The Relationship between Earnings Management and Corporate Governance in Companies Listed on the Tehran Stock Exchange

Masoume Kardgar 1, Hadi Saidi 2,*

1 Department of Accounting, Damghan Branch, Islamic Azad University, Damghan, Iran
2 Department of Accounting, Shirvan Branch, Islamic Azad University, Shirvan, Iran

ABSTRACT
The main objective of this study was to investigate the relationship between relevance and corporate governance in companies listed on the Tehran Stock Exchange. The present research in terms of the objective applied research in, and considering that in the research method of library studies has also been used, can be found stating that the present research is based on the nature and methods of descriptive research, collection. In addition, the population in this study are listed on the Tehran Stock Exchange securities, using sampling as a statistical sample of 91 companies in the period between the years 1388 to 1392 (a total of 455 years-company) was selected and the data collected was analyzed using software Eviews. The results show that earnings management reduces the degree of relevance of accounting information as well as good corporate governance, reduce the amount of earnings management.

KEYWORDS
Relevance, earnings management, corporate governance, stock Exchange companies

INTRODUCTION
In the post-Enron term earnings management as one of the most crucial issues is intended to have attracted more attention. So that today the issue of earnings management accounting research is fascinating. Because investors as one of the major factors for decision-making to the benefit of special note, this study of behavioral aspects, the importance of its own. Research has shown that low volatility and stable profits, is an indication of its quality. In this way, investors confidence to invest in stocks of companies that process their interest is more stable. When companies are under growing pressure in economic disadvantage, the manager of the accounting department request that a bottom line financial statements (ie profit) to improve, and thereby to change its information content. Despite all its accounting flexibility, does not seem to be able to provide useful data for management is in such situation (Moradzadeh far et al., 1391).

Of accounting scandals and the collapse of some company in the United States, such as Enron and voldakam, and in Australia as of Tal van, serious concerns about the management of profit, the use of ethical issues and those reported profits that these reports and auditing,. Law organizations in the United States on the basis of law, conducive to the company managers like the sarbinz aksli are required to ensure that the financial reports, enabling a company to improve the independence and supremacy of the auditor to the management and reduction of profit financial report improved quality (Hasase yeganeh and Yazdanian, 2008). In the meantime, earnings management is a form of earnings that is likely to reduce the reliability of profits. The profits have low reliability, are less informative. On the other hand, when opportunistic earnings management is controlled using monitoring systems, accounting earnings are more reliable and more informative. Corporate governance reduces the capacity of managers to manage earnings and ability to improve the reliability of accounting earnings and is thus useful notification feature improves accounting earnings (Aghai and et al, 1388).

The other hand, the financial statements are usually prepared in accordance with accounting standards of each country, because by investors and other users of financial information used, must be studied and careful analysis. The primary goal of all accounting standards meet the needs of the capital market. As mentioned in the theoretical concepts of financial reporting, the financial statements are presented in summarized and classified information about the financial position, financial performance and business unit financial flexibility for a wide range of users of financial statements.
BACKGROUND RESEARCH

Nikomaram and Mohammad zade Salteh (1389) in their paper examines the relationship between corporate governance and earnings management. National and conditions apply sampling, sampling of 40 companies were selected as sample. The results showed that the mean difference between companies that have good corporate governance have less discretionary accruals, in this way, management will occur less profit. In general, the results indicate that the adequacy of corporate governance, corporate governance and earnings management with respect to the ability of a significant relationship. Thus, the results indicate that the adequacy of corporate governance is one of the determining factors affecting earnings management.

Aghai et al (1388) in a study to review the features of corporate governance and information content of earnings in companies listed on the Tehran Stock Exchange with an emphasis on the role of their profits. Also, in terms of corporate governance, shareholders other features to improve the information content of earnings in the presence of a high incentive to manage earnings in the presence of incentive to manage earnings down.

Hassas Yeganeh and Yazdanian (1386) The impact of corporate governance on reducing examined earnings management.

The information was applied to 177 companies during 1382 to 1384. The results of this study showed that while the percentage of institutional ownership in companies is more than 45% of earnings management decreases. In addition, these findings suggest that the presence of outside directors on the Board, no CEO or Vice President as chairman of the board of directors, the auditors of the company in Iran and there is no significant relationship between earnings management.

Adi Güzel (2013), in a study to examine corporate governance, ownership and management interest payments. The researcher said. Earnings management (EM), family is very important for companies because these companies represent conflicts between minority and majority shareholders are facing more than domestic companies. The efficiency and effectiveness of independent board of directors, audit committees and internal audit function (IAE), on the supervision and control of EM in family firms studied. The results show that total accruals management of family firms is lower than nonfamily companies. But there was no difference in the way accruals. It was determined the efficiency and effectiveness of the board of independent family ownership and management to reduce YAF profit.

Sandra & Lu (2012) in their study ownership structure and earnings management. In this paper, the relationship between ownership structure and earnings management looked at in Portugal. The structure of corporate governance by the rule, giving a significant effect on managerial decisions largest shareholder (either directly or indirectly) is applied, is determined. Available literature indicates that earnings management incentives to reduce ownership structure but also provides an opportunity to manipulate earnings. The aim of this paper is to analyze the issue of whether ownership structure (with three variables: ownership, management, concentration of ownership, institutional ownership is measured), accelerating earnings management or removes? Using the 34 non-financial companies cited by the Portuguese, from 2002 to 2007, found that discretionary accruals as a proxy for earnings management is negatively associated with property management and ownership is concentrated. The results show that both property management and ownership concentration, with a reduced level of earnings management, improve the quality of annual profits.

Keener (2011) in a study for the review of the relevance of earnings and book value in their industry sectors. The results show the relevance of earnings and book value during the review period was twenty years old, has not diminished. The study also shows that the earnings (book value) is gradually increased during the period. Finally, this study shows that a significant deviation in the gradual relevance of earnings and book value does not exist in the industry.

HYPOTHESIS

• Good corporate governance, reduce the amount of earnings management.

RESEARCH METHODOLOGY

The aim of this study was to investigate the relationship between relevance, earnings management and corporate governance in companies listed on the Tehran Stock Exchange. So the aim of the present study is an applied research and on data collection (study design) is a descriptive study (non-test) is. In addition, the research method is a survey research.

The statistical community and population sampling survey research:

contains all public companies accepted on the Tehran stock exchange during the period of 1388-1392. To determine the statistical sample, sample size estimation for the special relationship and sampling is not used but the method of systematic use of knock-out.

VARIABLE REGRESSION MODELS AND MEASUREMENT METHODS RESEARCH

Regression model study are as follows:

\[ \text{Earnings management equation} \]

\[ AB\text{NRPT}_{it} = \beta_0 + \beta_1CGQ_{it} + \beta_2ROA_{it} + \beta_3FIRMSIZE_{it} + \epsilon_{it} \]

The dependent variable:

\[ PRICE_{it}^{APRIL} : \text{I company's stock price in four months after the end of the fiscal year in period t} \]

Lu and Wang (2011) of section-related abnormal transactions used to measure the degree of earnings
management .. Jian and Wong (2010) transaction model for the development of sector-related abnormal earnings management index-related trading Bhsh (ABNRPT) for were the following:

$$RLPT_{it} = \alpha + \beta_1 LEVERAGE_{it} + \beta_2 FIRMSIZE_{it} + \beta_3 MKVE + \varepsilon_{it}$$

RLPT: Transactions with related parties. Is to sell goods and services to sales related parties.
LEVERAGE: Leverage as measured by total debt to total assets.
MKVE: Market value to book value.

ABNRPT :
$\varepsilon$: An indicator for trading related sectors (ABRUPPT) as the dependent variable in the equation is the equation for the effect of earnings management and earnings management, are used.

**Independent variables:**

Corporate governance: to measure corporate governance in this study, we use the following model:

$$CGO_{it} = \sum_{j=1}^{6} Corporate Governance Mechanism_j$$

Focus state ownership: Part of the shares held by the government. If the government shares less than the median sample at the end of the fiscal year and otherwise maintain a zero.

Foreign ownership concentration: part of the stock that is held by investors outside of the members of the Board of Directors. If the higher stakes of foreign investors from the Middle sample at the end of the fiscal year and otherwise maintain a zero.

The size of the board: The number of directors on the board. If the size of the board at the end of the fiscal year is greater than the middle sample, and otherwise a zero.

Independent directors: the number of independent directors on the board. If the independent directors of the company at the end of the fiscal year is greater than the middle sample, and otherwise a zero.

Independent audit committees: audit committee independence. If the independent Audit Committee of the Company at the end of the fiscal year have one and otherwise zero.

Corporate Audit: If at the end of the fiscal year by the audit, the audit is to be one and zero otherwise.

If the value of the sum obtained for the variable corporate governance larger than the sample size is moderate, good corporate governance.

BVPS: book value of shareholders’ equity divided by number of shares of company i at the end of the financial year t.

EPS: earnings per share for firm i at the end of the financial year t.

**Control variables:**

ROA: return on assets.

**FIRM SIZE:** Firm size is defined as the natural logarithm of total assets.

**DESCRIPTIVE STATISTICS OF VARIABLES**

In this section, the central parameters such as mean and standard deviation measures the dispersion, skewness and kurtosis for each of the variables offered. In this connection mean, the main central index, and average data shows, so that if the data on an axis aligned on a regular basis, the average value of the distribution is exactly the point of balance or center of gravity. Standard deviation of dispersion parameters and the scattering data show. Skewness also set the parameters deviations from symmetry and asymmetry index data. If you have a community of symmetrical distribution, skewness coefficient equal to zero, if the community is skewed to the left, the coefficient of skewness is negative and if you have the right skew, skewness coefficient will be positive. Elongation is a measure of dispersion towards the normal distribution (Momeni and Ghaiyoomi, 1390). Brief descriptive statistics of the variables are presented in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Skewness</th>
<th>Standard deviation</th>
<th>Mean</th>
<th>Median</th>
<th>Symmetry</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elongation</td>
<td>19.1</td>
<td>0.5033</td>
<td>1</td>
<td>0.0132</td>
<td>1</td>
<td>Price per share</td>
</tr>
<tr>
<td></td>
<td>10.6</td>
<td>0.5033</td>
<td>0.5</td>
<td>0.0132</td>
<td>0.5</td>
<td>BVPS</td>
</tr>
<tr>
<td></td>
<td>13.8</td>
<td>0.5033</td>
<td>0.01</td>
<td>0.5033</td>
<td>0.01</td>
<td>EPS</td>
</tr>
<tr>
<td></td>
<td>165.948</td>
<td>0.5033</td>
<td>0.01</td>
<td>0.5033</td>
<td>0.01</td>
<td>ABNRPT</td>
</tr>
<tr>
<td></td>
<td>4.84</td>
<td>0.5033</td>
<td>1</td>
<td>0.0132</td>
<td>1</td>
<td>CGO</td>
</tr>
<tr>
<td></td>
<td>4.75</td>
<td>0.5033</td>
<td>1</td>
<td>0.0132</td>
<td>1</td>
<td>Size of the firm</td>
</tr>
</tbody>
</table>

Based on the criteria presented in Table 1 can be seen that the average price of Company shares on average during the investigation period was equal to £ 679/883. The ratio of book value on average equity was equal to 963/2020. Earnings per share companies an average of £ 679/974 calculated the average earnings management index is equal to zero. 33/50% of companies have also been good corporate governance and the Company's average return on assets equal to 1343/0 is obtained. Company size also has been an average value of 4221/13.

**Stationary variables (unit root test):**
In order to study the stationary variables Dickey-Fuller test generalized (Fischer type) is used. The test of the unit root hypothesis tested in the series values. If the null hypothesis that there is a unit root test series is rejected values can be accepted in the series studied, Mana and otherwise must differencing techniques such as regression on time or Box and Cox transformation be used. The results of these tests are presented in Table 2.

As Table 2 shows, significant levels of Type I error 05/0 all the tests are smaller and therefore reject the null hypothesis of the unit root test statistics that can be accepted and the series studied at this level of error Mana and thus, the behavior of variable values over time will not be significant changes in the process.

The results hypothesis testing:
In this section, the research model to study the impact of debt on the company's investment structure has been fitted. This section includes diagnostic testing model (Chow and, if necessary, Hausman), estimating regression models to investigate the basic assumptions of regression.

Diagnostic tests Model:
Prior to estimate the regression model research diagnostic tests to determine significant effects model was carried out. Table 3 shows the results of these tests.

The results of logistic regression model research:
Table 4 summarizes the findings of this model show.

The results of the independent variables:
Due to the significant level of corporate governance to good effect is achieved on the management of corporate profits is that the likelihood of a significant view this effect is smaller than the 5.0 error obtained according to the coefficient of the negative impact it can be concluded that the good corporate governance has an impact on the management of the company's profits in reverse. Hence it can be claimed that good corporate governance, the management of the amount of the company's profit decreases and so the second research hypothesis is also approved.

The results tests NICO fitted model:
Nico based on the F-statistic model can be seen that the significance level of less than Type I error analysis of variance showed a significant regression models estimated 05/0 is obtained. The adjusted coefficient model showed that 11/99 percent of the changes in the management of corporate profits is explained by the independent variables of the model.

The initial assumptions of regression test:
The results confirmed the independence of the components of the Durbin-Watson statistic to statistic error of the estimate is the amount 098/2. Since this amount is close to the experimental value 2 can be assumed to accept the independence of error components. Jarque-Bera test results to confirm normal distribution of experimental error components with a significant level of 4954/0 show the components of the model error is normal. Pagan also test method was performed to confirm the heterogeneity of variance components model error. The test
achieved a significant level of 0.0563 which confirms the consistency of the model error variance components.

The values of indicators in order to assess the absence of VIF is linear between independent variables can be calculated, r is smaller than the critical value of the 10 that have achieved demonstrated the severe lack of independent variables is linear between r and hence it can be accepted that the precision of the coefficients of the independent variables in the model of the impact of the research, under the influence of the inner relations of the independent variables.

<table>
<thead>
<tr>
<th>prob.</th>
<th>df</th>
<th>statistic</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2.098104</td>
<td>Durbin-Watson</td>
</tr>
<tr>
<td>0.4954</td>
<td></td>
<td>1.4044</td>
<td>Jarque-Bera</td>
</tr>
<tr>
<td>0.0563</td>
<td>(2,438)</td>
<td>3.805565</td>
<td>Breusch Pagan</td>
</tr>
</tbody>
</table>

It can be accepted that the initial assumptions in determining the effects attributable regression model is established and results. Chart 1 shows the empirical distribution of the error components and distribution model.

**Conclusion**

The main objective of this study was to investigate the relationship between relevance and corporate governance in companies listed on the Tehran Stock Exchange. In addition, the population in this study are listed in the Tehran Stock Exchange securities as a statistical sample of 91 companies in the period between the years 1388 to 1392 (a total of 455 years-company) was selected data to were collected and analyzed. The results show last season, heads the research hypothesis is accepted. Summary results of the study in this study (Table 6) is presented:

<table>
<thead>
<tr>
<th>Conclusion</th>
<th>Description hypothesis</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmation</td>
<td>Good corporate governance, reduce the amount of earnings management.</td>
<td></td>
</tr>
</tbody>
</table>

According to the obtained a significant level for the effect of good corporate governance on corporate profit management (table 4) view that a meaningful chance of this effect is smaller than 5% error and obtained according to the coefficient of the negative impact it can be concluded that the good corporate governance has an impact on the management of the company's profits in reverse. Hence it can be claimed that good corporate governance, the management of the amount of the company's profit decreases and therefore the hypothesis has also been approved.

In the case of this hypothesis can also be said with the increase of the corporate governance and the promotion of its component companies accepted on the Tehran stock exchange can be seen lowering profit management and improve financial reporting. Improving corporate governance is meant to reduce the costs of representation and improve the monitoring of the activities of the company is reporting that it is therefore prevented from managing the benefit. In total, the companies that benefit from better corporate governance system, the less problems with conflict of interest and the consequences of that encounter.

In this connection, and in accordance with the results of the present study, the Ghodrati and Feiziz (1394) corporate governance indicators with management of profit. In addition, the abahreini at al; Associates (1392) announced the corporate governance mechanism has significant relationships with benefit management. Also, Nikomaram and Mohammad zade Salteh (1389) concluded that companies that have corporate governance were sufficient items have less optional obligation means in these kinds of companies, management of profit happens. Hassas Yeganeh and Yazdanian (1388) is also found between the corporate governance mechanisms and management profit there is a negative relationship. Zhou and Hong (2015) said companies with good corporate governance can reduce adhesion costs more. Although this impact is not so strong. In addition, Shan at al (1981) with good corporate governance the companies probably will limit profit management.

**Offers:**

The results of this research available to investors, shareholders, analysts and all individuals and organizations that are somehow involved with investor activity on the stock exchange will be useful. Therefore, the following is presented:

1. with regard to verification of the relationship between earnings management and profit to investors and analysts recommended Mai cash and accrual components when deciding to take heed. Because, as I mentioned earlier, increasing the accrual component of earnings reliability and reduce the likelihood of earnings management in these companies further.

2. The Auditors recommended that companies that profit by manipulation of the possibility of more
management, increase the sample size to allow legal proceedings against those who trust their reports, to protect themselves.

3. According to the hypothesis of a negative correlation between good corporate governance and earnings management recommended that companies improve corporate governance theoretical indices. In addition, the organization offers to the company's stock based on the rating of corporate governance;

4. Finally, with regard to the theoretical foundations and principles of corporate governance Considering that each country should be based on the underlying framework of these countries is, therefore, a native of the concepts of corporate governance according to the country issues, cultural and economic very critical is that the role of professional bodies including the stock exchange and the Corporate audit is very important. Any model of similar foreign laws and regulations in this regard, regardless of management structure, cultural, economic and other issues affecting the corporate governance tools will not only help to efficiently manage tasks, but may now be faced with many problems.

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