

THE ASSOCIATION BETWEEN PRESENCE OF FEMALE MEMBERS ON THE BOARD OF DIRECTORS AND EARNING MANAGEMENT WITH DISCRETIONARY ACCRUALS INDEX ON THE LISTED COMPANIES IN TEHRAN STOCK EXCHANGE

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Abstract: Nowadays, women have great deal of contributions both socially and economically in management. This may be attributed to existence of considerable merits in the management styles of women. The main purpose of this study is to shed lights on the relation between the presence of women on the boards of directors of listed companies in Tehran Stock Exchange using and earnings management with discretionary accruals index. The required information were extracted from 90 accepted firms in Tehran Stock Exchange using Cochran sampling method for 7-years period (2006-2012). The findings of the study indicate that the presence of female directors in board is significantly associated with earnings management.

Key words: Female directors, Earning management, discretionary accruals

INTRODUCTION

Given that the financial statements provide relevant information for outer organizational groups, heavy reliance on accounting figures and in particular earnings make some powerful incentives for managers to manipulate earnings to their own benefits. Earnings management does not reflect the actual performance of the company and may lead to incorrect information about the company, in turn resulting in poor judgment by shareholders about the company's performance. Given these and also disclosure of the massive accounting fraud in big companies such as Enron, earnings management has attracted the great deal of attention in part of managers. as there are various the definitions and measures for earnings management, the board of directors as a leading institution supervising the executive directors to maintain equity ownership interest is very important so that it seems that company's success is contingent upon it efficiency. Women are characterized with certain moral qualities and traits enabling them to better monitor and high quality report in company (Adams & Ferreira, 2009).

According to psychology and management literature there are substantial gender differences in terms of leadership styles and communication skills. Thus, in light of these differences, companies pay more attention to gender diversification to governance organizational affairs (Anthony et al., 2011).

In present societies, sustainable development relay on empowering and capacity building in women, so that social scientists always considered obviation of gender barriers as a main research topic on economic and social development. The existent theories on women are based on the belief that women status differs especially in the economic, social and policy in many countries and in order to reach equality, there is a need drastic changes in social and economic infrastructures. From sociology perspective, economic development is not possible in case of ignoring role of women in production and facilities rehabilitation is difficult, because the role of women in household financial management impacts on families in small scale and the society economy as a whole. However, throughout the organization's history, women were usually appointed to positions on which they have to do routine repetitive tasks with positions at low levels, and rarely they taken role as office executor (Pourezat Aliasghar, 2008).

However, regarding the power of women in the economic, social and political positions, many western scholars believe that due to the increasing financial and moral corruption among men politicians, women as reliable politicians are more likely to get higher top positions. Empowerment of women in different countries experience remarkable progress. The women contribution in society is manifested in both family and community scales. Such attitude to women which is emanated from

Islam, may promote the empowerment of women and hence society progress. From this perspective, women are endowed with dignity as a cornerstone of family and community. Considering this, women involvement in different social activities does not prevent family formation and strengthening it. According to statistics, women account for up to 40% of global workforce, although their participation in executing and management positions is drastically low and in most countries, total women membership in management positions is found to be less than 20% (Burke & Vinnicombe 2008).

One reason for the lack of women's participation in organizations is stereotypes, prejudice and bias as a result of demands to process vast quantities of information. Essentially, the categorizations from attributes, such as demographic characteristics (Falkenberg, 1990), are often based on perceived stereotypes. Individuals manage their limited capacity for cognitive processing by deriving stereotypes as a heuristic, or rule of thumb (Fiske 1998). Therefore, stereotypes are often used to define group membership and to predict behavior. Scenarios where the stereotyping is supported enables the perceiver to direct attention elsewhere, whereas discrepancies force the perceiver to form an appropriate impression by assessing each piece of information (Fiske 1998, Gaines and Reed 1995 and Hewstone et al., 2004).

King and Cornwall (2007) pointed out that Suggest that female managers are better able to assess people, control their emotions and anger towards others. However, all these traits are exactly those necessary for corporate governance in the modern world. Female managers tend to take other staffs opinions and keep a middle course, but men think that if they seek the views and advice from others, they judged as a manager who has not answers to his questions. In general, women can select qualified staffs in good manner and their appreciation on outcomes of staffs working in the company seems to be better. Nevertheless, we conclude that women are better than men can cause employees to feel valued and appreciated, and this serves as a way to satisfy the employees with the least cost leading to staff do their job in efficient and honest manner (Smith et al., 2007). Bernardi and Arnold 1997 reported that female managers have higher moral standard than their male counterparts in the role of director. On the other hand, earning measurement process and its outcome plays a key role in corporate governance and usually, it is highly important to financial statement users.

Since the calculation of the profit of the enterprise is affected by the accounting estimation methods and preparing financial statements should be done by business unit manager, for various reasons, director may take action to earnings management (Valizadeh Larihani, 2008). Earnings management occurs when managers judge as for how financial reporting can mislead shareholders about the company's performance, or affecting the result of contracts that based on accounting reports. Managers adopt various approach to manage earnings in various ways such as service life, depreciation accounting method, how to deal with the costs of research and development and so on (Trueman and Titman 1988).

Noravesh et al (2005) evaluated earnings management in firms listed in Tehran stock exchange. They concluded that managers of big companies adopt accruals to minimize their tax. The findings substantiates earnings management in exchange companies (Noravesh et al., 2005). while studying relationship between board of directors structure and earning management in Pakistan, Ali shah et al measured Board structure by board independence and institutional ownership. The results showed negative relationship between institutional ownership and earnings management and no significant relationship was found between board independence and earnings management. Role of accruals items in the earning management of listed companies in Tehran Stock Exchange was studied (Mashieghi et al., 2005). It was found that in above companies, earning management practices and corporate executives when low cash from operations represents the poor performance of business unit. To compensate this, discretionary accruals was increased to higher profits. Gavius et al (2012) conducted a research as titled female directors and earning management in high-tech companies. Results showed that those company resided by women directors used less earning management. However, there are few reports demonstrating a relationship between presence of female members on the board OF directors and earning management, In the present study, we investigated The association between presence of female members on the board OF directors and earning management with operating accruals index in Tehran Stock Exchange.

MATERIALS AND METHODS

The research population includes all companies listed in Tehran Stock Exchange

during 2006 to 2012. Companies having the following features participated in this research) being accepted in Tehran Stoch Exchange before 2006) For being able to compare their information their fiscal year must end at the last day of the year. C) Companies stock must be traded during the fiscal year. D) Companies should not be investment and financial intermediation companies. E) Information required for the research must be accessible. In this study, for random sampling was used to select 90 companies to perform statistical tests. In the current research the presence of women in the directing board is the independent variable, this variable is nominal so that if the woman is a member of the board it takes one, otherwise it will be zero. Earnings management using operating accruals is dependent variable, and variables such as The type of Auditing Institute, The lever relation, the size of the firm, the rate of Sales growth, The size of the board, The share of Institutional stock holders, The duality of CEO, are control variables. The research model for surveying the research aims is as follows:

$$AbAccit = \beta_0 + \beta_1 FemBoard_{it} + \beta_2 Leverage_{it} + \beta_3 Size_{it} + \beta_4 SalesGr_{it} + \beta_5 BoardSize_{it} + \beta_6 Aud_{it} + \beta_7 \%Ins thold_{it} + \beta_8 CEO/chairdual_{it} + \epsilon_{it}$$

Leverage: Leverage ratio achieved through total liabilities divided by total assets. Size: Company size defined through the natural logarithm of total assets. Salesgirl: The rate of Sales growth is sale difference between the current year and the previous year divided by last year sales. Board Size: The size of the board is the natural logarithm of board members. Aude: The type of Auditing Institute, This is a nominal variable and in case auditing institution is it takes one otherwise it will be zero. Ins hold: The share of Institutional stock holders is institutional investors divided by total shares of the company stock. CEO/chairdual: The duality of CEO is a nominal variable when both the CEO and chairman are the same it equals one and otherwise is zero. Combined data were used for estimating regression models; in this method, time series and cross-sectional data are combined together. For efficient estimation of a regression model by the use of combined data,

one of the three modes of common effects, fixed effects and random effects are chosen by the use of appropriate tests. The required tests for choosing one of the above mentioned models is Fisher's F-test for choosing between models of common effects and fixed effects and in case of choosing fixed effects model, Hausmann test is used for choosing between fixed effects models and random effects models. Also autocorrelation between error term, variance anisotropy, and normal data distribution were surveyed. Statistical analysis was conducted by the use of EXCEL software and EVIEWS and significance level was considered to be $p \leq 0.05$.

RESULTS

The Hypothesi was designed to consider the presence of women in the directing board and the earnings management with discretionary accruals index there is significant relationship.

Hypothesi was formulated as follow:

- H0: There is a significant relation between female membership in board of directors and earning management with discretionary accruals index
- H1: There is a no significant relation between female membership in board of directors and earning management with discretionary accruals index

Given that in the present research discretionary accruals was used for earnings management, that is explained below:

According to the results, Table 1 shows that F statistics and significance level indicates the significance of the model for hypothesi test. The results show that variable rate for participation of women at board is (- 0.006) and significant at the 5% so it can be noted that the presence of women on the board of directors and earnings management (discretionary accruals) are related significantly. As the coefficient is negative, it can be concluded that the higher female membership in board of director, the less earning management will be. The board size and liability ratio are positively related to discretionary accruals and discretionary accruals are negatively related auditing institution. Director duality is reversely related to earning management.

Table 1 .Summary of statistical results.

Variable	Coefficient	t-Statistic	Significance level
C	0.06	0.06	0.95
FEMALE	-.006	-3.35	*0.000
SIZE	-.009	-0.82	0.41
LEV	0.07	2.13	*0.03
AUD	-0.01	-4.84	*0.000
BSIZE	0.02	2.19	*0.02
DUAL	-0.05	-3.06	*0.002
INS	-0.03	-1.71	0.08
GROWT	-0.02	-0.74	0.45
Adjusted R-squared		0.27	
F-statistic		2.72	
Prob(F-statistic)		0.000	
D.W		1.56	

DISCUSSION

There is a significant relation between female membership in board of directors and earning management with operating accruals index

In this study, it was attempted to evaluate the presence of women in the structure of the directing boards and earning management. The Earnings management was examined through the index of discretionary accruals parameters. Whereas Earnings management, in accounting, is the act of intentionally influencing the process of financial reporting to obtain some private gain. Earnings management involves the alteration of financial reports to mislead stakeholders about the organization's underlying performance, or to influence contractual outcomes that depend on reported accounting numbers. For this, discretionary accruals are considered.

the Chow and Hausman test and the kind of model for the combinational data, showed that there is significant relation between women membership on the board of directors and earning management with discretionary accruals index also it was made clear that firms

with women on their boards, they have less use discretionary accruals for earning management. Such results are in line with findings obtained by following researchers. Adams & Ferreira (2009) found female executives exert positive effects on board inputs and company outputs. According to Shrinid et al (2011), presence of female directors in board leads to improved earning quality. Additionally, in a research as titled female directors and earning management in high-tech companies, Gavius et al (2012) found that those companies characterized with female boards have less adopted earning management.

Since, to the best of our knowledge, this is first study in Iran, it is recommended to apply some others variables and subjects as:

- impact of women's memberships on board with quality of earnings
- impact of women's memberships on board with earnings persistence
- impact of women's memberships on board with firm value
- impact of women's memberships on board with performance of firms

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