed on BM&FBovespa.

3.2. Hypotheses and expected results

Hence, considering the different properties of the accounting information, previously analyzed in the Theoretical Framework, based on the findings by Jones (1991) regarding the reduction of large companies' earnings and, consequently, more expressive conservatism; and by Atiase (1985); Banz (1981) and Freeman (1987), regarding the inverse relation between accounting information informativeness and relevance and company size, defined according to Glaser and Schaarschmidt (2012) as Large Caps (larger capitalization) and Small Caps (smaller capitalization), the following research hypotheses were developed:

H_1: Companies classified as Large Caps have a higher level of conservatism than Small Caps companies.

H_2: Companies classified as Large Caps present lesser informativeness in the earnings disseminated than Small Caps.

H_3: Companies classified as Large Caps have lower value relevance than Small Caps.

In line with the theoretical framework and according to the research hypotheses, the values of the interactions between the variables of interest of the informativeness and value relevance models and the Large Caps (LC) variables are negative and significant; for the conservatism model, the values are positive and significant. In the models for separate groups, results similar to the previous model are expected for the variables of interest in each group, Large Caps and Small Caps, indicating the influence of the company size on conservatism, earnings informativeness and value relevance.

Hence, it is expected that companies with larger capitalization, like the Large Caps, with high levels of stock trade, over a consistent period, therefore showing high liquidity, tend to show a higher level of conservatism and lower informativeness of the earnings and relevance of the accounting information. As the predisclosure volume of specific information for the Large Caps is higher, the market does not tend to strongly react to the disclosure of the financial statement. In addition, these firms are strongly encouraged to reduce their present earnings, reducing attention and political costs.

3.3. Survey of data and sample selection

The data were collected in the system Economatica® and on the website of the São Paulo Stock Exchange <www.bmfbovespa.com.br>. The accounting data were extracted from the consolidated financial statements.

The definition of the companies as Large Caps and Small Caps takes into account the capitalization of these companies in the stock market (BM&FBovespa) and the Mid-Large Cap and Small Cap indices on March 31st 2012 were withdrawn from the portfolio compositions, available on the website of the São Paulo Stock Exchange <www.bmfbovespa.com.br>.

The sample consisted of non-financial companies listed on the São Paulo Stock Exchange (BM&FBovespa) between 2010 and 2012. The period is justified by the adoption of the international accounting standards. The financial institutions were excluded due to the fact that they have a specific accounting standard and Central Bank regulations. Only one class of stock was collected per company, between ordinary and preferential stock, choosing that stock with the highest liquidity in the study period. Companies without information for some of the study variables were also excluded.

The sample consisted of 143 companies present in the portfolio of the Mid-Large Cap (62 companies) and Small Cap (81 companies) indices, totaling 429 observations. At the end of the data collection and treatment, the sample for each model has been specified in Table 1, as follows:

Table 1
Data Treatment

	Conservatism	Informativeness	Value Relevance
Initial Observations (143 firms/year)	429	429	429
(-) Exclusion of Sectors: Finance and Insurance	(39)	(39)	(39)
(-) Empty Cells or Observations with Errors	(44)	(44)	(25)
(-) Data treatment – exclusion of outliers	(12)	(10)	(17)
= Final Sample	334	336	348

Source: Elaborated by the authors

As a corrective measure, the outliers were removed, using the distance between the mean and the observation as a criterion. Thus, observations with more or less than three standard deviations were removed from the sample.

4. Analysis of Results

4.1. Descriptive statistics and correlation among the variables

Table 2 below demonstrates the descriptive statistics of the variables in the final study sample:

Table 2
Descriptive Statistics

Variables	Observations	Mean	Standard Deviation	Minimum	Maximum
LLA	334	0.046	0.092	-0.465	0.290
RE	334	0.426	0.679	-0.629	3.159
RA	336	0.093	0.507	-1.407	2.083
P	348	17.470	11.133	0.240	57.032
LPA	348	1.067	1.559	-5.058	7.275
PLA	348	9.719	8.306	-0.973	41.820
MB	348	4.466	15.893	0.321	276.630
END	334	0.560	0.179	0.075	1.029

Where: *LLA* = adjusted net earnings of company in period t; D = Dummy variable, equal to 1 if the economic return is negative and zero in other cases; RE = Economic earnings per share of company in year t (adjusted by payment of dividends); *RA* = abnormal return of company value in period t; P = Stock price of company at time t; PLA = net equity per share of company in period t; LPA = Net earnings per share of company in period t; MB=market-to-book of company in period t; and END = relation between capital from third parties and total assets in period t.

Source: Elaborated by the authors

The variable "adjusted net earnings" showed the lowest standard deviation, while the market-to-book variable showed the highest standard deviation. In the final sample, the variables with the greatest variation were market-to-book, "stock price", "net equity per share" and, finally, "earnings per share".

Table 3 below shows the correlation of the company variables in the final sample to verify the level of association among them.

Table 3

Correlation among the Variables

	LLA	RE	RA	P	LPA	PLA	MTB
LLA	1.000						
RE	0.237***	1.000					
RA	0.186***	0.827***	1.000				
P	0.164***	-0.062	0.071	1.000			
LPA	0.667***	0.070	0.071	0.437***	1.000		
PLA	0.184***	-0.157***	-0.126**	0.563***	0.403***	1.000	
MTB	0.050	0.140***	0.165***	0.115**	0.037	-0.225***	1.000
END	-0.280***	-0.089*	-0.069	-0.003	-0.211***	-0.150***	0.167***

***,**,*, significant at 1%, 5% and 10%. Where: *LLA* = adjusted net earnings of company in period t; RE = Economic earnings per share of company in year t (adjusted by payment of dividends); *RA* = abnormal return of company value in period t; P = Stock price of company at time t; PLA = net equity per share of company in period t; LPA = Net earnings per share of company in period t; MB = market-to-book of company in period t; and END = relation between capital from third parties and total assets in period t.

Source: Elaborated by the authors

The correlation was significant among practically all variables. The variables "abnormal return" and "economic return" showed a significant correlation at 83%, Other significant correlations relate to the adjusted net earnings and earnings per share (67%), as well as to the correlation between stock price and net equity per share at 56%.

4.2. Results of Models

4.2.1. Model 1: Conservatism

To analyze the accounting conservatism of the companies considered as Large Caps and Small Caps, the variable "adjusted net earnings" was regressed against the other explanatory variables of Basu's (1997) modified model.

Model 1.1 was used to measure the conservatism among companies classified as Large Caps and Small Caps. In general, the companies present in the research sample recognize the economic losses timely. Hence, the interaction between $D \times RE$ was positive and statistically significant. The variable of interest $D \times RE \times LC$ was not significant.

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Table 4

Robust Regression for Conservatism

Explanatory Variables	Dependent Variable (LLA – Adjusted Net Earnings)					
	Model 1.1 *Complete Sample (Large Caps and Small Caps)*		Model 1.2 *Sample containing only Large Caps companies*		Model 1.3 *Sample containing only Small Caps companies*	
	Coefficient	Stand. Error	Coefficient	Stand. Error	Coefficient	Stand. Error
D	-0.023	0.022	0.001	0.026	-0.021	0.021
RE	0.011	0.008	-0.006	0.018	0.012	0.008
D × RE	0.212***	0.072	0.283***	0.108	0.207***	0.068
LC	0.029**	0.015				
D × LC	0.016	0.034				
RE × LC	-0.019	0.021				
D × RE × LC	0.047	0.132				
END	-0.143***	0.028	-0.039	0.033	-0.200***	0.037
Constant	0.130***	0.014	0.097***	0.023	0.160***	0.018
Adjusted R²	0.3065		0.1444		0.3850	
F statistics	9.10		3.19		16.20	
Sig.	0.000		0.0151		0.0000	
No. Obs.	334		150		184	
Mean VIF	3.52		2.26		2.10	

***,**,*, significant at 1%, 5% and 10%. D = Dummy variable, equal to 1 if the economic earnings is negative and zero in the other cases; RE = Economic earnings per share of company i in year t (adjusted by dividend payment); LC = Dummy variable, equal to 1 for Large Caps companies and 0 for Small Caps companies; and END = Indebtedness.

Source: Elaborated by the authors

The variable $D \times RE$, related to the companies classified as Large Caps, showed a positive and statistically significant coefficient (0.28), suggesting the existence of asymmetric recognition between the good and bad news (future economic losses) on the earnings disclosed in the stock returns. For the companies considered as Small Caps, the existence of conservatism could also be confirmed, considering that the coefficient D × RE was statistically significant (0.207). The values found support the results found in earlier studies (Costa *et al.* (2006), Sarlo Neto *et al.* (2010) and Moreira, Colauto and Amaral (2010). The variable "indebtedness" was used as a control variable in all models. The results do not permit rejecting the hypothesis (H_1) that Large Caps companies are more conservative than Small Caps companies.

4.2.2. Model 2: Informativeness of earnings

To verify whether the size of the companies listed on BMF&Bovespa, classified as Large Caps and Small Caps, is systematically related to the informativeness of the disseminated accounting earnings, multiple regressions were performed. The results are displayed in Table 5.

The first model 2.1 was used to measure the relation between companies classified as Large Caps and Smal Caps and the informativeness of the disseminated earnings, and indicated that the set of variables used explains 13.38% of the variance in the returns. The variable of interest LLA × LC (interaction between LLA and LC) showed significant (10%) and negatively correlated coefficients of 1.13, which indicates that the dissemination of the Large Caps companies' net earnings influences the arithmetic mean of the companies' earnings 1.13 times less than the Small Caps companies.

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Table 5

Robust Regression for Informativeness

Explanatory Variables	Dependent Variable (RA – Abnormal Earnings)					
	Model 1.1 *Complete Sample (Large Caps and Small Caps)*		Model 1.2 *Sample containing only Large Caps companies*		Model 1.3 *Sample containing only Small Caps companies*	
	Coefficient	Stand. Error	Coefficient	Stand. Error	Coefficient	Stand. Error
LLA	1.982*	1.075	0.471	1.625	1.967	1.210
LC	0.183***	0.061				
LLA × LC	-1.130*	0.656				
LLA × END	-1.455	1.428	-0.359	2.908	-1.537	1.632
LLA × MB	0.269***	0.035	0.084	0.153	0.309***	0.042
Constant	-0.068	0.047	0.143	0.043	-0.073	0.049
Adjusted R²	0.1338		0.0089		0.1618	
F statistics	17.11		0.33		26.35	
Sig.	0.0000		0.8001		0.0000	
No. Obs.	336		150		186	
Mean VIF	6.25		9.76		8.39	

***,**,*, significant at 1%, 5% and 10%. $RA_{i,t}$ is the abnormal earnings of the value of company i in period t; $LLA_{i,t}$ is the adjusted net earnings of company i in period t; LC = Dummy variable, equal to 1 for Large Caps companies and 0 for Small Caps companies; and END = Indebtedness; and MB = market-to-book.

Source: Elaborated by the authors

In models 2.2 and 2.3, the objective is to measure the informativeness of the earnings disseminated in each group of companies, Large Caps and Small Caps. The research variable for the two groups did not reveal statistical significance. Therefore, one cannot reject the hypothesis (H$_2$) that the informativeness of the disseminated earnings is lower than in the Small Caps companies.

4.2.3. Model 3: Relevance of accounting information

To test the alternative hypotheses to compare the impact of the company size, classified as Large Caps and Small Caps, on the relevance of the accounting information, multiple regressions were developed, whose results are displayed in Table 6.

For the three regressions, the PLA shows a significant and positive coefficient, as expected, but not the LPA. This result is consistent with the findings by Lopes (2002), who concluded that, in Brazil, the net equity (PLA) is more relevant than the earnings (LPA). This result is supported by Kwon (2009), who also found this characteristic in emerging or credit markets. The positive variable LC indicates that the stock price tends to be higher in Large Caps. Regression 3.1 analyzes the simultaneous effect of the size through the variables PLA × LC and LPA × LC in the model. As verified, the variable of interest LPA × LC is positive and significant at 5%, indicating evidence of greater relevance of accounting information for companies classified as Large Caps.

Table 6

Robust Regression for Value Relevance

Explanatory Variables	Dependent Variable (P – Stock Price)					
	Model 1.1 *Full Sample (Large Caps and Small Caps)*		Model 1.2 *Sample containing only Large Caps companies*		Model 1.3 *Sample containing only Small Caps companies*	
	Coefficient	Stand. Error	Coefficient	Stand. Error	Coefficient	Stand. Error
PLA	0.645***	0.138	0.708***	0.087	0.642***	0.138
LPA	1.039	0.749	2.187***	0.502	1.033	0.747
LC	3.092**	1.447				
PLA × LC	-0.167	0.160				
LPA × LC	1.742*	0.918				
MB	0.105**	0.047	0.793***	0.180	0.080***	0.027
Constant	8.109***	0.943	6.374***	1.293	8.249***	0.931
Adjusted R²	0.4347		0.5290		0.3172	
F statistics	40.95		56.75		24.88	
Sig.	0.0000		0.0000		0.0000	
No. Obs.	348		142		206	
Mean VIF	3.43		1.45		1.40	

***,**,*, significant at 1%, 5% and 10%. P= Stock price of company i at time t; PLA= net equity per share of company i in period t; LPA = Net earnings per share of company i in period t; LC = Dummy variable, equal to 1 for Large Caps companies and 0 for Small Caps companies; and MB=market-to-book.

Source: Elaborated by the authors

In models 3.2 and 3.3, using the relative association method (Holthausen & Watts, 2001), in which the R² values (Small Caps: 0.3172 and Large Caps: 0.5290), as well as the analysis of the regression coefficients of PLA and LPA, greater relevance of the accounting figures is observed associated with larger companies, thus rejecting hypothesis H_3. These results are inconsistent with the findings by Atiase (1985) and Freeman (1987), in which the effect of the information in the publication of accounting earnings is more pronounced in companies with predisclosure.

5. Final Considerations

The objective in this study was to verify whether accounting information aspects like informativeness, relevance and conservatism can be influenced by the company size, measured by the capitalization level, and classified as Large Caps and Small Caps in the Brazilian stock market. Companies with larger capitalization and high trading level on the stock exchange, over a consistent period, and therefore with high liquidity, receive incentives to present more conservative information, but with lower informativeness and relevance than Small Caps companies.

Based on the empirical evidence obtained, the results related to the research hypotheses are demonstrated in Figure 1 below:

	Hypothesis	Result
H_1	Companies classified as Large Caps have a higher level of conservatism than Small Caps.	Confirmed
H_2	Companies classified as Large Caps show lower informativeness in the earnings disclosed than Small Caps companies.	Confirmed
H_3	Companies classified as Large Caps have lesser value relevance than Small Caps.	Rejected

Figure 1. Summary of Results

Source: Elaborated by the authors

About the results found, a set of evidence can be identified about the impact of company size on the accounting information.

As verified, Large Caps companies presented a positive and significant relation with conservatism, suggesting the existence of asymmetric recognition between the good and bad news (future economic losses) on the disseminated earnings in the stock return. This result supports the theory that affirms that large companies are encouraged to reduce the present earnings in order to reduce the political attention (Iudícibus & Lopes, 2008).

Through the results found for Model 2, it is suggested that Large Caps companies present lower informativeness of the earnings than Small Caps companies, due to the market's greater reaction to the disclosure of the accounting earnings in Small Caps than in Large Caps companies. The results support earlier studies like Atiase (1985) and Freeman (1987), which concluded that, due to the greater demand for predisclosure of specific information by larger companies, when the accounting earnings are disclosed, the market's reaction to this information would be lesser than in small companies.

In the results verified in Model 3, about the Value Relevance of the accounting information, it was verified that the accounting figures were more relevantly associated with the stock price in Large Caps companies when compared to Small Caps companies, against the results by Atiase (1985) and Freeman (1987), in which the effect of the information in the publication of the accounting earnings would be more pronounced in companies with predisclosure.

The set of results found suggest that the company size influences the investigated measures, earnings informativeness, accounting information relevance and conservatism. Nevertheless, these results should be considered with caution, weighted by elements that were not incorporated in this research. The results found indicate that the accounting information is more relevant and presents greater informativeness for Small Caps companies. Nevertheless, this evidence can be associated with factors that were not considered in the estimated models, such as the presence of information intermediaries (e.g.: market analysts), which preferably accompany the Large Caps, offering recommendations on the financial statements disclosed.

The size of the database that originated the samples, as the composition of the BM&Fbovespa indices (Mid-Large Caps and Small Caps) is restricted to a list with few companies, as well as the reduced research period, between 2010 and 2012, can be defined as limiting factors for the study in question.

For future research, other models should be investigated to measure different aspects of the accounting information, such as timeliness and earnings management, and other forms to classify the company size should be used, such as the presence on a stock exchange. In addition, new studies could adopt other methods. An interesting alternative would be the development of an event study.

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