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### The Relationship between Ownership Structure and Accruals of the Firms listed on the Tehran Stock Exchange

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#### ABSTRACT

The separation of management from ownership in the corporations has caused exclusive availability of the financial information for the managers. To achieve the expected profit, the managers might increase the accruals. This study seeks to investigate the impact of ownership structure, known as one of the corporate governance mechanisms to control the opportunistic behavior of the managers, on the accruals of the financial statements of the firms listed on the Tehran Stock Exchange. In this study, the ownership structure is considered as a combination of four elements of ownership including state, corporate, family and managerial ownerships. The accruals are computed based on Richardson's Model. The sample covers 95 listed firms over 2008 to 2012. The hypotheses are also tested by using multivariate regression models. The findings reveal that there is a significant positive relationship between the state institutional ownership and accruals; furthermore, the corporate ownership is found to have a significant negative association with the managerial ownership. No significant relationship is found between family ownership and accruals.

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### INTRODUCTION

Ball and Brown (1968) suggested that the reported accounting earnings provide useful and related information for the investors and other decision makers. Based on Lev (1989), the empirical studies on accounting have documented continuous decrease in the information content of the reported accounting earnings. Because of the intrinsic flexibility of some of the accounting standards, the interpretation and implementation of these approaches are based on the managerial judgements and opinions. They have the chance to manage the reported earnings by using a variety of techniques including accounting accruals. Earnings management might impact the quality and usefulness of the financial information for making investment decisions; however, the investors are less likely to trust the financial reporting and scarce economic resources might be misallocated. Some special concerns have been created after the scandals of Enron and WorldCom in the United States of America and TellOne in Australia [3]. The lower accruals are expected to enhance the earnings quality and persistency. As a result, the present study aims to examine the impact of one of the corporate governance mechanisms (ownership structure) on the accruals level of the financial statements. We seek to find whether different ownership structures impact the accruals level of the financial statements.

The remaining of the paper is organized as follows. The second chapter describes the theoretical bases of the study and the literature review. Identifying the methodology in section 4, the findings are presented in section 5. The final section discusses about the results and suggestions for future studies.

#### Theoretical Bases:

##### Ownership Structure:

The ownership structure is defined by the distribution of equity with regard to voting rights and capital. Changes in the corporate governance structure lead to the changes in the leadership path and performance along with the increase or decrease in the agency costs. Laporta *et al* (1998) found that the countries with external models of ownership have more sporadic ownership structure; however, most of the East Asia countries follow the internal corporate governance models by concentrated ownership and strong controls over management. As a consequence, the rules of corporate governance are affected by the nature and concentration of the ownership.

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*Institutional ownership:*

The emergence of institutional investors is considered as one of the effective mechanisms of external control over corporate governance. Based on Gillan and Starks (2003), the institutional shareholders play key roles in the formation of many of the changes in the corporate governance mechanisms. According to the evidences of prior studies such as Navissi and Naiker [15] and Cornett *et al* [5], the institutional investors are found to have different impacts on the selected approaches and they do not have similar incentives for monitoring these approaches. The institutional ownership in this study is classified into state institutional owners and private institutional owners. Tsai and Gu [24] define the institutional ownership as the percentage of the stocks held by the organizations and governmental institutions and the companies dependent on the government (including insurance, financial institutions, banks, pension funds and other institutions).

Sadeghi and Soroush [21] suggest that there is no comprehensive definition for the quasi-state institutions; however, they believe that these firms are the ones which hold less than 50 percent of the governmental shares but they have significant influence and control over the selection of the board members and CEO. In this study, however, the quasi-government institutions are defined as the social security organization, pension funds, institutions, state-owned banks and insurance companies, investment companies, financial institutions and other dependent institutions.

*Corporate Ownership:*

Namazi and Kermani (2008) concluded that the higher percentage of corporate ownership means better corporate performance. That is, the firms have better performances with the effective presence of the corporate owners. These investors seek to obtain the maximum benefits and best performance by having significant influence and controls.

*Managerial Ownership:*

There are many studies conducted about the impact of managerial ownership. The scholars have found different and conflicting results. Among the different theories provided by the experts, the most important ones are convergence of benefits and consolidation of the management position.

Based on the convergence of the benefits, the larger firms have more widespread shareholder ownership. As a result, the managerial contributions are reduced. In doing so, the managerial benefits are not completely consistent with the shareholders' demands. Based on the hypothesis of consolidation of managerial position, the managers make their maximum efforts to supply the shareholders' rights with the incentive of maintaining their position and achieve better positions.

*Family Ownership:*

Bartholomeusz and Tanewski [1] argue that there are two assumptions about the family ownership. According to the first assumption, the family ownership is the reason of lower agency costs; however, the second assumption is about the increase of agency costs resulted from the family ownership.

*Accruals:*

Accounting earnings is identified based on accrual basis. The accrual basis causes different reported operating earnings and net operating cash flows and also reporting of some accruals in the financial statements [22].

A part of the accounting earnings is in cash. That is, the operating cash (cash flow) exists in this profit and a part of it is composed of accruals (the difference between earnings and cash flows). The accrual component of the earnings plays more significant role in performance evaluation. The earned cash over a financial period is not relative information. This is because the identified cash has the problem of timing and matching. These problems might result in the incorrect performance evaluation. To mitigate such problems, the Generally Accepted Accounting Principles (GAAP) suggests some approaches by which the accuracy of the performance evaluation enhances by using accruals. The accruals of accounting earnings are classified into discretionary and non-discretionary items. The results of some studies show that the accruals of the earnings and the components impact the returns of the firms, their market value and cost of capital.

Dechow *et al* [6] revealed that the non-discretionary accruals are constant and they might not be used for the income smoothing. The higher discretionary accruals increase the possibility of earnings management. This will cause the better financial positions and this is an element of lower costs of capital. Francis *et al* [7] argue that the accruals quality is the measure of identifying uncertainty of future cash flows. From the perspective of investors, the accruals quality means the closer accounting earnings to the cash. As a result, the weak accruals quality results in higher vagueness of information and investment risk. The companies with lower quality of accruals have higher ratio of interest charges on the interest-bearing debts. They found that the firms with higher quality of accruals have lower costs of capital. In other words, there is a significant relationship between the cost of capital for the firms with lower quality of accruals and those firms with higher quality of accruals.

*Accruals and Ownership Structure:*

The relationship between corporate governance mechanisms and earnings management has been initially examined by Beasley [2] and Dechow *et al* [6]. They empirically showed that some specific corporate governance mechanisms are associated with earnings management.

The directors are interested to maximize their personal benefits and fix their career positions to represent a satisfactory image of the financial position to the shareholders and other stakeholders. In some cases, however, the increase in the managerial wealth does not mean the increases in the other groups including shareholders. Considering the conflicts of interests among the managers and owners, the business directors have the required incentives to manipulate earnings to maximize their benefits. One of the mechanisms for protecting the shareholders' interests and controlling the opportunistic behavior of the directors might be corporate governance. Ownership structure is one of the significant subjects of corporate governance because it impacts the managerial incentives. Ownership structure might be considered in terms of different dimensions including concentration or non-concentration, institutional or real ownership and managerial or non-managerial ownership. Some of these items are briefly discussed below.

*Accruals and the Relationship with the earnings quality:*

Sloan [23] proved that the firms with reported earnings higher than operating cash flows (high accruals) would experience lower operating incomes. As a consequence, the volume of accruals is a good indicator of earnings quality. Richardson *et al* [20] argue that accruals are reverse measures of earnings quality.

*Research Variables:**Independent Variables:**The governmental institutional ownership level:*

It refers to the ratio of shares held by governmental, quasi-governmental and government-dependent institutions such as insurance firms, financial institutions, banks, pension funds and other state components to the total issued stocks.

*Ownership level of managerial investors:*

The level of shares held by the board members to the total issued stocks.

*Ownership level of the corporate investors:*

The level of shares held by the business and industrial firms to the total issued stocks.

*Ownership level of the family investors:*

The level of shares held by a family or a group of family to the total issued stocks.

*Control Variables (mediator variables):**Firm size:*

Based on the studies of Mosez and Chelson, the larger firms are confronted with higher incentives of the managers to manipulate earnings. In other words, there is a direct significant relationship between firm size and earnings management. TACC is justified by the average assets over a period; this variable is used to ensure that firm size is effectively controlled. Accordingly, the natural logarithm of total book values of assets is considered as the control variable to determine the firm size in the regression model.

*Dependent Variables:**Total accruals:*

Richardson [20] defined accruals as the changes in the non-cash assets after deducting the changes in total liabilities. This definition is based on the studies of Sloan [23] and Dechow [6]. The characteristics and advantages of the measurement model of the accruals by Richardson are much more widespread than the other models priorly used in academic articles. The other interesting characteristic of TACC is that accounting data should be used instead of measuring earnings quality based on market data.

Richardson's model of accruals does not limit itself to the current operating accruals and it does not require a long-term set of cash flows and earnings data to measure the accruals. It also does not rely on estimates to measure the accruals. Assuming this approach, the accruals in period  $t$  are equal to the changes in the total non-cash assets minus the changes in total debts from  $t-1$  to  $t$ . This definition is significant from many dimensions. In this definition, the accruals are also composed of non-current assets and accruals do not only include the operating assets and liabilities, but cover the whole assets and liabilities. This definition also includes the definition of non-current liabilities. In addition, the comprehensive definition of accruals includes the financial assets such as short-term and long-term investments and financial liabilities such as loans. In this manner, the accruals are calculated based on equation (1):

$$TACC = \Delta WC + \Delta NCO + \Delta FIN \quad (1)$$

$\Delta WC$  is the changes in the current operating debts minus the current operating assets.

Changes in the current operating assets= total current assets – (cash+investment)

Changes in the current operating debts= total current debts – financial loans received

$\Delta NCO$  is the changes in the non-current operating assets – changes in the non-current operating debts

Changes in the non-current operating assets= Total non-current assets – non-current investments

Changes in the non-current operating debts= total non-current debts – long-term loans received

$\Delta FIN$  is the changes in the financial assets – changes in the financial debts

Changes in the financial assets= non-current investments + current investments

Changes in the financial debts= convertible owners' equity + long-term loans received + short-term loans received.

To offset the impact of size on the research findings, the accruals are standardized based on the average assets of the firm. Based on the literature review and elimination of the changes in assets over a period, the average assets over the period are used.

#### Research Model:

The regression model is extended according to input oriented model to test the hypotheses. The main model is as equation (2):

$$TACC_{it} = \alpha_0 + \beta_{1it} \text{Institutional}_{it} + \beta_{2it} \text{Corporation} + \beta_{3it} \text{Family} + \beta_{4it} \text{Mgrlowns} + \beta_{5it} \text{CFO} + \beta_{6it} \text{Fsize} + \varepsilon \quad (2)$$

Where in it;

$\alpha_0$  : Constant term of regression equation (intercept)

$\beta_1 + \beta_2, \dots, \beta_k$  : Regression correlation coefficients

i: The firm

t: The specific period

CORPORATION: Level of corporation ownership

MGRLOWNS: Level of managerial ownership

FAMILY: Level of family ownership

INSTITUTIONAL: Level of state institutional ownership

FSIZE: Firm size

CFO: Operating cash flows.

The coefficients of beta in the regression equation reveal the sensitivity of the accruals to the changes in any of independent variable which are expected to be non zero and significant. However, nothing is assumed about the positive or negative situation. In other words, the tests are implemented in two domains. The formulations of the hypotheses are as follows:

The beta coefficient is zero:

$$H_0 : \beta_1 = 0$$

The beta coefficient is not zero:

$$H_1 : \beta_1 \neq 0$$

The hypotheses for testing the regression equation are as follows:

All beta coefficients are simultaneously zero:

$$H_0 : \beta_1 = \beta_2 = \dots = \beta_k = 0$$

At least one of the coefficients is not zero:

$$i=1,2,\dots,m \quad H_1 : \beta_i \neq 0$$

As it is obvious, the argument is described in the first hypothesis and its acceptance shows that at least one of the independent variables of the model have significant relationship with the dependent variables. The failure in rejecting the null hypothesis indicates that none of the independent variables have significant association with the accruals.

#### Research Background:

Noravesh and Ebrahimi Kordlor [16] examined the role of the corporate investors on mitigating the information asymmetry of the firms listed on the Tehran Stock Exchange. Their findings revealed that the firms with high percentage of corporate shareholding contain more information about the future reported earnings. They also concluded that there is more information asymmetry in the firms with lower corporate ownership. Pour Heydari and Aflatouni [18] conducted a study about the incentives of the managers of Tehran Stock Exchange in order to smooth the earnings. They indicated that income smoothing is also performed by using

discretionary accruals by the managers of Iranian firms. Their results showed that the taxable income and deviation in operating activities are the main drivers of income smoothing by using discretionary accruals. In a study by Namazi and Kermani (2008), it was found that there is a significant relationship between ownership structure of the listed firms and performance. In addition, it was found that there is a significant negative relationship between the state institutional ownership and performance. This relationship, however, became positive for the corporate ownership and performance.

Sloan [23] examined whether the stock prices are established based on the existing information in cash and accrual components of earnings or the stock price is the result of the final earnings figure. The ratio of cash and accruals component is considered for the earnings persistency. Based on the results, it was found that the accrual component has lower persistency than the cash component of the earnings. This study showed that the investors ignore the difference between accruals and cash components of earnings and they just pay attention to the earnings figure. According to Sloan, it is not always possible to employ the best strategy and best information and there is the chance that the findings might be attributed to the costly information. Based on his opinion, the higher negative relationship between accruals and the components might cause the investors to make improper decisions.

The relationship between the quality of these items and corporate ownership is one of the significant settings. This has been studied by Ashik *et al* (1999). For considering the awareness of the investors, two variables as direct scales (percentage and number of the stocks held by the institutional shareholders) and two variables as the indirect variables (size and the following analysts) have been used. Using regression and Wilcoxon tests, it was found that the accruals have higher ability to predict the future earnings in the larger firms. They also found that the ability of the accruals for predicting future earnings does not depend on stock prices or transaction volume. They finally found that the prediction ability of the accruals for the future returns is associated with the inability of the market participants in perceiving information. Bushee (1998) and Matsomo [14] indicated that short-term institutional investors who frequently change their portfolio combination should rely on the earnings news. The presence of these shareholders motivates the managers to avoid the accruals with negative impacts on earnings and achieve higher profits. Their studies examined the way the managers' behaviors are associated with the discretionary accruals. They revealed that these managers have opportunistic behaviors or manage the research and development expenses. The results of Bushee (2008), Gasper *et al* [8], Chen *et al* [4] and Lev (2006) indicated that the long-term institutional shareholders do not only rely on earnings news, but they pay attention to the firms value. These shareholders spend more time and resources to monitor the management. According to the prior findings, the low quality accruals will cause decrease in firm value and the long-term institutional shareholders avoid the manipulation of these items. Dechow and Dechow [6] examined the role of accruals in measuring the firms' performance. It was shown that because of the preconditions of predicting future cash flows, the accruals and earnings quality decrease as a result of increasing errors in accruals prediction. Mashayekhi *et al* (2005) investigated the role of accruals in earnings management. They found that the managers increased earnings through increasing discretionary accruals in order to compensate the inefficiency.

Daneshfar, Saei and Zigal (2005) examined the cycles of stock market on the reaction of the investors to the unexpected changes in accruals. In this study, the New York Stock Exchange has been classified into three cycles of optimistic, pessimistic and stability. Their findings showed that the increase of accruals in optimistic periods (the periods in which the stock prices have increased) has positive relationship with the increase in unexpected returns. This relationship became negative in the pessimistic periods (the period in which the stock prices have decreased). In addition, no significant association was found in the period of stable prices.

Peasnell *et al* [17] documented a relative important relationship in terms of comprehensive interaction between managerial ownership and earnings management and ratio of the independent board members. It was shown that the relationship between the ratio of the independent board members and earnings management becomes significant when the managerial ownership is low. Ramasay and Mathar [19] examined the association between earnings quality and some dimensions of the corporate governance among the firms listed on the Australian Stock Exchange. The accruals in this study were computed based on the model of Richardson:  $TACC = \Delta WC + \Delta NCO + \Delta FIN$ . The authors concluded that there is an inverse U relationship between earnings quality and managerial ownership level. However, no significant association was found between earnings quality and other corporate governance mechanisms. Kim and Yi [12] studied about the impact of ownership structure, trade dependency among the groups and type of ownership on the discretionary accruals. The findings of the study revealed that the stock market creates the incentive for the publicly held corporations to manager their earnings. Bartolomioz and Tanewsky [1] explored the association between family control and corporate governance in 100 Australian firms. They documented that the corporate governance structures resulting from family ownership will create agency costs. Using meta-analysis on 33 previous studies, Sanchez and Garcia (2007) examined the relationship between ownership structure and firms' performance. They concluded that there is no significant association between ownership structure and firm performance. This relationship, however, is justified by the environmental impact. The ownership concentration in the countries with lower

investor protection was found to cause better firm performance. Tssai and Gu [24] examined the link between institutional ownership and performance of the Casino firms in the years from 1999 to 2003. They considered the institutional ownership as the ratio of the percentage of outstanding shares of the governmental companies to the total capital. They examined insurance firms, banks, financial institutions and other state companies. Their findings revealed that the institutional investment in Casino firms might help the investors to mitigate the agency conflicts resulted from the separation of management and ownership. Hafiza Hashim [9] investigated the impact of ownership structure on the earnings quality of the firms listed on the Malaysian Stock Exchange. A significant positive relationship between the family ownership and earnings quality was documented. The institutional ownership and earnings quality were also found to be positive and significant. Latur and Almarzugh (2011) studied the association between institutional ownership and performance of 35 firms listed on the France Stock Exchange over a period from 2002 to 2005. They concluded that there is an inverse significant association between institutional ownership and firm performance.

#### Methodology:

The proper methodology which should be selected is based on the purpose, subject and other specifications of the study. This is a field study using historical data and is based on the data of the financial statements. The required information is gathered from the financial statements publicly issued in the database of the Tehran Stock Exchange. Using EXCEL and SPSS software, the research variables are calculated and analyzed. The research hypotheses are tested based on regression tests. In the regression analysis, the objective is to predict one or more dependent variables based on one or more independent variables. The simple regression is used to investigate one dependent variable by one independent variable. When the dependent variable is examined based on several independent variables, the multivariate regression 1 is employed. The multivariate regression 2 is employed to simultaneously examine several variables based on several independent variables. Since the present study uses regression analysis to test the hypotheses, this is classified as a descriptive-correlation study.

#### Population and Sample:

The population of this study is composed of the whole firms listed on the Tehran Stock Exchange. This population is selected because the financial information of these firms is publicly available and the homogeneous nature of the data facilitates the research analysis. The research sample is selected based on the firms having three following criteria:

1. The end of the fiscal year should be consistent with the calendar year.
2. The selected firms should be listed on the Tehran Stock Exchange over the examination period.
3. The managerial and financial information for the study should be available.

#### Research Hypotheses:

This study seeks to examine the relationship between ownership structure and accruals of the firms listed on the Tehran Stock Exchange. The following hypotheses are developed:

1. There is a significant relationship between the governmental institutional investors and accruals.
2. There is a significant relationship between the ownership level of the corporate investors and accruals.
3. There is a significant relationship between the ownership level of the family investors and accruals.
4. There is a significant relationship between the ownership level of the board members and accruals.

#### Findings:

The results of the regression analysis are reliable when the fitted regression model is significant. Table 1 represents the results of ANOVA in which the F-statistics confirms the significance of this model at the level of 95 percent.

**Table 1:** Results of ANOVA.

	Model	Sum of squares	Degree of freedom	Mean of squares	F statistics	Sig. level
1	Regression	2.14	6	0.36	18.51	)a0/...(
	Residual	1.7	88	0.2		
	Total	3.84	94			

As shown in table2, it is found that Durbin-Watson statistic is 2.085 which is very close to 2; as a result, the independence of errors in the fitted model of regression is confirmed. The value of  $R^2$  shows that about 53 percent of the changes in the dependent variable are explained.

**Table 2:** Results of Regression

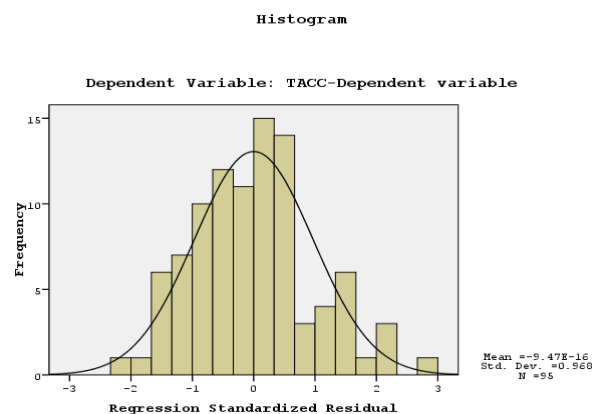
Model	Correlation Coefficient	$R^2$	Adj. $R^2$	Std. error	Durbin-Watson
1	0.747(a)	0.558	0.528	0.139	2.085

Using Kolmogorov-Smirnov test, the normality of the errors is tested. According to the results shown in table 3, it can be concluded that the distribution of the variables are close to normal.

**Table 3:** Results of Kolmogorov-Smirnov test

Residual	Kolmogorov-Smirnov	
0.000	Mean	Normal parameters
0.968	Std. deviation	
0.065	Absolute value	Max. difference
0.065	positive	
-0.038	Negative	
0.634	Kolmogorov-Smirnov	
0.816	Sig. level (two-tailed)	

Chart 1 depicts the curve of the distribution of the error components. The appearance, mean and standard deviation of this distribution confirm its normality.



**Chart 1:** The curve of normal distribution of error components of the regression model.

Table 4 represents the results of multicollinearity test. Based on the value of conditional indicator which is lower than 15, it can be concluded that the independent variables are random and there is no linear relationship between two or more independent variables.

**Table 4:** Results of Collinearity test.

Model	Dimensions	Eigenvalue	Conditional indicator
1	Constant	3.94	1
	Governmental institutional ownership	1.4	1.68
	Corporate ownership	0.93	2.06
	Family ownership	0.41	3.1
	Managerial ownership	0.21	4.31
	Operating cash flows	0.08	7.03
	Firm size	0.03	12.01

Table 5 represents the results of regression analysis. The beta coefficient of the regression equation reveals the sensitivity of the accruals to the changes in any of the independent variables. Using t-test, the significance of the individual variables is examined. When the significance level is lower than 0.05, the coefficient is considered as significant. Based on table 5, three independent variables and one control variable are significant at lower than 0.05 level. That is, the variables have strong participation in the model.

**Table 5:** Results of regression analysis.

Model	Non-standardized coefficients	Standardized coefficients	t-statistics	Sig. level	
	Beta	Std. error	Beta		
Constant	0.25	0.07	-	3.44	0.000
Governmental institutional ownership	0.03	0.02	0.29	2.11	0.038
Corporate ownership	-0.04	0.02	-0.29	-2.45	0.016
Family ownership	0.00	0.02	0.02	0.22	0.825
Managerial ownership	-0.04	0.02	-0.21	-2.09	0.04
Operating cash flows	0.1	0.03	0.29	3.26	0.002
Firm size	0.00	0.00	-0.03	-0.35	0.73

According to the above mentioned points, the research hypotheses are examined:

*Testing the first hypothesis:*

H0: There is no significant relationship between the governmental institutional investors and accruals.

H1: There is a significant relationship between the governmental institutional investors and accruals.

The findings on table 5 represent that the significance level of the relationship between ownership level of the governmental institutional investors and accruals is lower than 0.05 and this will confirm the first hypothesis. Based on the beta coefficient, it can be concluded that there is a positive association between the ownership level of the governmental institutional investors and accruals.

*Testing the second hypothesis:*

H0: There is no significant relationship between the ownership level of the corporate investors and accruals.

H1: There is a significant relationship between the ownership level of the corporate investors and accruals.

As shown in table5, it is found that the significance level of the relationship between the ownership level of the corporate investors and accruals is lower than 0.05 which confirms the second hypothesis. The beta coefficients also confirm the negative relationship between the ownership level of the corporate investors and accruals.

*Testing the third hypothesis:*

H0: There is no significant relationship between the ownership level of the family investors and accruals.

H1: There is a significant relationship between the ownership level of the family investors and accruals.

Based on the findings of table5, the significance level of the association between ownership level of the family investors and accruals is higher than 0.05 which will reject the third hypothesis. According to the beta coefficients, it is concluded that there is no significant relationship between the ownership level of the family investors and accruals.

*Testing the fourth hypothesis:*

H0: There is no significant relationship between the ownership level of the board members and accruals.

H1: There is a significant relationship between the ownership level of the board members and accruals.

Based on the findings of table5, the significance level of the association between ownership level of the board members and accruals is lower than 0.05 which will confirm the third hypothesis. The beta coefficients also show that there is a negative relationship between the ownership level of the board members and accruals.

*Results of Testing Control Variables:*

As shown in table 5, there is no significant association between the accruals and firm size; however, a positive significant relationship is found between the accruals and operating cash flows.

*Discussion and Conclusion:*

Based on the F-statistics in table 1, it is concluded that the total model is significant at 0.05 levels and the first hypothesis is confirmed. This is consistent with the findings of Dechow and Dechow [6] and Haifiza Hashim [9] who found the accruals of the listed firms are affected by the ownership structure of the businesses.

The results of the first hypothesis reveal that the accruals are higher in the firms with high percentage of institutional shareholders. This represents that the governmental institutional shareholders do not have the proper mechanisms or incentives to monitor the performance of the managers. The results of the first hypothesis are consistent with the findings of Kim [12] and Poter (1992); the findings, however, conflict with the results of Hafiza Hashim [9] and Tssai and Gu [24].

The results of the second hypothesis indicate that the higher percentage of the corporate investors is associated with the lower percentage of the accruals measured in financial statements. This is because the corporate investors seek to achieve the maximum profit and better performance. This causes the investors to be concerned about the investments made. In this situation, it is natural that the required incentives are created to have better control over the managerial performance. The findings are consistent with the studies of Kapopoulos and Lazaretou [10] and Namazi and Kermani (2008).

The findings of the third hypothesis reveal that the increase or decrease in the ownership percentage of the family investors has no impact on the accruals and this might be because the ownership characteristics do not have effective impacts on the opportunistic behavior of the managers. These findings are consistent with the results of Bartilomiuz and Tanewsky [1] and Haifiza Hashim [9].

According to the findings of the fourth hypothesis, it is concluded that the higher percentage of the managerial investors' ownership is associated with the lower accruals of the financial statements. This is because the increase in the managerial ownership will mitigate the conflict of interests among the managers and shareholders. In this situation, the managers have no incentive to manipulate the earnings. The results of the fourth hypothesis are consistent with the findings of Peasnell *et al* [17]; however, the findings are inconsistent with Ramasay and Mather [19] and Hafiza Hashim [9].



In terms of the control variables, it is found that there is no significant association between accruals and firm size. This finding conflicts with the results of Mastumoto [14]. There is a positive significant relationship between the accruals and operating cash flows which has not been documented by Peasnell *et al* [17].

The following suggestions are provided based on the results of hypotheses testing:

1. Based on the findings, it was found that the accruals of the firms with higher percentage of governmental institutional owners (resulted from lack of monitoring over the firms) have higher accruals. The economy of Iran is trying to provide an appropriate situation for the participation of the private firms in the investment and management of the economic entities. Consequently, the organizations are suggested not to be assigned to the quasi-governmental companies such as state owned banks, the companies dependent on the entities and social security organization. The organizations are offered to be assigned to the private department, because the private organizations have closer monitoring over their owned companies.
2. The users of the financial statements are suggested to pay special attention to the composition of the shareholders and the quality of the information issued about the earnings. The users are recommended to consider this element in their decisions.
3. According to the findings, it is found that the earnings are more managed in governmental and quasi-governmental institutions. The government plays the roles of owner, auditor and main decision maker in the examined firms. One way to mitigate the earnings management is to reduce the ownership percentage of the government.
4. The Audit Organization is suggested to pay special attention to the managerial incentives for setting standards.

Directions for future studies are as follows:

1. Examining the relationship between ownership structure and firm value.
2. Studying the impact of industry type on the relationship between ownership structure and accruals.
3. Investigating the association between other corporate governance mechanisms (including CEO influence, board size and board independence) and accruals.
4. Examining the impact of ownership structure on dividends.
5. Investigating the relationship between governance measures and components of accruals.

The limitations of this study are:

1. The effects of different accounting and measurement methods might have affected the results of the study.
2. The inflation and other economic variables have affected the figures of the financial statements.
3. The results of this study are based on the model of Richardson [20]; however, different methods might produce different.

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