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## **Analysis of the relationship between tenure Director, Investment excessive earnings management, Companies listed in the Tehran Stock Exchange**

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### **ABSTRACT**

This study aims at analyzing the relationship between tenure Director, Investment excessive earnings management in 96 companies listed on the stock exchange during the years 1388 to 1393 is a period of 6 years. This is applied research, and design experimental design with a post-hoc approach to data collection methods and reference libraries to the financial statements for the sample companies And using the Software outcomes and devise new processor is collected, investigated independent variables in this study, tenure too is the Director and investment. Earnings management is also dependent variables of the study. Dvmyar measure of earnings management of discretionary accruals for operating cash flow is abnormal. In order to analyze this relationship, based on two hypotheses have been developed and theoretical study predicted a positive relationship between earnings management and investment too much and there is a significant. The second hypothesis is a significant positive relationship between tenure and earnings management Director there. Multivariate regression analysis to test the assumptions of correlation, which indicates the absence of false correlation between research variables, Research and absence of spurious regression variables and reliability of the test Levin, Lin and Chu were used. In order to evaluate the assumptions of linear regression (error terms), Jarkyv test for cutting Pagan and Durbin Watson direction F Limer estimation data fusion test and Hausman test and descriptive and inferential analysis software was used Excel Eviews8. The results of the first hypothesis test show that there is positive correlation between investment and earnings management is too.The results of the second hypothesis showed that there is a positive and meaningful relationship between tenure and earnings management Director.

**Keywords:** tenure Director, Investment too, earnings management, accruals.

Received 10.10.2016

Revised 17.10.2016

Accepted 01.11.2016

### **INTRODUCTION**

Financial analysts and stockbrokers proposed the earnings quality for the first time, because they felt that reported earnings do not show company's profitability properly [1]. They found that analysis of companies' financial statements is difficult due to numerous weaknesses in measuring the accounting information. The main reason that financial analysts do not use reported net earnings and earnings per share of the company in their evaluation and make caution in this regard is that companies should consider not only earnings quantity, but also its quality determining the value of companies. Quantity of earnings means the potential for earnings growth and the probability in realization of future earnings. In another words, information must be timely. Earnings timeliness relates to the current earnings ability in transferring the current information. Earnings timeliness suggests that earnings are able transfer the information effectively [4-5]. Therefore, items of earnings contain useful and high-quality information for external investors, leading to reduced information asymmetry among managers and investors.

### **RESEARCH HYPOTHESES**

First hypothesis

There is a significant and positive relationship between overinvestment and earnings management.

Second hypothesis

There is a significant and positive relationship between CEO tenure and earnings management.

### Research model

Following a study conducted by Fabrizio et al (2014), the following model was used to test the research hypotheses,

Model (4)

$$EM = \beta_0 + \beta_1 LSIZE_{it} + \beta_2 LEVE_{it} + \beta_3 OVER\ INVEST_{it} + \beta_4 DH_{it} + \beta_5 DAULITY_{it} + \beta_6 DEP_{it} + \beta_7 ROA_{it} + \beta_8 BTM_{it} + \epsilon$$

In which:

EM: Earning management, measured by two criteria of discretionary accruals and abnormal operating cash flows

**LSIZE<sub>it</sub>**: Size of business unit that is natural logarithm of assets

**LEVE<sub>it</sub>**: Financial leverage, that is ratio of total debts to total assets

**OVER INVEST**: Overinvestment, remaining model (3)

**ROA<sub>it</sub>**: return on assets, the ratio of net earnings to total assets

DH: CEO tenure

BTM: book value to market value of equity

Duality: if the company CEO is not the board chairperson, it is given value 1.

Otherwise, it is given zero value.

DEP: Board outside members to total members of board

**$\epsilon$** : The remaining regression model

### Population of study

Geographical domain of study included 96 companies listed in Tehran Stock Exchange since beginning of 2009 to end of 2014.

### Research methodology and data collection method

This study is an applied research. Design of study is quasi-experimental using post facto approach (using past information).

In this study, library method was used to collect data and information.

## RESULTS

Table 1: Results of the research model estimate

Variable	Variable coefficient	T statistic	Error level
Intercept	0.577	5.370	0.000
The percentage of board outside members	-0.420	-5.884	0.000
CEO Tenure	0.028	6.306	0.000
Duality in CEO tasks	-0.064	-0.635	0.008
Overinvesting	0.880	4.882	0.000
Financial Leverage	-0.094	-1.674	0.094
Size of business unit	-0.009	-1.557	0.119
Book value to market value of equity	0.134	2.268	0.023
Return on assets	-0.098	-0.757	0.449
The coefficient of determination		0.193	
Adjusted coefficient of determination		0.181	
Durbin-Watson statistic		1.657	
F statistic		16.983	
The probability of F statistic		0.000	

Source: Research findings

Table 2: Results of research model estimate

Variable	Variable coefficient	T statistic	Error level
Intercept	0.120	2.913	0.003
The percentage of board outside members	-0.088	-3.242	0.001
CEO Tenure	0.003	2.043	0.041
Duality in CEO tasks	-0.020	-2.142	0.032
Overinvesting	0.592	8.559	0.000
Financial Leverage	0.075	0.443	0.000
Size of business unit	-0.007	-3.150	0.001
Book value to market value of equity	-0.216	-9.984	0.000
Return on assets	0.162	3.219	0.001
The coefficient of determination		0.377	
Adjusted coefficient of determination		0.368	
Durbin-Watson statistic		1.971	
F statistic		42.944	
The probability of F statistic		0.000	

#### Testing first hypothesis

The first hypothesis examines the relationship between overinvestment and earnings management. According to the results of Tables (1) and (2) estimated the model (1), variable coefficient of overinvestment is 0.880 and 0.592. Its level of the error is 0.000, which is lower than error level of 0.05. Thus, a positive coefficient of variable indicates that an increase in overinvestment leads to increased earnings management. As a result, this hypothesis is confirmed at the level of 0.95 reliability. The results of testing the first hypothesis suggest a significant and positive relationship between overinvestment and earnings management. This relationship suggests that in companies faced with overinvestment, managers tend to show desired image business unit to investors that one of these strategies is exaggerated reporting of earnings. These findings show the important consequences of earnings management in investment decisions of the companies.

#### Testing second hypothesis

The second hypothesis examines the relationship between CEO tenure and earnings management. According to the results of Tables (4-5) and (4-6) estimated the model (1), variable coefficient of CEO tenure is 0.028 and 0.003. Its level of the error is 0.000 and 0.041, which is lower than error level of 0.05. Thus, a positive coefficient of variable indicates that an increase in CEO tenure leads to increased earnings management. As a result, this hypothesis is confirmed at the level of 0.95 reliability. The results of testing the second hypothesis suggest a significant and positive relationship between CEO tenure and earnings management. This result is in line with the theory that CEOs have greater motivation for inflated earnings in the beginning of their tenure to gain reputation. Additionally, this research shows that increased CEO tenure leads to increased capabilities of CEO in doing opportunistic measures of earnings.

## DISCUSSION

#### Testing the first hypothesis

The results of the first hypothesis testing suggest significant and positive relationship between overinvestment and earning management. Such relationship suggests that in companies faced with overinvestment, managers try to show desired image of the business unit to investors through the reports that are presenting, which one of these strategies is exaggerated reporting of earnings. These findings show the important consequences of earnings management in affecting the investment decisions of companies. Accordingly, they concluded that the earnings management is proceeded over inefficient investment to hide non-optimal investment in the past. It means that it is not true that companies faced with poor return caused by previous overinvestment present their earnings exaggeratedly to compensate their poor performance. The results of this study supports the idea that companies exaggerating in presenting financial results integrate themselves with companies with better performance and decide to overestimate to prevent discovery of earnings manipulation [6-7].

#### Testing the first hypothesis

The results of the second hypothesis suggest a significant positive relationship between CEO tenure and earnings management. This result is consistent with the idea that CEOs have greater motivation to show inflamed earnings in the beginning of their tenure to gain more reputation. It also showed that an increase in CEO tenure leads to increase in their ability to take earnings opportunistic measures [8-11]. It could be justified by the fact that Iranian managers tend to hide the loss before termination of their tenure. Therefore, they are avoiding of dismissal to extend their tenure for future years.

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