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Research Article

INVESTIGATING THE RELATIONSHIP BETWEEN BOARD REMUNERATION AND EARNING MANAGEMENT OF ACCEPTED COMPANIES IN TEHRAN STOCK EXCHANGE

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ABSTRACT
The multiplicity of owners and stockholders of joint stock companies, in modern expanded companies, have complicated the direct supervision on the company work via stockholders. This characteristic of corporation (separation of ownership and management) has caused the possibility of exclusive access ability to one section of information and the accessibility to production and transmission of information like financial information, too. on the other hand, characteristic of accrual accounting due to the existence of accrual (difference between cash basis income and accrual basis income) and incentives such as bonus incentive, income smoothing, desert of regulation, make this possible and stimulate the managers to manipulate the information in the direction of their benefits and against to the other group benefits or in other words, apply the income management. The purpose of the present research is the consideration of the relationship between the board executive compensation and earning management in the accepted companies in the Tehran stock exchange (TSE) during the years of 2002 to 2007. At this research, for computing the discretionary accruals and nondiscretionary accruals proportions the Kothari model (2005) is applied. In order to consider the relationship between board executive compensation and earning management, 368 companies selected as sample. The multiple variable regression models are used for the analysis of the data and for testing the meaningfulness of hypothesis, the t-test is used. The results of this research demonstrate that there is a positive and meaningful relation between the total accrual and bonus executive. Also there is not meaning relation between discretionary accruals and bonus executive.

Keywords: *Executive compensation, Total Accrual, Discretionary accrual, Nondiscretionary accruals, Earning management, Income smoothing*

INTRODUCTION
Beginning in the nineteenth century and the industrial revolution, formed corporations, the implication was that the separation of ownership from management. Owners and investors to encourage management to improve performance was part of their salary as a bonus, often a percentage of revenue. As a result, managers in order to receive higher compensation and benefits, in terms of net profit, optimally combined factors of production and manpower, and they manage the company activities better. After a while, the managers found that the use of accrual accounting and various methods accepted accounting principles and free choice, they can benefit from different years, they moved and manipulated in such a way that they reach the desired level to get rewards, Investor without being aware of its little bag. But it can an increasing wealth managers, is associated with a decrease in the wealth of other groups, including stockholders. This means the possibility of non-alignment, or in other words, is a conflict of interest between the manager and the group. Such a course of action by the directors, the cause, raising a grand theory, called the theory of the dealers (Jensen and Mackling 1976). According to this theory, management is trying to maximize their own interests do not necessarily coincide with the maximum value of the target company And managers seek to be part of the wealth groups within the organization, to

communicate to his side. (namazi 2004). It is likely that managers, in order to get the bonuses, use the procedures increase or decrease in income. In other words, the difference between cash dividends and interest accrual is due to accruals. Therefore, in this study has been studied the relationship between board remuneration and earnings management (income smoothing). Considering the importance Identify factors affecting of the earnings management (including executive compensation) in assessments of investors, the task of stewardship and management decisions, this study could be used as a reference in the literature, it richer, and helps to identify affect earnings management. This paper examines the relationship between board remuneration and earnings management of accepted companies in Tehran Stock Exchange for the period 2002_2010. Background checks conducted research in this area shows that this study is the first comprehensive study that deal with this issue in the capital market, Tehran Iran.

RESEARCH LITERATURE AND COMPILATION HYPOTHESES

Many studies so far have focused on the relationship between board remuneration and earnings management. Most of these studies are evidence of a positive relationship between board remuneration and earnings management. Hagerman research and Zemijoski (1979), in relation to variables related to political costs, compensation and debt contracts, showed that company managers, who are paid bonuses based on profit, profit-enhancing procedures apply. Research Dali Wall et al (1982), in relation to the use of different methods of calculating depreciation on owner-controlled firms, and firms with controlling manager, Revealed that managers firms with bonus plans based on earnings, choose accounting procedures that carry their reported earnings from future periods to the current period. Bugs upon the research was that, firstly,managers in practice, usually dealing with more than one standard set of standards. Secondly, managers compensation plans in detail, it is not intended as such, the lower limit and upper limit. Therefore, researchers in further research, were considered in the choice of a standard, a set of standards. Zmijoski research and Hagerman (1981), in conjunction with a maximum bonus of managers, contract debts and political cost, which is considered, where the four standard is the most prominent research in this field. This study confirmed the previous results. However, managers are able to choose from the entire set of possible standards. This led to the emergence of different categories of research, hypothesis testing, maximize the rewards managers. The most important research in this area is to investigate Haley (1985), based on which that managers, deferred this year, they are on their freedom to choose a way that will increase the reward for the current period and the expected value reward them for future periods. Including weaknesses in research methodology Haley is the use of aggregate deferred as deferred representative, the freedom, the manager on them. (Jones 1991). To eliminate these shortcomings, tried to Jones (1991) in their study, the calculation of deferred without freedom to act on their head, and deduct it from accumulated deferred, will be deferred to the discretion of the manager on them. Then, Cools and colleagues (2001) examined the relationship such as directors' fees, board composition, leadership structure of the company and its ownership structure, market performance and accounting performance adjusted due to the risks, and the impact of factors such as size company and industry performance also checked. They found that the industry is a strong factor in influencing firm performance.

Inter and Pizini (2003) showed that the sensitivity of pay managers than performance proportional increase in the variety of tasks, size and level of professional expertise (which are all closely monitoring the decrease) increase in important amounts. In addition, the company is larger, the greater the likelihood that differences in managers fees with other companies.

Chateau (2007), to examine the relationship between executive pay and earnings management in Japanese companies. He showed that with increase discretionary accruals increases reward for managers. Moreover, Chateau concluded, managers who do not receive bonuses, use of accruals reduce revenue.

Scott and colleagues (2008) have concluded, by examining the relationship between accounting principles and reward managers who reward executives are more dependent on company performance. They reject the hypothesis that managers are not penalized for poor performance.

Given the mixed results, in conjunction with the review of the relationship between board remuneration and earnings management, and also to note that research has pointed out, is more relevant to Western capital markets, and so far in this respect, do not It is in Iran's capital market, the subject of this study was to investigate the relationship between the board and management bonuses, profit of the firms listed in Tehran Stock Exchange. Accordingly, the following hypotheses were tested.

First hypothesis: There is a significant relationship between accounting practices increase (decrease) income by managers (accruals) and the bonus board.

Accruals separable, have discretionary and non-discretionary accruals. However, the question is, the amount of remuneration of the Board, is associated with each of these items. Since discretionary accruals, comprises the control operations managers, therefore, able administrators, these items can organize in order to receive the bonus. For this reason, it has been stated, the second hypothesis of this study is as follows:

Second hypothesis: There is a significant relationship between the level of board compensation and discretionary accruals.

RESEARCH METHODS

In the present study, because of the relationship hypotheses, and data scale, it is relative, and set other parameters, there are 2 or more than 2, and the number of participants, it could be any of a number, the best way to test is to multivariate regression (Tahoor 2007). Accordingly, to test hypotheses (regression models), we first calculated accruals. Coming from accruals, the difference between profit and cash flow, results of operations, as a result, with the assumption that there is no manipulation of cash flow the only way to manipulate the remaining profit is increasing or decreasing accruals. But the question is: " What level of increase or decrease ?, What is the normal level of accruals ? "

Previous studies focused on specific accruals that were the most at risk for earnings management (Healy 1985, Kaplan 1985, De Angelo, 1986). But, Jones introduced (1991), a regression to control non-discretionary factors affecting the accruals, which, it was estimated that a linear relationship between total accruals and changes in selling a property, machinery and equipment. This model was later modified by Decho and colleagues (1995) was based on many decades of research, 90 (Gower, Gower and Austin 1995, Kaznik 1999). Kothari and others (2005), by entering the criticism that model, Jones does not consider, poor performance or good companies, with varying impact on asset returns (ROA) were adjusted for this model.

In this study, to determine the discretionary accruals, using the modified Jones model, by Kothari (2005). For this purpose, first, of the estimated coefficients from the following model:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = \alpha + \alpha_1\left(\frac{1}{TA_{i,t-1}}\right) + \alpha_2\left(\frac{\Delta REV_{i,t}}{TA_{i,t-1}}\right) + \alpha_3\left(\frac{PPE_{i,t}}{TA_{i,t-1}}\right) + \alpha_4\left(ROA_{i,t}\right) + \varepsilon_{i,t}$$

That is where:

$TAC_{i,t}$: Total accruals in year t, for firm i,

$\Delta REV_{i,t}$: Revenues in year t, minus the revenues from year t-1, for firm i,

$PPE_{i,t}$: Net fixed assets in year t for firm i,

$ROA_{i,t}$: Net income divided by average assets in period t for firm i,

$TA_{i,t-1}$: Total assets at the end of the fiscal period t-1 for firm i,

$\varepsilon_{i,t}$: Error in the course of the yeart, for firm i,

$\alpha_1, \alpha_2, \alpha_3, \alpha_4$: The parameter estimates for firm i,

For the calculation $\alpha_1, \alpha_2, \alpha_3, \alpha_4$ is used, soft ware SPSS and STATA.
In order to validate the research, is calculated by the model, as well as annual (2002-2007) and also separately for each industry. It should be noted that Kothari, as Jones (1990), the difference between profit and cash flow from operations, is recognized as accruals, in other words, total accruals, is calculated by the following equation:

$$TAC_{i,t} = NI_{i,t} - CFO_{i,t}$$

That is where:

$TAC_{i,t}$: Total accruals of firm i in year t,

$NI_{i,t}$: Net profit of company i in year t,

$CFO_{i,t}$: Of cash from operating activities of firm i in year t.

With the regression parameters, accruals, involuntary, are determined through regression. Then, through the following equation, discretionary accruals for each firm is calculated for year t:

$$DAC_{i,t} = \frac{TAC_{I,T}}{TA_{i,t-1}} - NDAC_{i,t}$$

Where indicated, DAC discretionary accruals and non-discretionary accruals NDAC.
Population and sample Research: The population of this research includes all accepted companies in Tehran Stock Exchange, which from 2002 until 2007, have been active in the stock, in this study, the first investment firms, banks and holding companies (parent companies), because those companies, their performance depends on the activity of other firms, and the nature of the information contained in the financial statements are included as special and different from other companies were excluded from the realm of research, The samples were selected from among the remaining firms, which is possible, access to information needed for the study variables, including the remuneration of the Board, items, financial statements and notes to the financial statements in the period 2002-2007. As a result, the above conditions were met, 109 companies from sixteen different industries. Since the beginning of the spreadsheet, the data model, Kothari (2005), The Firm (623 companies), in order to separate discretionary accruals and non-discretionary, then, in order to test the hypotheses were collected, and other information (bonus) The Company, in the end, 368 companies were selected as examples. selected sample, approximately, is scattered among various industries. comprise cement and gypsum with 56 cases, 22/15 percent the entire sample, and metal products and electrical appliances industries, with 6 cases, only 63/1% of the total sample. Also, the selected sample, is distributed uniformly among the different years of the study period. 2004, with 78 cases, comprising 19/21% of the total sample, and in 2006, with 45 cases, included only 23/12% of the total sample.

RESEARCH FINDING

The correlation matrix: Correlation matrix between the variables used in this study are presented in Table 1. Part (A), shows the correlation coefficients between the variables used to test hypotheses, and section (B), shows the correlation coefficients between the variables used in the model, Kothari (2005).

Table 1: Pearson correlation coefficients between the variables

DAC	NDAC	TAC	CFO	BONOUS	(n=368)	(A) PART
				1		BONOUS
			1	0/271 * (0/000)		CFO
		1	-0/219 * (0/000)	0/111 ** (0/017)		TAC
	1	0/198 * (0/000)	-0/078 (0/068)	0/020 (0/355)		NDAC
1	0/068 (0/097)	0/181 * (0/000)	-0/114 ** (0/015)	-0/017 (0/370)		DAC

	ROA	PPE	ΔREV	TAC	(n=623)	(B) PART
				1		TAC
			1	0/210 * (0/000)		ΔREV
		1	0/331 * (0/000)	0/173 * (0/000)		PPE
	1	0/030 (0/226)	0/092 ** (0/011)	0/112 * (0/003)		ROA

The numbers are in parentheses indicate P-VALUE.
** Correlation is significant at the level of 0/01.*
*** Correlation is significant at the level of 0/05.*

BOUNS : It is the statement of the amount paid as remuneration to the board.

CFO : It is the statement of, cash flow from operating activities.

TAC : It is the statement of total accruals, which is obtained from the difference between net income and operating cash.

NDAC : It is the statement, the non discretionary accruals, which It is calculated according to the model of Kothari (2005).

DAC : It Is the statement of, discretionary accruals, which is calculated according to the model of Kothari (2005).

PPE : It Is the statement of net fixed assets. ΔREV : it Is the statement of changes in income compared to the previous year. ROA : It is the statement as net profit divided by average assets, beginning and end of the period.

As shown is in part (A), coefficient of correlation between the amount of remuneration of the Board (BOUNS), and cash from operations (CFO), is equal to 0.271, which is statistically significant in the1 %, and the correlation is positive.In other words, the greater increase in operating cash flow increased rate of remuneration for the Board of Directors.

The correlation coefficient between the remuneration of the Board (BOUNS), and total accruals (TAC), is equal to 0.111 (significant at the 5% level). This correlation indicates that as the increased level of accruals, the company's board of directors increased the reward amount.

The correlation coefficient between board remuneration and non-discretionary accruals (NDAC) is equal to 0.020, which is not significant statistically. However, the ratio between board remuneration and discretionary accruals (DAC) is equal to -0.17 but this correlation was not significant statistically.

cash flow Operating (CFO), has a negative relationship with total accruals (TAC), (correlation coefficient 0.219), and these results are consistent with previous research, such DychO (1994), DychO and colleagues (1995), Subramaniam (1996), Howe and colleagues (2001), and Haji Ibrahim (2008), and a negative relationship may indicate the presence of earnings management. this is the logic of this argument, which manages the decrease in operating cash flow in order to compensate for this, action is to increase profits by increasing accruals.

Part (B), shows the correlation coefficients between the variables used to calculate the optional items, the model Kothari (2005). As shown is section (B), Table 4, the correlation coefficient between the level of accruals, and income changes is equal to 0.210. (Statistically significant at the 1% level), has meant that increasing income changes will also increase accruals.

The correlation coefficient between accruals, and net fixed assets, is equal to 0.173 (statistically significant at the 1% level), ie, the greater the increase in net fixed assets, accruals increase as well. The correlation coefficient between the returns on assets, accruals, is equal to 0.112 (statistically significant at the 1% level), this means that assets with higher yields, increase accruals company.

Investigating the correlation shows between the independent variables, except for the correlation between variables, accruals, and operating cash flow, among other variables used in the research model, does not exist a high correlation. This is an indication that the autocorrelation between variables, the results of the relationships between variables in this study, the main problem is not to follow the basic problem. Nevertheless, in relevant part, multivariate analysis, other statistical techniques available will be used to check for correlations between the independent variables (such as VIF).

The results of the first hypothesis:

First hypothesis: suggests that there is a significant relationship between accounting practices, increase (decrease) income by managers (accruals), and the bonus board. According to Table 2, differential accruals, and operating cash flow, positive models, and is significant at 5% error. This result means that firms, which are more of a bonus board, with operating cash flow and accruals, higher as well. So the premise is accepted H1, and IS rejected by H0. Namely, there is a positive relation between accounting practices increase (decrease) income, bonuses and board. These results are consistent with results from previous research, such as Moore (1973), Hagerman and Zemijoski (1979), Haley (1985), Watts and Zimerman (1986), Gower and colleagues (1995), Larker and colleagues (1995), Balsam (1998), Atomasa (2000), gene (2004), Digan (2004), Saito (2007) and Scott et al (2008).

Of what that will lead to differences in real income (cash), and net profit was reported to be accruals. Haley (1985) showed that if the reward schemes, so that, after a certain level of profit accrues to the director compensation, management, data using accrual accounting, and management through accruals, such as identifying or delaying the sale, changes in estimates, such as shelf life, the possibility of seeking recovery from debtors, accruals and other year-end profit bonus to receive, manipulate, and even move from a period to another period.

Table 2: The results of the regression analysis

$$BOUNS_{i,t} = \alpha + \beta_1 CFO_{i,t} + \beta_2 TAC_{i,t} + Industry_{i,t} + year_i + \varepsilon_{i,t}$$

Independent variable	B	t	P_Value
Constant	187/3548	*3/92	0/000
CFO	0/0003738	*2/25	0/025
TAC	0/0003492	*2/05	0/041
IND_2	186/9207	*2/70	0/007
IND_3	103/878	0/87	0/385
IND_4	214/3006	*2/52	0/012
IND_5	930/2715	*4/67	0/000
IND_6	475/9667	*3/32	0/001
IND_7	-51/22658	-0/94	0/350
IND_8	293/0335	*2/55	0/011
IND_9	35/58691	0/59	0/553
IND_{10}	88/597	1/37	0/173
IND_{11}	4/167824	0/04	0/968
IND_{12}	91/48746	0/97	0/331
IND_{13}	746/4848	*5/62	0/000
IND_{14}	641/1007	*5/06	0/000
IND_{15}	92/7666	*2/24	0/026
IND_{16}	-13/58234	-0/21	0/837
$year_{82}$	27/60364	0/44	0/662
$year_{83}$	160/1142	*-2/24	0/026
$year_{84}$	255/3837	*2/87	0/004
$year_{85}$	201/9548	*2/56	0/011
$year_{86}$	169/0061	*2/35	0/020
$Adj.R^2 = 0/3513$	$F\_test = 7/23$	$n=368$	

**Is significant at the 5% level.*

$BOUNS$: Following is the bonus board. CFO: Following, operating cash. TAC: It is the statement of total accruals, which is obtained from the difference between net income and operating cash. IND: Artificial variables are zero and one, the type of industry. $Year$: Artificial variables are zero and one, for the fiscal year.

The first hypothesis is shown that the (TAC), and compensation, there is a positive relationship. Accruals, are classified into two categories: discretionary accruals and non-discretionary. Therefore, in order to explain that, Which types of accruals, rewarding relationships with the board, the second hypothesis is stated as follows:

Second hypothesis: states, between board remuneration and discretionary accruals have a meaningful relationship. Test results, this hypothesis is given in Table 3. According to this table, whereas 6.781, compared with 5% error is to indicate, significant regression model. Also illustrated is the adjusted coefficient of determination, the independent variables, about 32.16 %, explain the change in board remuneration. Coefficient of discretionary accruals variable, the regression equation was not significant, (078% = P-VALUE). Coefficient of the variable is zero, and its related hypothesis is rejected. This means that between discretionary accruals and board remuneration, despite significant Ndardrabth. Also, Table 7 shows that there is a positive relationship between operating cash, and bonus board. This means that the increase in operating cash flow, increase the remuneration of the Board.

Table 3: The results of the regression analysis

$$BOUNS_{i,t} = \alpha + \beta_1 CFO_{i,t} + \beta_2 NDA_{i,t} + \beta_3 DA_{i,t} + Industry_{i,t} + year_i + \varepsilon_{i,t}$$

Independent variable	B	t	P_ Value
Constant	179/776	1/856	0/064
CFO	0/000330	*5/178	0/000
DAC	125/586	1/766	0/078
$NDAC$	134/970	*2/010	0/045
IND_2	185/086	1/680	0/094
IND_3	113/313	0/538	0/591
IND_4	233/911	*1/965	0/050
IND_5	817/537	*4/121	0/000
IND_6	486/186	*3/844	0/000
IND_7	-45/125	-0/276	0/783
IND_8	342/245	1/907	0/057
IND_9	43/830	0/295	0/768
IND_{10}	104/148	0/890	0/374
IND_{11}	-3/667	-0/017	0/986
IND_{12}	80/739	0/410	0/682
IND_{13}	754/583	*4/930	0/000
IND_{14}	652/582	*6/552	0/000
IND_{15}	95/616	0/952	0/342
IND_{16}	-25/849	-0/172	0/864
$year_{82}$	24/700	0/274	0/784
$year_{83}$	169/005	1/910	0/057
$year_{84}$	257/397	*2/760	0/006
$year_{85}$	221/364	*2/159	0/032
$year_{86}$	159/658	1/654	0/099

$Adj.R^2 = 0/3216$

$F\_test = 6/781$

$n = 368$

Is significant at the 5% level

According to Table 3, the coefficient of non-discretionary accruals variable, is significant in the regression equation, (0.045). This means that the non-discretionary accruals, and remuneration of the Board, there was a significant relationship. That is, the increase in non-discretionary accruals, increases the bonus board.

The results of this study are consistent with research Hemmati (2004), the Tehran Stock Exchange. Hemmati (2004), examining factors on earnings management in firms listed in Tehran Stock Exchange showed that managers, due to faulty reward system in Iran have no incentive to manipulate earnings.

Also, the survey results, in conjunction with the hypothesis that reward managers are contrary to the findings of Western scholars (White (1970), Sobramanyam (1996), Balsam (1998) Atomasa (2000) and Saito (2007)). This discrepancy may be due to the cultural, social, economic, ruling Iran, and also in how the bonus board is different, compared to other countries.

Commercial Law in Iran, only 5% of annual profits, as the maximum bonus payment is permitted for Board (Hemmati 2004). Mentioned law, is not subject to, the amount of the compensation board, the change in net profit, compared with previous years, or an increase in net profit, compared to a specified level. This means that in Iran, based on the procedures and practices, managers, however, will receive a reward. For that reason, managers have incentives to manage earnings (profit), or manipulate it. In this study, the average compensation board has 613.74 million rials, compared with an average net profit (139,025 million USD), it can be said that each year, about 1 % of the net profit, as a bonus, to be paid to the Board of Directors, and even, in some companies, for example, despite the losses resulting from the poor performance of the company, the board of the company has been paying bonuses. Average remuneration of the board, the company is equal to, 558.50 million rials, therefore, this is the proof that Iran is based on performance, the managers do not pay rewards, but also, on a routine basis and norm, managers, however, they receive a reward.

CONCLUSION

The results of this study is to suggest, a significant positive correlation between accruals and board remuneration in listed companies in Tehran Stock Exchange. This means that whatever accruals further increases the bonus board. Accordingly, managers of the sample firms, try using accruals, to distinguish between actual earnings and reported earnings. The results obtained are indicative of a lack of communication between management compensation and discretionary accruals.this means is that managers of sample firms, have no incentive to manipulate earnings through discretionary accruals, in order to receive a reward.

SUGGESTIONS FOR FUTURE STUDIES

1 - It is recommended that research be conducted separately in different industries.

2 - It is suggested, should be considered, managing director of compensation and the right reward equation (CEO), with other operational variables, such as, (EVA), and market value (MVA), in subsequent studies.

3 - It is proposed, according to which, in the present study, the amount of property managers as a factor, not in terms of the level of earnings management, therefore, can it be the basis for future research.

4 - It is recommended that, according to the theoretical development, other incentives, such as incentives, property, taxes, debt, firm size, political risks, etc., are considered in relation to earnings management.

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