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Research Article

THE EFFECT OF SHAREHOLDERS RIGHTS AND INSIDER OWNERSHIP ON EARNINGS MANAGEMENT

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ABSTRACT
As one of the impacts of agency, theory earnings management can impose a lot of losses on investors and lead to weaken the shareholders rights. Accordingly, the present study aims to investigate the effect of shareholders rights and insider ownership on earnings management. To measure the shareholders rights, the model put forward by Safarzadeh (2013) has been used and to measure the earnings management, the model modified by Jones (1991) has been applied. The study population consists of companies listed in Tehran Stock Exchange. In this study, the financial information of 96 companies listed in Tehran Stock Exchange during the period from 2009 to 2013 has been reviewed. Using a multivariate regression model and panel data with fixed effects, the results of the study revealed that there is a negative significant relationship between shareholders rights and discretionary accruals, while there is no significant relationship between insider ownership and discretionary accruals.

Keywords: *Shareholders Rights, Insider Ownership, Earnings Management, Discretionary Accruals*

INTRODUCTION
Along with the recent financial scandals in large companies such as Enron and WorldCom, investors' confidence on financial reporting systems declined and that the quality of financial reporting was raised as an important factor in determining the validity and reliability of the reported figures. Also, the recent financial crisis has led to declining corporate profitability, reducing the quality of profit and increasing motivations of earnings management.
Investigation of the issues related to the bankruptcy of these companies showed that the main source of these events has been manipulating earnings and reporting unrealistic earnings with poor quality and this caused pessimism to the field of accounting and auditing. Through fraudulent methods such as designing and conducting fictitious transactions with individuals dependent on the purpose of earnings management, most managers of these companies reduced the quality of financial reporting and the quality of earnings to the lowest level as much as possible (Bulow, 2006).
The collapse of these large companies caused countries around the world to adopt preventive measures in this regard which resulted corporate governance. Corporate governance introduced for the first time in industrialized countries such as Australia and England investigates the status and role of board of directors in companies and the mutual relationship between the board of directors and shareholders for maximizing the wealth of shareholders and solving problems of their agency. On one hand, corporate governance presents a framework to successfully manage and control the company; on the other hand, it provides an assurance for the owners whose rights are appropriately observed.
The need for corporate governance indeed springs from the conflict of potential earnings among individuals in the structure of a company. The structure of ownership is one of the internal mechanisms of corporate governance whose main topic is the issue of agency because conflict of earnings among managers and major and small stakeholders lead to create costs of agency. Distributed (decentralized) ownership causes to occur the problem of agency in companies because the ability and incentives of shareholders will be weaken to control the management due to their small contribution and insufficient information and unnecessary specialty to make right decisions. In contrast, concentrated ownership substantially motivates major shareholders and their motivation also becomes more for improving the operation of companies and controlling management parallel to the increase in their share in the company.

There are completely obvious earnings to the concentrated ownership; however, debates are exercised against it (AbrahimiKordlr, 2007). In public companies, directors of companies are often determined by major shareholders. Thus, the issue which has a particular importance in these companies is to protect the rights of minority shareholders against directors and major shareholders (Kamijani and Ahmadi, 2012).
Concentration of ownership, shareholders with the right to control the company, governmental ownership, ownership of foreign shareholders, preferred share in the capital structure of the company and holding general assembly meetings are instances of corporate governance mechanisms that can lead to applying appropriate monitoring by shareholders and limit the opportunistic and profit-seeking behavior of managers (Safarzadeh, 2013).
In this regard, the current study seeks to find answers to the question whether observing shareholders rights based on the corporate governance can lead to a decline in earnings management in companies listed in Tehran Stock Exchange or not?

Theoretical Foundations

Corporate Governance

From one perspective, corporate governance is limited to the relationship between company and shareholders and this is an old model expressed in the form of the agency theory. This perspective focuses on capabilities of a country's legal system to protect minority shareholders rights. On the other hand, corporate governance can be considered as a network of relationships which is not only between company and their owners (shareholders) but also between company and a number of stakeholders including employees, customers, sellers, bondholders and others. Such perspective can be seen in the context of stakeholder theory. General review of the definitions of corporate governance in scientific literatures show that all of them have common and certain features that the most important one is accountability (Hassasyeganeh, 2006).
Corporate governance is a set of rules, cultures and institutional components that determine how an organization works, what it does, who run sit, how controls are applied on it and how it allocates risks and results from its operations (Lewis, 2005). Corporate governance is one of the concepts that has in recent decades been raised and considered in organizational concepts. In this perspective, different inside and outside stakeholders of the organization can make decision and act in a transparent environment (Dehdashti and Aabdolali, 2011). Nowadays, the maintenance of public interests, observance of shareholders rights, and promotion of transparency in corporate information and requirements and doing social responsibilities are major ideals considered by various regulatory and administrative authorities. Achieving these ideals requires strong regulations and appropriate administrative mechanisms that the most important one is corporate governance system (Ahmadpoor and Montazeri, 2011).

Shareholders Rights

Protection of shareholders is a crucial issue because in many countries, the abuse of small shareholders by majority shareholders is common. According to the weakness of corporate governance, the amount of abuse can take different forms including the sale of assets at a lower price to the major shareholders or appointment of incompetent relatives and high payment to them on the part of major shareholders (La Porta *et al.,* 1999). Organization for Economic Cooperation and Development (OECD) defined shareholders rights as a set of following seven components: (OECD, 2004)
1. The basic shareholders rights that the most important ones include the transfer of shares, regularly receiving relevant and important information about the company and within the presence and applying voting at general meetings, appointment and dismissal of board members and sharing in company profits
2. The right to participate in decisions related to fundamental changes in companies including the amendments to statute or other similar governance documents, approval of publication of additional share and unusual transactions involving the transfer of all or large part of assets which lead to sale (transfer) the corporate
3. Facilitation in the right to participate effectively and vote in General Assembly most notably including putting adequate and timely information about the time, place and agenda of General Assembly, inserting the appropriate opportunity for shareholders to ask their questions and demands to the board of directors

and the effective participation of stakeholders in key decisions of corporate governance such as the nomination and election of the members of board of directors

4. Disclosure of capital structures which causes certain shareholders to achieve the amount of inappropriate control to ownership.
5. Efficiency and transparency of mechanisms governing major trades (control blocks) of shares of companies listed in Stock Exchange
6. Facilitation of conditions of applying ownership rights of shareholders including institutional holdings
7. The possibility for shareholders to consult with each other on matters related to the fundamental rights of their shareholding

Insider Ownership

The ownership structure of a company is significant in various dimensions and it is, first, defined in terms of two variables including internal shareholders or shares to the insider holdings and outside holdings. Accordingly, shares to the institutional holdings and governance are considered as the major part of outside ownership of companies. Shares are owned by company's managers and employees (Sarin *et al.*, 2000). The position of institutional ownership in corporate governance is theoretically complicated. Institutional ownership represents one of the strong mechanisms of corporate governance and can monitor company's management because it can both have a considerable influence on the company management and align the interests of shareholders (Moradzadefard *et al.*, 2012).

When the director has a low percentage of shares of the company, he tries to maximize the value of the company by influencing market forces and applying efficient monitoring (Convergence of Interest Hypothesis).In contrast, Entrenchment Hypothesis states that when the ownership of managers in a company is higher than a special level, the increase in managers' ownership will stabilize their employment situation and they will be less obedient to discipline and may show behaviors that are totally inconsistent with the objectives of the company; consequently, the company's performance is reduced (Fama and Jensen, 1983).

Earnings Management

The concept of earnings management has been examined from different perspectives and various definitions have so far been presented. For example, according to Garden et al, if directors elect a particular method of accounting and volatilities of reported earnings are reduced, the result of management will be earnings. They also warn that managers can affect the reported profit in the level of their power from freedom in the framework of accepted principles and practices of accounting (Roychowdhury, 2006). Earnings management is the process which is done to achieve objectives or interests by the company's management team. Therefore, management manages the reported earnings for influencing the audience of accounting reports and achieving the desired objectives and interests. Regardless of motivations of management or the good or bad of that, the main issue is that audience and the recipients of accounting information should have a significant information gap with the management of company so that the management can achieve the desired objectives. Therefore, the emergence of earnings management expresses the fact that the company's managers believe that at least some users of financial statements are not aware of circumstances and contexts of the company as much as they are and there is the necessary ground for supplying their benefits through the process of profit management (Babajani and Tahriri, 2013).

Black (1992) argues that managers of companies that have many owners and do not have major shareholders have a greater incentive to manage earnings because the cost of processing information for small shareholders is not economically justified. As a result, they have to rely on the information of gains and losses reported by the management of companies (Black, 1992).

Burgstahler and Dichev (1997) concluded that investors in companies with multiple owners and with no major shareholders rely on Low-cost measures such as criteria based on benefit instead of precise processing of their necessary information. They believe that in companies with various stakeholders, the possibility of earnings management is more compared to companies with major shareholders (Burgstahler and Dichev, 1997).

Review of the Related Literature

In their study, Hassasyeganeh *et al.,* (2014) showed that there is a significant inverse relationship among indexes of corporate governance i.e. the amount of ownership of institutional holdings and ownership concentration with discretionary accruals; whereas other indexes have no significant relationship with discretionary accruals. Also, results of the study suggest that the relationship between ownership structure of companies and nondiscretionary accruals is direct and significant, while the relationship between ownership structure of companies and discretionary accruals is significant and reverse. However, there was no significant relationship among variables of the size of audit institute and internal auditor with discretionary and nondiscretionary accruals.

Examining the relationship between shareholders rights and quality of earnings, Safarzadeh (2013) indicated that the relationship between shareholders rights and quality of earnings is not one-dimensional. In other words, each criterion of the quality of earnings investigates this from a particular angle whose results are sometimes contradictory. So, we cannot directly state that the relationship between these two variables is either positive or negative. Evaluation of correlation between shareholders rights and quality of earnings suggests a positive correlation between the total shareholders' rights and earnings timeliness while the correlation between the total shareholders' rights and other criteria of quality of earnings such as discretionary accruals is negative (Safarzadeh, 2013).

Kashanipour (2010) examined the relationship between short-term and long-term institutional holdings and increasing corporate earnings management. The results of his study revealed that short-term and long-term institutional shareholders have positive and negative significant effects, respectively on increasing corporate earnings management (Kashanipour *et al.*, 2010).

Moradzadefard *et al.,* (2012) investigated the relationship between institutional ownership and earnings management in companies listed in Tehran Stock Exchange and used two different tests including correlation and multiple cross-sectional regression tests. Results of their study indicated that there was a negative relationship between institutional ownership and its concentration on the earnings management (Moradzadehfard *et al.,* 2009).

In their study, Huang *et al.,* (2013) concluded that by increasing shareholders rights, the level of discretionary accruals is decreased and that there is a negative relationship between shareholders rights and discretionary accruals. In their study, they also concluded that increasing the level of insider ownership has a significant relationship with the rate of discretionary accruals, in other words, when the level of managers' ownership increases, it influences the amount of using discretionary accruals (Huang *et al.,* 2013).

Frank (2006) studied the relationship between corporate governance and earnings management and separated the variables of corporate governance into two internal and external categories. Internal variables included the concentration of ownership and structure of board of directors and external variables included institutional ownership. Results of his study showed that companies with stronger internal variables have more proceeded for earnings management compared to companies with stronger external variables (Frank, 2006). In a study, Zouari *et al.,* (2009) investigated the relationship between institutional ownership of stock and earnings management on US companies. Their results revealed that using testing the neural network, the presence of institutional owners in the capital structure reduces the level of earnings management (Zouari and Rebai, 2009). Yang *et al.,* (2009) examined the impact of structure to the board of directors and institutional ownership on earnings management. Using the model modified by Jones, the results of their study showed that companies have done earnings management upward and there is no significant relationship between earnings management and external board of directors and institutional ownership (Yang *et al.,* 2009).

MATERIALS AND METHODS

Methodology

In terms of purpose, the study is applied and in terms of method, it is descriptive based on regression analysis in which the analysis of combined and integrated data has been used. The required data have been collected from Tadbirpardaz CD and Codalwebsite. Data analysis was performed using Eviews software. According to the theoretical foundations and background of the study, the study hypotheses have been formulated as follows:

Hypothesis 1: There is a significant relationship between shareholders rights and discretionary accruals.

Hypothesis 2: There is a significant relationship between shareholders rights and level of inside ownership with discretionary accruals.

The population is companies listed in Tehran Stock Exchange during the period from 2009 to 2013.In this study; sampling was done using systematic elimination method. Therefore, the selected sample consisted of all companies listed in Tehran Stock Exchange with the following conditions:

1. The name of the company is inserted in the list of companies accepted in exchange.
2. Due to the increase in comparability, their financial period is the end of 29^{th}March.
3. During the study period (2009 - 2013), the fiscal year does not change.
4. Its financial information is available.
5. It does not belong to financial companies (such as banks and financial institutions) and investment companies or financial intermediation companies.

After applying the above restrictions, the number of selected companies was 96 and totally, 480 companies were investigated.

The Study Model and Variables

In this study, the following model was used to evaluate the effect of shareholders rights and the level of insider ownership on discretionary accruals based on the model put forward by Hung *et al.*, (2013).

Model (1):

$$DAC_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 CEO_{it} + \beta_3 INST_{it} + \beta_4 BOARD_{it} + \beta_5 BIG_{it} + \beta_6 SIZE_{it} + \beta_7 OCF_{it}$$
$$+ \beta_8 LOSS_{it} + \beta_9 LEV_{it} + \varepsilon_{it}$$

Where DAC is discretionary accruals, G shareholders rights, CEO managerial ownership, INST percentage of ownership by institutional holdings, BOARD composition of the board, BIG size of auditing institution, SIZE company size, OCF operating cash, LOSS losses criteria and LEV lever. Variables of Model (1) are as follows:

A) **Dependent variable**: In this study, dependent variable is discretionary accruals (DAC).They are controllable accruals that through their application, managers can assign the future profits to the recent years hence increase benefit in recent years and thus, increase their reward. In the present study, to measure discretionary accruals, the model modified by Jones (1991) was used. In this model, discretionary accruals are equal to the difference between discretionary accruals and non-discretionary accruals calculating using the following formula:

Model (2):

$$TAC_{it} / TA_{it-1} = \beta_0 + \beta_1 (1/ TA_{it-1}) + \beta_2 (\Delta REV_{it} - \Delta AR_{it}) + \beta_3 PPE_{it} / TA_{it-1} + \varepsilon_{it}$$

Where TAC is total corporate discretionary accruals, TA total assets at the beginning of year, ΔAR difference between received accounts this year and last year, ΔREV difference between selling in this year and before year and PPE net assets of machinery and equipment

Using Common Least Squares Method, the above equation was estimated for each industry. Then, parameters of β_1, β_2, β_3 obtained from these regressions were used for estimating non-discretionary accruals as follows:

Model (3):

$$NDAC_{it} = \beta_0 + \beta_1 (1/ TA_{it-1}) + \beta_2 (\Delta REV_{it} - \Delta AR_{it}) / TA_{it-1} + \beta_3 PPE_{it} / TA_{it-1}$$

$NDAC_{it}$ is company's non-discretionary accruals and discretionary accruals (DAC) is finally calculated as follows:

Model (4):

$$DAC_{it} = TAC_{it} - NDAC_{it}$$

B) Independent variables: The independent variables in this study include the following cases:

B.1. Shareholder rights (G): The first independent variable in the study is shareholders rights which are an external mechanism of corporate governance. Since this variable contains several factors, in the present study, the multidimensional and combined criterion has been used to measure it.
Using a multidimensional and combined criterion for measuring the observance of shareholders rights has advantages such as entering a variable in the regression model instead of the individual attention to the each of components (Gompers *et al.*, 2003). To determine factors affecting shareholders rights in Iran, Safarzadeh (2013) identified 15 variables in the first phase through modeling studies conducted by Gompers *et al.*, (2003) and Bbchwk (2008). Then, through doing a questionnaire survey, he introduced the following 5 components as the final components of shareholders' rights in Iran as follows (Safarzadeh, 2013).

Table 1: Components of shareholders' rights in Iran

Component	How to measure
Concentration of ownership	The mean percentage of free float in sample companies is firstly calculated in each year. If the percentage free float of a company is higher than the mean, zero will be allocated to the company; otherwise one is allocated.
Presence of shareholder with the control right	If there is no a shareholder with control right, zero will be allocated to the company; otherwise one is allocated.
Level of holding or governance ownership	The mean percentage of governance ownership in sample companies is firstly calculated for each year. If the mentioned percentage for a company is higher than the mean, zero will be allocated to the company; otherwise one is allocated.
Transaction with the related parties	The mean of ratio of the amount of transactions between company and parties related to the amount of transactions for all sample companies in each year is firstly calculated. If the mentioned percentage for a company is higher than the mean, zero will be allocated to the company; otherwise one is allocated.
Presence of legal claims against the company	If there is a legal claims against the company in 3 years ago, zero will be allocated to the company; otherwise one is allocated.

In the present study, the shareholder rights are also assessed following the study by Safarzadeh (2013):
First, according to definitions in Table 3-1, data related to five components of shareholders rights have been collected for each company per year in the first phase.
Second, the methodology of coding and accumulation of codes have been used to operationalize shareholders rights.
Based on this methodology, zero or one are dedicated to each of 5 components and by sum of scores, the score for each company in each year has been calculated.
B.2. Level of insider ownership (CEO): The second independent variable in this study is the level of insider ownership that is the percentage of company stock held by managing Director and board members.
C) Control Variables
1- The ownership percentage of institutional shareholders (INST): is the percentage of company's share held by institutional holdings. The institutional holdings include large holdings such as banks, insurance, investment and holding companies and investment funds.
2- Composition of board (BOARD): the ratio is calculated by dividing the number of non-obliged members of board by the total number of board members.

3- Size of auditing institute (BIG): a dummy variable has zero and one value, if the auditor of institute is audited, one is considered; otherwise zero is taken.
4- Company size (SIZE): the ratio is measured based on the logarithm of company sale.
5- Operating Cash Flow (OCF): the ratio is calculated through dividing operating cash flow by total assets.
6- Loss criteria (LOSS): a dummy variable has zero and one value, if division of profits before discretionary accruals by the value of the company market is between 0 to -0.03, zero will be belonged to it; otherwise, one will be selected.
7- Lever (LEV): the ratio is calculated through dividing long-term debts by total assets.

RESULTS AND DISCUSSION

Findings

Descriptive Statistics and Correlation of Variables

To obtain more recognition on the statistical sample and studied variables, the summary of descriptive statistics to the study variables has been calculated.
The descriptive statistics include mean, median, minimum, maximum and standard deviation. Table 2 shows an overview of descriptive statistics of variables:

Table 2: The descriptive statistics of the study variables

Variables	Mean	Median	Maximum	Minimum	SD
DAC	-0.05	-0.03	0.41	-0.42	0.11
G	3.6	4	5	1	0.93
CEO	68.1	0.71	99	6	20.9
INST	50.5	0.50	99	11	0.22
BOARD	0.72	0.8	1	0.2	0.22
BIG	0.30	0	1	0	0.46
SIZE	12	12	14	10	0.76
OCF	0.12	0.09	0.57	-0.20	0.13
LOSS	0.99	1	1	0	0.11
LEV	0.11	0.06	0.68	0	0.10

The main central index is mean and according to the above table, it is determined that the mean of shareholders rights (G) is equal to 3.6, the mean insider ownership (CEO) equal to 68.1% and the mean discretionary accruals (DAC) equal to -0.05.

Table 3: Results of correlation coefficient test

	G	CEO	INST	BOARD	BIG	SIZE	OCF	LOSS	LEV
G	1	0.31	0.26	-0.01	-0.12	-0.03	0.07	0.01	-0.08
CEO	0.31	1	0.66	-0.02	-0.05	0.01	0.04	-0.08	0.03
INST	0.26	0.66	1	-0.08	-0.03	-0.01	0.05	-0.13	-0.03
BOARD	-0.01	-0.02	-0.08	1	-0.02	0.12	-0.12	-0.04	0.03
BIG	-0.12	0.05	-0.03	-0.02	1	0.36	0.07	-0.05	-0.18
SIZE	-0.03	0.01	-0.01	0.12	0.36	1	0.18	0.07	-0.07
OCF	0.07	0.04	0.05	-0.12	0.07	0.18	1	0.06	-0.03
LOSS	0.01	-0.08	-0.13	-0.04	-0.05	0.07	0.06	1	-0.01
LEV	-0.08	0.03	-0.03	0.03	-0.18	-0.07	-0.03	-0.01	1

In a regression model, if the correlation among independent variables is high, it may lead to the distortion of results. The high correlation means strong correlation that is more than 0.50. As it can be seen in Correlation Table 4.4, there is a high correlation between independent variable of the level of insider ownership (CEO) and the control variable of ownership percentage of institutional shareholders (INST). So, the control variable of institutional shareholders is eliminated from the study model.

Test of Panel or Pool Data

To test data, we should first recognize panel or pool data. In so doing, F Limer test is used. If its significance level is less than 0.05, our data is panel; otherwise, it is pool. As it can be observed in the Figure, in all assumptions, significance level is less than 0.05 and data are panel.

Table 4: Results of test of panel or pool data

Assumptions	Statistics	Possibility	Test result
Hypothesis 1	3.749	0.0000	Panel
Hypothesis 2	3.734	0.0000	Panel

Fixed and Random Effects of Data (Hausman Test)

After identifying the type of data, their fixed and random effects should be determined. In so doing, Hausman test is used. In this test, if the significance level is less than 0.05, then the effects are fixed; otherwise, the effects are random. As it can be seen, in all hypotheses, the level of significance is less than 0.05 and effects are fixed.

Table 5: Results of test of fixed and random effects

Assumptions	Statistics	Possibility	Test result
Hypothesis 1	50.0	0.0000	Fixed effects
Hypothesis 2	49.8	0.0000	Fixed effects

Test of the Research Hypotheses

Hypothesis 1: there is a significant relationship between shareholder rights and discretionary accruals.
The above hypothesis can be stated as follows:
H_0: There is no significant relationship between shareholder rights and discretionary accruals.
H_1: There is a significant relationship between shareholder rights and discretionary accruals.

Table 6: Results of the test of significance for regression model in the first hypothesis

$$DAC_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 BOARD_{it} + \beta_3 BIG_{it} + \beta_4 SIZE_{it}$$
$$+ \beta_5 OCF_{it} + \beta_8 LOSS_{it} + \beta_9 LEV_{it} + \varepsilon_{it}$$

Variables	Coefficients of model	t-statistic	Significance (prob)
Fixed value of model (β0)	-0.198	-1.003	0.3176
shareholders rights (G)	-0.022	-2.556	0.0117
composition of the board (BOARD)	-0.018	-0.042	0.6749
size of auditing institution (BIG)	0.080	2.870	0.0048
company size (SIZE)	o.032	2.020	0.0453
operating cash flow (OCF)	-1.032	-16.899	0.0000
losses criteria (LOSS)	-0.036	-0.718	0.4736
Lever (LEV)	-0.049	-0.713	0.4768
Determination coefficient	0.7889	Significance of model	0.00000
Modified determination coefficient	0.7237	Durbin-Watson	2.111
f- statistics	12.102	Number of observations	480

To investigate the establishment of hypothesis of no autocorrelation in results from the regression equation, Durbin-Watson test was used. The value of Durbin-Watson estimated in the image was equal to 2.111 and this value suggests that there is no first type autocorrelation among residuals. To determine the significance of the whole model, F-statistic was used. According to the possibility of F-statistics calculated in the image (significance of model 0.0000) and error level of 0.05, hypothesis H_0 cannot be accepted that is the model was significant and at least one of coefficients of the regression model is apposite to zero. The amount of modified determine coefficient in estimated results of regression model in hypothesis 1 is equivalent to 0.7237 which indicates that about 72% of the behavior of dependent variable are explained by independent and control variables which in turn indicates a high correlation of independent variables with dependent and control variables.

The results of the model show that there is a significant relationship between independent variables and of shareholders rights and dependent variable of discretionary accruals. Given the coefficient obtained for the independent variable (-0.022), it can be concluded that there is a negative relationship between dependent and independent variables. In other words, there is a negative relationship between shareholders rights and discretionary accruals and by increasing shareholders rights, the amount of discretionary accruals are reduced. No significant relationship was observed between control variables of auditing institute size, company size and operating cash flow and dependent variable of discretionary accruals. Given the coefficient obtained for the control variables, it is determined that there is a direct relationship between variables of auditing institute size and company size with dependent variable while there is a negative relationship between operating cash flow and dependent variable.

Hypothesis 2: there is a significant relationship between shareholder rights and level of insider ownership with discretionary accruals. The above hypothesis can be stated as follows:

H_0: There is no significant relationship between shareholder rights and insider ownership.

H_1: There is a significant relationship between shareholder rights and insider ownership with discretionary accruals.

Table 7: Results of the test of significance for regression model in the second hypothesis

$$DAC_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 CEO_{it} + \beta_3 BOARD_{it} + \beta_4 BIG_{it} + \beta_5 SIZE_{it}$$
$$+ \beta_6 OCF_{it} + \beta_7 LOSS_{it} + \beta_8 LEV_{it} + \varepsilon_{it}$$

Variables	**Coefficients of model**	**t-statistic**	**Significance (prob)**
Fixed value of model (β0)	-0.159	-0.766	0.4449
shareholders rights (G)	-0.021	-2.503	0.0135
Level of insider ownership (CEO)	-0.001	-0.611	0.5423
composition of the board (BOARD)	0.024	-0.528	0.5985
size of auditing institution (BIG)	0.080	2.870	0.0047
company size (SIZE)	0.031	1.957	0.0524
operating cash flow (OCF)	-1.032	-16.861	0.0000
losses criteria (LOSS)	-0.038	-0.760	0.4485
Lever (LEV)	-0.052	-0.755	0.4514
Determination coefficient	0.7894	Significance of model	0.0000
Modified determination coefficient	0.7224	Durbin-Watson	2.111
f- statistic	11.774	Number of observations	480

The results of the model indicate that there is a significant relationship between independent variable of shareholders rights and dependent variable of discretionary accruals, while there is no significant

Research Article

relationship between independent variable of level of insider ownership and dependent variable. Therefore, hypotheses H_0isgenerally accepted, while hypothesis H_1 is rejected. In other words, there is no significant relationship between level of insider ownership and discretionary accruals.

Conclusion and Suggestions

Conclusion

The present study examined the effect of shareholders rights and insider ownership on the earnings management of companies listed in Tehran stock exchange. Results of the study indicated that the first hypothesis of the study is accepted and it is concluded that there is a significant relationship between shareholders rights and discretionary accruals. Given that the independent variable coefficient is negative, it can be concluded that the direction of the relationship is negative and according to the amount of adjusted coefficient of determination, the intensity of the impact of in the dependent and control variables on the dependent variable is specified about 72%.The results are consistent with the study by Huang *et al.,* (2013). In their study, they concluded that by increasing shareholder rights, the level of discretionary accruals is decreased and there is a negative relationship between shareholder rights and discretionary accruals which is consistent with findings of the present study. The second hypothesis of the study was made up of two independent variables, shareholder rights and insider ownership which according to the done tests, none of them are confirmed and it can be concluded that there is no significant relationship between the level of insider ownership and discretionary accruals, and thus, the second hypothesis is not confirmed. The results of the hypothesis are not consistent with those obtained from the study by Huang *et al.,* (2013). In their study, they concluded that increasing the level of insider ownership has a significant relationship with discretionary accruals. In his study, Safarzadeh (2013) examined individual indexes of shareholder rights using measures of the quality of earnings. When he tested the level of insider ownership using the quality of discretionary accruals, no significant result was observed which in this respect; it is similar to the present study. Results of the study are consistent with the study conducted by Hassasyeganeh *et al.,* (2014). In their study, they showed that among from indicators of corporate governance, only the ownership amount of institutional holdings and ownership concentration have a significant and inverse relationship with discretionary accruals and other indicators of corporate governance have no relationship with discretionary accruals and are associated with the present study in this terms.

Suggestions for Future Studies

1. In the present study, to measure the discretionary accruals, the model modified by Jones (1999) has been used. it is suggested that another study be conducted in which other models of earnings management be used to measure discretionary accruals
2. Researchers are suggested to examine the relationship between shareholders rights and other financial factors including the amount of fraud and life cycle in future studies.
3. Researchers are recommended to analyze the effect of factors such as privatization and the initial offering of share in exchange on the shareholders' rights in future studies.

Limitations of the Study

1. One of the major limitations of this study is the different reports of companies listed in Tehran Stock Exchange in cases such as identifying the status of the board members on those charged or not charged. In many cases, the board remuneration is unknown in the financial statements and the researcher inevitably refers to the explanatory notes in which in some cases, the remuneration of the board and the right presented in meetings have been jointly stated and not separated.
2. The financial statements of some companies selected as a statistical sample is not in Codal website and external auditor report and statutory auditor also do not exist for a number of companies.

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