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Research Article

INVESTIGATING THE EFFECT OF CORPORATE GOVERNANCE ON PROFIT MANAGEMENT IN FAMILY CORPORATIONS OF ACCEPTED IN TEHRAN STOCK EXCHANGE

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ABSTRACT
This research has done to investigate the effect of the corporate governance of family corporates on profit management. For evaluating of corporation governance components of institutional investors, independence of the board of directors in family corporates using systematic removal during 32 family corporates has used. According to this subject, the research population consisted of the companies of accepted in Tehran stock exchange between years of 2007-2013. In current research, to identifying the reliability of research variables the Levin, Lin & Chu test was used. Independent, dependent and control variables of this research all are reliable and these variables were analyzable. By using the components of Limer F test and the Hasman test and multiple regressions has done to analyze of hypotheses. The results of analyzing the hypotheses showed that there is significant relationship between variables of institutional investors and independence of the board of directors on profit management.

Keywords: *Corporate Governance, Family Corporations, Profit Management, Tehran Stock Exchange*

INTRODUCTION
Family firms defined as one of the structures of ownership that its management and control is done by a family member (Chen *et al.,* 2014). In the family companies generally large part of the shares held by one or more major true shareholder of family members and family members are employed in managerial positions and operations. According to studies, the share of managers to be much more than extent can create the incentives to provide more favorable financial situation and performance, as well as major shareholders can also control the behavior of managers and influence on decisions and activities (Mohammadi, 2009).
Corporate governance above all aimed to long-term business survival and seeks to protect the interests of shareholders against the directors companies. In the definition of corporate governance can be said that the process of monitoring and control to ensure the performance of the CEO in accordance with the interests of shareholders (Najjar and Taylor, 2008), board position as a leading institution in which the care and control of the executive directors is responsible to protect the interests of investors, has special significance (Mashayekh and Ismaili, 2006).
The corporate governance system in a country with a number of internal factors such as ownership structure of companies, economic status, legal system, government policies and culture specified. Ownership structure and legal framework are the main and most decisive factors of corporate governance system. Several methods for the measurement and evaluation of management decisions included the interest management and treatment with the accrual and manager is responsible for the management of net income reported in accordance with accounting standards has wide freedom of action. Also, for many of accruals, profit management practices uncovered by the auditor of company or the auditors realize the difficulty, sometimes cannot resist because many of the management techniques of accounting standards are profit. However, identification of mechanisms that can be effective in the management of accruals is very important. Accordingly, this research has discussed to investigate this subject that how a corporate governance can effect in family corporations on profit management
Research Problem
According to accounting theory (Hendrickson, 1993) the main goal of reporting profit, is providing useful information for people who have the greatest interest into financial reports. Assuming that management

thinks its own interests, directors may be manipulated accounting profits, or other language manages profits to achieve their interests. Ownership structure can be very diverse and wide range of real and legal stakeholders can act on this structure. The real stakeholders of a family or a family with having a high percentage of stock or family depends on somehow their presence in the board of directors of an enterprise (Anderson, 2003). In family firms due to major real shareholder or family members in the board of directors, you may have thought that the interests of other shareholders of the family, as one of the main elements of decisions for the company, the interests of other shareholders placed a priority.

In Iran, unlike experts companies in the field of accounting and financial studies has an appropriate index, according to the country's capital market conditions for definition of family firms despite of this company is not presented. The existence of such companies is not presented and further study has been focused on institutional ownership, so we set out to examine the issue of corporate governance in this firms. Family firms are mostly young firms usually by small groups of family or friends have been formed. Corporate governance in these companies has grown over time and attracts more members. Thus creating a clear governance structure and governance that creates discipline among the members of the company and ensure business continuity is essential. According to these discussions, in opinion of this researcher, this question expressed that mechanism of corporation governance has impact on profit management in family corporations accepted in Tehran stock exchange.

Research Objectives

Main Objective

Identifying the relationship between the corporation governance in family corporations and profit management

Research Minor Objectives

1- Investigating the relationship between the independence of the board of directors in family corporations and profit management

2- Identifying the relationship between the institutional investors in family corporations and profit management

Research Hypotheses

Main Hypothesis

There is significant relationship between the corporation governance in family corporations and profit management.

Research Minor Hypotheses

1-There is significant relationship between the board of directors' independence of family corporations and profit management

2-There is significant relationship between the institutional investors of family corporations and profit management

Review of Literature

Namazi (2013) some family firms are not in control of family members and only family-owned companies above fifty percent are controlled by family members.

Mashayekh and Ismaili (2006), concluded ownership percent of ownership of this board plays an important role in promoting interest quality.

Gerd *et al.*, (2012), in a study examine the relationship between corporate governance mechanisms and the quality of earnings. The results shown the relationship between earnings quality and the proportion of institutional investors and non-executive directors (corporate governance) does not exist. The results shown there is a weak negative relationship between earnings quality and the separation factor of Chairman and CEO (Corporate Governance).

Mashayekhi (2011) in a study investigates the relationship between corporate governance mechanisms and quality of earnings. The results showed by increasing the number of board meetings and the increasing presence of non-executive directors at the quality (consistency and predictability) earnings increased. There is no relationship between the separation of responsibilities of the CEO and chairman from each other and profit quality (consistency and predictability).The results showed there is no significant relationship between the quality of accruals, as one of the measures of earnings quality, the mechanism of corporate governance. Mashayekhi and Jalali (2012) in their study examine the cultural values and corporate governance. The results indicate there is a significant negative correlation between the index of individualism in the organization and the proportion of non-board. Also, there is a direct relationship between individualism index of ownership in the organization and institutional investor's and there is a significant inverse relationship between the uncertainty avoidance index of ownership in the organization and institutional investors.

Ghaemi and Shahriyari (2009), in a research discussed about investigating the corporation governance and financial performance of corporates. The findings of this research show, there is significant relationship between information disclosure and financial performance of corporates.

Jalili and Hemati (2011), in a study evaluate the corporate governance and performance of intellectual capital in firms listed in the Tehran stock exchange. The research evidence suggests that a significant relationship between non-executive directors on the board and capital structure was observed. The relationship between the absence of the chairman or vice-chairman and managing director of human capital and the relationship between internal audit and human capital and structural capital in the company of intellectual capital was observed. Setayesh *et al.,* (2010), in a study evaluate the effect of corporate governance of listed companies in Tehran stock exchange. The results show that the quality of audits on smoothing profit is effective in all three levels. In addition the percentage of board of directors in smoothing gross profit and operating income and net income smoothing institutional ownership and management are important factors. The results showed that the independence of the board of directors has no effect on smoothing income.

Ahmad *et al.,* (2010) in a study evaluate the effect of corporate governance and audit quality on the cost of financing (borrowing) through debt. The results shown major institutional investors have significant impact on shareholders and efficient monitoring in the reduction of the debt cost of firms are members, while the quality of the audit has not such effects. Mehrani *et al.,* (2011) in a study evaluate the effect of corporate governance tools in reducing profit management. The results showed that the independent variables can restrict the behavior of aggressive profit management. Only when the benefit is not managed, it is lower than the previous year's earnings, non-executive directors to reduce these behaviors.

Nurwati *et al.,* (2010) in a study examined the relationship between corporate governance and accuracy of forecasts their earnings. Their results showed the audit committee is non-executive members, as well as an audit committee with absolute prediction error is negative. In other words, the size of the audit committee has a positive relationship with care of earnings forecast. Their results showed the more members were that no executive post audit committee and audit committee size increased, the accuracy of predictions of profit is higher by management. They found no significant relationship between the characteristics of the board of directors and did not accurately forecast. Their results also showed a positive relationship between firm sizes accurately predict profits. These results indicate that profit forecasts in larger firms have more credibility.

Ajinkya *et al.,* (2005), in a study examine the relationship between the company's board and institutional investors and earnings forecast characteristics. In order to test the accuracy of earnings forecast, earnings forecast error was considered as the dependent variable. Their results showed non-executive directors have direct relationship between accurate prediction of profit and the percentage of institutional stockholder ownership has inverse relation with the earnings forecast error. Wang (2006), came to this concentrated ownership, the accounting information for people outside slows down. It also reduces information asymmetry in the accounting and disclosure of family members in the company, will have the incentive and opportunity to manipulate earnings. Therefore, the quality of family ownership occur less profit.

Abdul and Wall (2010), examine profit management priorities in family firms and non-family Norwegian companies between 2000 and 2007. The results showed that family companies than non family companies do more smoothing, family firms with high leverage also tend to perform profit management than non family firms with financial leverage is high.

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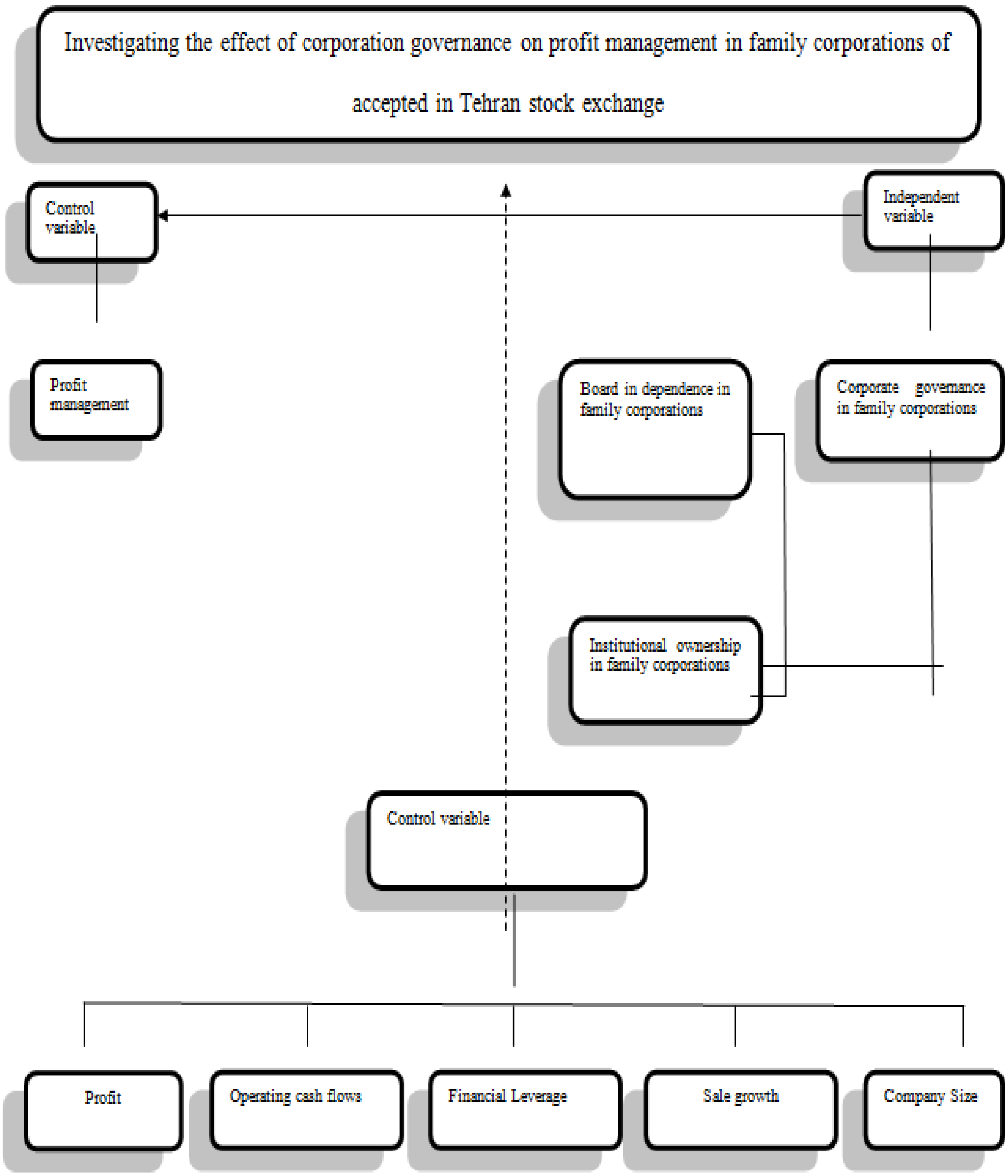
Research Conceptual Model



(Chen *et al*., 2014)

MATERIALS AND METHODS

Research Methodology

In this research, corporate governance in family corporations as independent variable and profit management as dependent variable has been considered. This study in terms of purpose is applied research. Regarding the method of inference, this research is descriptive analysis. Regarding the type of study design, current research is (causal-comparative) Ex-Post Facto research.

Statistical Population

Statistical population of this research consisted of all firms of accepted in Tehran Stock Exchange. By applying some restrictions, statistical population reduced restrictions include:

1) The fiscal year ended 29 March.

2) Prior to 2007 are listed in the Tehran stock exchange.

3) The investment firms and financial intermediaries and banks do not, because the nature of work in these firms is different from other companies.

4) During the period studied (2007-2013) does not change the fiscal year.

5) During the period under study data is continuously available.

6) The status of the family is known (at least twenty percent of the shares from family members or member of the board of directors).

Based on the above criteria, 32 companies were identified. Then all the information needed for the study of the Tehran stock exchange databases, software and new outcome measures were collected cash and publications exchange.

It should be noted that the sample size in this study, due to the low number of members of the statistical population is same sample size.

Data Analysis

Ordinary Least Squares method (OLS), coefficients to determine the accuracy and importance of the independent variables used. The t-statistic is significant to identify each variable, F statistic to determine the significance of the regression coefficient R ^ 2 to determine the efficiency and the amount of the dependent variable explained by the independent variables used selectively. In this study, according to the type of data and methods of analysis, the method of "data combination / fusion" is used.

Testing the Hypotheses

The First Minor Hypothesis

There is significant relationship between the independence of the board of directors in family corporations and profit management.

Due to lack of choosing model, consolidated data against combination data for doing the Hasman Test choose fixed effects pattern against the random effects pattern was investigated. Amount of Hasman statistics probability is lower than significance level of 5%. Therefore, there is no enough reason to reject the fixed effects pattern and for testing the first minor hypothesis are used by fixed effects pattern.

Table 1: Choosing the fixed effects pattern against the random effects model

Test	The chi-square statistic	Degree of freedom chi	Probability test
Hasman	24.21	9.63	0.0007

Fixed-effects regression model combined effect of the board of directors' independence in family corporations on positive profit management (0.104) and according to the statistical probability t (0.087) is not significant.

This subject shows that there is not significant effect between the boards of directors' independence in family corporations on profit management. Also there is not significant effect between company size, operating cash flows, profitability on profit management. And against, the impact of financial leverage has significant and positive effect on the profit management and sale growth has a significant and negative effect.

Results related to F statistics show that generally the model was significant and according to the statistics Durbin-Watson (2.08) there is no any correlation problem. In addition, the results related to the adjusted coefficient of determination show that in the total period of this research around 22% of profit management changes were due to board of directors' independence of family corporations and control variables of this research. According, board of directors' independence in family corporations affecting the profit management, the first minor hypothesis was not confirmed.

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Table 2: Fixed-effects regression model combined effect of the board of directors' independence in family corporations and profit management

$TAC_{it} = \beta_0 + \beta_1\ FINDIR_{it} + \beta_2\ Size_{it} + \beta_3 SG_{it} + \beta_4 LEV_{it} + \beta_5 COF_{it} + \beta_6\ Profit_{it} + \varepsilon_{it}$			**Model**
Variables	**Regression coefficients**	**t-statistic**	**Probability of T statistics**
Constant	0.062	2.12	0.0519
Board of directors' independence in family corporations	0.104	2.88	0.087
Size of the company	0.128	1.45	0.097
Financial Leverage	0.074	2.69	0.029
Sale growth	-0.106	- 2.43	0.038
Operating cash flows	0.105	1.26	0.079
Profitability	0.121	1.36	0.085
The coefficient of determination	0.28	Probability of F statistics	0.0011
Adjusted determination coefficient	0.22	Durbin-Watson statistic	2.08

The Second Minor Hypothesis:
There is significant relationship between the institutional investors in family corporations and profit management.
Due to lack of choosing model, consolidated data against combination data for doing the Hasman Test to choose fixed effects pattern against the random effects pattern was investigated. Amount of Hasman statistics probability is lower than significance level of 5%. Therefore, there is no enough reason to reject the fixed effects pattern and for testing the second minor hypothesis are used by fixed effects pattern.

Table 3: Choosing the fixed effects pattern against the random effects model

Test	The chi-square statistic	Degree of freedom chi	Probability test
Hasman	21.47	9.56	0.0056

There is significant relationship between the institutional investors in family corporations and profit management
Fixed-effects regression model combined and effect of institutional investors in family corporations on positive profit management (0.083) and according to the statistical probability t (0.048) is significant. This subject shows that there is significant and positive effect between institutional investors of family corporations and profit management.
Also there is not significant effect between company size, operating cash flows, profitability and profit management.
Against, the impact of financial leverage on the profit management has significant and positive effect and sale growth has a significant and negative effect. Results related to F statistics show that the model generally was significant and according to the statistics Durbin-Watson (2.02) there is no any correlation problem.
In addition, the results of related to the adjusted coefficient of determination show that in the total period of this research around 51% of profit management changes was under the influence of institutional investors of family corporations and control variables of this research. According, the institutional investors has significant affect in family corporations on profit management, the second minor hypothesis was confirmed.

Table 4: Fixed-effects regression model combined effect of the institutional investors in family corporations and profit management

$TAC_{it} = \beta_0 + \beta_1 FINDIR_{it} + \beta_2 Size_{it} + \beta_3 SG_{it} + \beta_4 LEV_{it} + \beta_5 COF_{it} + \beta_6 Profit_{it} + \varepsilon_{it}$			**Model**
Variables	**Regression coefficients**	**T-statistic**	**Probability ofT statistics**
Constant	0.063	2.26	0.0362
institutional investors in family corporations	0.083	2.46	0.048
Company size	0.107	1.67	0.085
Financial leverage	0.064	2.74	0.026
Sale growth	- 0.0114	-2.39	0.041
Operating cash flows	0.098	1.43	0.084
Profitability	0.113	1.74	0.076
The coefficient of determination	0.57	Probability of F statistics	0.0005
Adjusted determination coefficient	0.51	Durbin-Watson statistic	2.02

Analysis of the Main Hypothesis

Corporate based on significant influence of institutional investors in family corporations and lack of influence of board of directors' independence in family corporations on profit management, we can conclude that corporate governance impact profit management of family corporations, according to the criteria assessed in this study was low and it is not at the significant level in family corporations, may be due to special ownership structure of these companies, the interests of protecting the interests of minority shareholders is preferable family and family corporations due to less interest and no less real shareholders to engage in profit management.

RESULTS AND DISCUSSION

Research Finding and Results

The First Minor Hypothesis

There is significant relationship between boards of directors' independence of family corporations and profit management.

In order to test this hypothesis through fixed-effects regression model effect of the board of director's independence in family corporations on profit management is positive (0.104) and according to the probability of statistical T (0.087) is not significant. This subject shows that there is not significant effect between the boards of directors' independence of family corporations and profit management. Also there is not significant effect between company size, operating cash flows, profitability and profit management, and the impact of financial leverage and the profit management is significant and positive and sale growth has a significant and negative effect.

Supporters of representation theory, for increasing the board of independence from management, they support this phenomenon that the board of directors must be in authority of the non-executive directors and believe that opportunistic behavior by managers, non-executive director should be placed under the supervision and control.

There are non-executive directors on the board can affect the quality of decisions executives, provide strategic direction, improve performance, meet the lead managers and executives to monitor and control the opportunistic behavior.

The results of this hypothesis was not agree with studies of Philipon (2004), Osma *et al.,* (2007), Elishah *et al.,* (2009), Sajadi *et al.,* (2011) and was agree with the studies of Marakchi (2001), Pincel *et al.,* (2006) and Ezadi and Rasaeian (2010).

The Second Minor Hypothesis

There is significant relationship between the institutional investors in family corporations and profit management.

For investigating this hypothesis, through choosing the suitable regression models of combination fusion by using the Limer and Hasman was used. And this research obtains this result that fixed-effects regression model combined effect of institutional investors of family corporations on profit management is positive (0.083) and according to probability of statistical T (0.048) is significant. This subject shows that there is significant and positive effect between institutional investors of family corporations on profit management.

Also there is not significant effect between company size, operating cash flows, profitability and profit management. And against, the impact of financial leverage on the profit management has significant and positive effect and sale growth has a significant and negative effect.

The role of institutional investors in corporate governance, which is performed under the supervision of the management company, has been emphasized. Institutional ownership, the agency problem is due to economies scale and diversification benefits it resolved.

Institutional ownership as total percentage of shares by banks owned, insurance companies, financial institutions, holding companies, organizations, institutions and state-owned companies, defined (Bush, 1998).

Administrators can monitor the companies through institutional owners to focus on performance and less interest in opportunistic behavior or self-service force.

Companies that have sufficient institutional ownership, corporate governance is at the same ability with higher earnings quality. This means that in some cases, such as when companies need less supervision, poor corporate governance can also be controlled by the agency is sufficient. Iran's major institutional investors (such as the Foundation for the Oppressed and War Veterans, Social Security Organization and investment companies affiliated to the state-owned banks) is dependent on the state and this may reduce their motivation and effective oversight of the activities of the investee companies. The results of this hypothesis was agree with studies of Hartzel *et al.,* (2005), Velouri and Jankiz (2006), Zouri *et al.,* (2009), Noresh *et al.,* (2005) and Morad *et al.,* (2009) and was not agree with the studies of Kouh (2003), Woong (2006) and Ahmad pour *et al.,* (2009).

Conclusion

For investigating the relationship between corporate governance and profit management, representation theory considered. Representation theory mentions to this subject that some of corporates operation is related to the representation relationship between shareholders and managers.

In fact, the separation of share ownership and management control over company operations, can lead to conflicts of interest and agency costs arise due to the conflict of interest between managers and shareholders.

Without this representation, the quality of reporting will has no particular problem, because managers have no incentive to falsify financial reports or do not keep the information secret. Corporate governance mechanisms can reduce profit management opportunities and thereby increase earnings quality; but the research on family firms with the different conclusion of what was shown. In connection with the discussion of corporate governance of family companies, it can be suggested that perhaps because of the specific structure of the company's capital on the contrary, the results of other companies in the firm's corporate governance mechanism for management control not considered.

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