Investigating the ability of traditional performance indicators to interpret the phenomenon of profit management in companies admitted to Tehran Stock Exchange

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Abstract: There Zmnhv Hay such as conflict of interest and information asymmetry between ownership and management on the one hand and financial Rsvay Hay On the other hand, the importance of My Afzayd earnings management. One of the most important issues for investors, creditors and general internal and external corporate decision makers, the problem of evaluating the performance of the company, hence the importance and necessity My Brym study found. The ability of traditional and modern performance indicators in the interpretation of the phenomenon of earnings management in listed companies in Tehran Stock Exchange purpose of this study respectively. All companies listed on Tehran Stock Exchange to form study population (from 2011 to 2016) Vndadshrkthay the 119 company. There is a significant positive relationship between classical indices performance (ROA, ROS, cash flow operation).

Keywords: earnings management, performance indices modern, traditional performance indices

Introduction

Today, information (forms and financial statements, ratio analysis and financial information in the media, etc.) are an important tool in economic decisions and undoubtedly comes to the quality of decisions on health and the accuracy of the information depends. Financial statements are the main source of external parties, particularly investment in obtaining the required information. In the meantime, the income statement to provide helpful information on the profitability of the business units, has attracted the attention of many investors to own. The exercise of judgment by management in the preparation of financial faces, concern that the reliability of accounting profit has created. If managers through the exercise of its discretion in the selection of accounting financial reporting financial incentives to mislead consumers, their faces, there is the possibility of tampering or earnings management. Among the various topics related to firms, managers, performance assessment and mechanisms that control the behavior of managers, was given special emphasis. The most important consideration investors assess the performance of firms (or shareholders’ equity and profit compared to a year), creditors (compared to the principal and interest on the loan), the government (in relation to taxation, property, profit) and managers and the base many inside and outside the organization is the decisions. In choosing the best method of evaluating the performance of firms of different methods should be applied carefully under economic models to determine the value (Panahian, 2013).

Statement of the problem

To measure and assess the performance and value of companies, there are several measures. Traditional measures such as profit, earnings per share, dividend, return on equity, an important instrument for assessing the company's financial and operating performance lags, but the manager can be used to maintain and improve its rewards, to manage profits by accounting numbers were distorted. Traditional measures such as net income, profit growth, return on equity, return on investment, the ratio of price to earnings, earnings per share and the rate of cost of capital for performance evaluation, investment analysts are used by investors and ¬Gyrd, but each of these criteria, provided the shortcomings are and it alone will not be able to provide useful information for evaluation. Limits on traditional criteria for performance evaluation, may lead investors to replace the new criteria. Useful criteria for evaluating the performance of firms that have recently been raised, economic value added, market value added, and residual income are cash value. Theoretically, economic value added, a measure of the opportunity cost of the resources used in the company's net operating profit EBIT Lehmann, Fenton and veters (2004).

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to provide useful information for evaluation. Limits on traditional criteria for performance evaluation, may lead investors to replace the new criteria. Useful criteria for evaluating the performance of firms that have recently been mentioned are economic value added, market value added, and residual income are cash value. Theoretically, economic value added is a measure of the opportunity cost of the sources is used in the company's net operating profit deduction Lehmann ferton veterz (2004).

Following criticisms introduced in the traditional way, the researchers attempted to address the defects of accounting-based modeling to address the flaws of any of the traditional performance measurement criteria, this introduced the introduction of economic performance evaluation criteria. In economic models, the value of a company is a function of profitability, existing priorities, potential investments, and the variation in the rate of return and cost of company capital (Bach, 2003).

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Considering the extent of profit motivation, there are many possible reasons for profit management. For example, if a firm reports a stable profit, shareholders will feel more confident (Tezing & Lay, 1995). Rappaport (1986) states failure performance measures based on accounting according to three criteria:

1. Lack of attention to the needs of investors.
2. Ignoring the time value of money.
3. Accounting frame and rules allow for make an assessment decision to use other accounting methods for replacing.

Hence, in order to make the right economic decisions, providing cash streams information as an objective criterion to help users, looks beneficial. However, due to accounting-based performance criteria for short-term attitude and ignore the cost of equity, are always criticized. The exercise of judgment by managers and provide them with the financial reporting process, is known as earnings management. There are two views on earnings management. Considering the extent of profit motivation, there are many possible reasons for profit management. For example, if a firm reports a stable profit, shareholders will feel more confident (Tezing & Lay, 1995).

The exercise of judgment by managers and provide them with the financial reporting process, is known as earnings management. There are two views on earnings management. At first glance, some researchers believe that earnings management and can potentially useful-information content increase profits (Svbramanny: 1966 and Krishnan 2003). Proponents of this view believe that administrators use the powers of the flexibility generally accepted accounting principles in the form of sound management, they will be able to ability of income to reflect better profit, profitability and value of the company, improve.

Others believe that the power and flexibility, creating an opportunity for managers to trick investors profit Tremblay to manipulate. On the otherhand there is freedom to act according to accepted methods of accounting, there is a possibility of earnings manipulation by management. Therefore, given the importance of the profit and the content of information that benefits, managers are constantly striving to manipulate the reported earnings for specific purposes they pursue. The purpose financial statements provide information about the status, performance and flexibility for consumers, financial ~Pzyry financial statements They are useful in making economic decisions (National Audit Office, 1388). Increase the importance of earnings management. The main problem in the interpretation of the study is to assess capabilities and identify earnings management is the modern and traditional indices.

History Research

Maham and Mohammadi (2016) to investigate the relationship between earnings management current performance and future performance of the CEO's job security. The results indicate that a significant relationship between earnings management and CEO's tenure there. As well as between current and future performance and earnings management firms is also significant.

Alipour et al. (2015) investigated the relationship between earnings management and market performance of dividend distribution companies. The results show that companies that distribute dividends report more accruals in the year of issue compared to prior years. Also, in companies that distribute dividends, changes in future profits have a negative relation with accruals. In addition, their stock market returns are negatively related to accruals.

Saidi et al (2013) The relationship between real earnings management activities and future performance of firms listed on the Tehran Stock Exchange began. The results suggest that the real earnings management standards and there is a significant negative correlation with future performance. In other words, it can be inferred from these results that manipulating real activities in the current period, a decrease in the company's future performance.

Khodadadi and John Janni (2011) reviewed the relationship between profit management and profitability of companies admitted to the Tehran Stock Exchange. The results from the estimates of single-variable models show that companies that manage earnings are less profitable than those that do not manage profits at operating profit and net profit, At the level of profit before tax and the level of net profit, more profit, at the level of net profit larger, and finally at the
profit level, each share had a higher dividend rate. Also, the results of the logistic model show that companies that manage earnings have more growth and less returns.

Talebnia and Shojae (2011) examines the relationship between the ratio of market value to earnings and economic value to earnings ratio of listed companies in Tehran Stock Exchange began. The results show that there is a connection between market value added as the dependent variable and economic value as the independent variable in all the surveyed companies carelessly to their industry. So companies listed in the Tehran Stock Exchange added economic value to earnings as a measure of internal performance measurement alone cannot measure performance, to forecast market values. In surveyed firms and industries except automobile and pharmaceutical industries that there was a significant relationship between the variables in the rest of the industry, a significant relationship was not observed between variables.

Modares and colleagues (2009) examined the motives of earnings management in firms listed in the Tehran Stock Exchange (the petroleum industry, chemical and metal). The results showed that the size of the company and debt contracts stimulus for earnings management in both companies is the search industry.

Chang Wu and colleagues (2016) examined the impact of earnings management on the performance of ASEAN's Banks. This study analyzes the bank performance with profitability and management productivity that results show that Singapore banks have overall and profitable productivity. While Brunei banks had the lowest rate of bank performance. The managerial efficiency, Philippines has the dysfunctional productivity, while the highest productivity management related to banks in Malaysia. The analysis shows that, in general, banks in Singapore and Malaysia has high efficiency in the management of expenditures and long-term assets and long-term profit. Regression analysis also showed that loan losses would-be negatively correlated with company performance.

Uttami and Inanga (2012) examined the relationship between capital structure and company life cycle. Their study results showed that both growth companies and mature companies follow the hierarchy theory. However, their results indicate that hierarchical theory describes the financial model of growth companies better than adult ones.

Charo Andisuwat (2011) examines the power of explaining various accounting metrics (EPS, ROA, ROE, ROS) and value-based metrics (EVA, MVA) to evaluate the performance of companies in the yield of Thai stock exchanges, accounting standards, compared to EVA, MVA are more related to stock returns.

Research method

This study is an analytical research of quasi-experimental. Because of the historical information is used to test hypotheses and because the results of this study can be used in the decision-making process, the purpose of this study is practical (used in the decision-making process) and its direction is ex-post (after the event using the information contained in the data years 1389 to 1394) and the type of this is data bit (Measurable variables can be showed them as number) In terms of reasoning is a research inductive (inductive means is the component of the total receipts Inductive reasoning we arrive at the total, put the reality minor together and we will reach the total conclusion). So the research component of the be classified PAT research.

Test results assumption

The first hypothesis test
The first Hypothesis: Return on assets has a significant relationship with earnings management.
H0: Return on assets has no significant relationship with profit management
H1: Return on assets has a meaningful relationship with earnings management.

\[ \text{EM}_i = \beta_0 + \beta_1 \text{ROA}_i + \beta_2 \text{Firm's Size}_i + \beta_3 \text{Leverage}_i + \epsilon_i \]

<table>
<thead>
<tr>
<th>Prob.</th>
<th>t-Statistic</th>
<th>Std. Error</th>
<th>Coefficient</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0000</td>
<td>4.859783</td>
<td>0.490822</td>
<td>2.385288</td>
<td>ROA</td>
</tr>
<tr>
<td>0.0001</td>
<td>3.984533</td>
<td>0.343605</td>
<td>1.369107</td>
<td>LEV</td>
</tr>
<tr>
<td>0.0000</td>
<td>26.95294</td>
<td>0.444412</td>
<td>11.97822</td>
<td>FS</td>
</tr>
<tr>
<td>0.0000</td>
<td>-17.18004</td>
<td>1.114904</td>
<td>-19.15410</td>
<td>C</td>
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</table>

11.91105 Mean dependent var 0.525499 R-squared 1.678683 S.D. dependent var 0.523494 Adjusted R-squared 3.138208 Akaike info criterion 1.158785 S.E. of regression 3.163815 Schwarz criterion 953.3757 Sum squared resid 3.148097 Hamann-Quinn criter. -1116.340 Log likelihood 2.117971 Durbin-Watson stat 262.1029 F-statistic 0.000000 Prob(F-statistic)

\[ \text{EM}_i = -19.15 + 2.38 \text{ROA}_i + 11.97 \text{Firm's Size}_i + 1.36 \text{Leverage}_i + \epsilon_i \]
The research population
The population of all firms listed on the Tehran Stock Exchange forms the present-day population of the study. The sample of this study includes companies who have the following conditions:
The number of companies that are not removed in the time domain to the TSE board.
The observance of comparable companies is that their fiscal year ended 29 March financial year has not changed.
Do not be the investment firms, banks and insurance companies.
The required data of above companies is available.
Their stock trading is done at least once a year.
According to the set conditions, the only company (observation) for the period 1389 to 1394 have the above conditions and therefore, 119 companies were selected as the sample.

Hypotheses
First hypothesis: Traditional performance indices (return on assets, sales returns and operating cash flow) have a significant relationship with earnings management.
First sub-hypothesis: Asset returns have a significant relationship with earnings management.
Secondary hypothesis: Sales returns have a significant relationship with earnings management.
Third sub-hypothesis: Operating cash flow has a significant relationship with earnings management.

In this hypothesis because the calculated error to Limer test more than 5% In order to test this hypothesis test use from Combined method (Poling) and least squares method. In the above tables it can be seen that the coefficient of determination is equal to 52.5 percent so, the determination is obtained at an acceptable level and we can say that the independent variables has ability of predicting the dependent variable the meaningful level of test f is less than 1 percent so it can be said model of this hypothesis was significant. The Durbin-Watson obtained (2/11) between 1/5 to 2/5 the error after independence has been accepted. The result of this table shows that the significance level of t for the yield variable is less than 5% (00/0), so the assumption H0 is rejected and the H1 assumption is confirmed. Therefore, it can be concluded that return on assets has a significant relationship with Profit management. The type of relationship shows that returns have an incremental effect on the management of profits.

The second hypothesis
Sales returns have a significant relationship with earnings management.
H0: Sales returns have no meaningful relationship with profit management.
H1: Sales returns have a significant relationship with earnings management.

EM \_it = \beta_0 + \beta_1 \text{ROS}_{it} + \beta_2 \text{Firm's Size}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \varepsilon_{it}

In this hypothesis because the calculated error to Limer test more than 5% In order to test this hypothesis test use from Combined method (Poling) and least squares method. In the above tables it can be seen that the coefficient of determination is equal to 52.8 percent

<table>
<thead>
<tr>
<th>variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROS</td>
<td>1.799863</td>
<td>0.339100</td>
<td>5.307772</td>
<td>0.0000</td>
</tr>
<tr>
<td>LEV</td>
<td>1.388707</td>
<td>0.335546</td>
<td>4.138646</td>
<td>0.0000</td>
</tr>
<tr>
<td>FS</td>
<td>11.62748</td>
<td>0.452732</td>
<td>25.68293</td>
<td>0.0000</td>
</tr>
<tr>
<td>C</td>
<td>-16.46072</td>
<td>1.111630</td>
<td>-18.29822</td>
<td>0.0000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.528427</td>
<td></td>
<td>52.8%</td>
<td></td>
</tr>
</tbody>
</table>

So, the determination is obtained at an acceptable level and we can say that the independent variables has ability of predicting the dependent variable the meaningful level of test f is less than 1 percent so it can be said model of this hypothesis was significant. The measured Watson camera (2.11) is between 1.5 and 2.5, so the error independence is accepted. The result of this table shows that the significance level of the t test for the sales return variable is less than 5% (0/00), so the assumption H0 is rejected and the assumption H1 is verified. Therefore, it can be concluded that the return on sales has a significant relationship with Profit management. The type of relationship shows that sales returns have an additional effect on earnings management.
EM = -18.29 + 1.79 ROS + 11.62 Firm's Size + 1.38 Leverage + εi.

The third hypothesis test
Operating cash flow has a significant relationship with earnings management.
H0: Operating cash flow has no meaningful relationship with profit management.
H1: Operating cash flow has a significant relationship with earnings management.

EM = β0 + β1 CFO + β2 Firm's Size + β3 Leverage + εi.

In this hypothesis because the calculated error to Limer test more than 5% In order to test this hypothesis test use from Combined method (Poling) and least squares method. In the above tables it can be seen that the coefficient of determination is equal to 51.9 percent.

Table 3

<table>
<thead>
<tr>
<th>Prob.</th>
<th>t-Statistic</th>
<th>Std. Error</th>
<th>Coefficient</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0001</td>
<td>3.863718</td>
<td>0.043066</td>
<td>0.166393</td>
<td>CFO</td>
</tr>
<tr>
<td>0.0188</td>
<td>2.354508</td>
<td>0.291626</td>
<td>0.686637</td>
<td>LEV</td>
</tr>
<tr>
<td>0.0000</td>
<td>12.16547</td>
<td>0.791712</td>
<td>9.631550</td>
<td>FS</td>
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<tr>
<td>0.0000</td>
<td>-9.493451</td>
<td>1.542645</td>
<td>-14.64502</td>
<td>C</td>
</tr>
</tbody>
</table>

Mean dependent var = 0.519811 R-squared
S.D. dependent var = 0.517783 Adjusted R-squared
3.150123 Akaike info criterion = 1.165709 S.E. of regression
3.175730 Schwarz criterion = 964.8031 Sum squared resid
3.160012 Hannan-Quinn criter. = -1120.594 Log likelihood
2.109056 Durbin-Watson stat = 256.1953 F-statistic
0.000000 Prob(F-statistic) = 0.000000

So, the determination is obtained at an acceptable level and we can say that the independent variables has ability of predicting the dependent variable the meaningful level of test f is less than 1 percent so it can be said model of this hypothesis was significant. The measured Watson camera (2.10) is between 1.5 and 2.5, so the error independence is accepted. The result of this table shows that the significance level of the t test for the sales return variable is less than 5% (0/00), so the assumption H0 is rejected and the assumption H1 is verified. Therefore, it can be concluded that operating cash flow has a meaningful relationship with profit management. The type of relationship shows that operating cash flow has an incremental effect on earnings management.

EM = -14.64 + .166 CFO + 9.63 Firm's Size + 0.686 Leverage + εi.

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