

# The Relationship between Earnings Management and Social Responsibility, Emphasizing New Paradigms for Accounting - Profit Companies Listed in Tehran Stock Exchange 2007-2012

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## Abstract

The purpose of this study is to investigate the relationship between earnings management and social responsibility, with an emphasis on new paradigms of accounting - profit companies listed in Tehran Stock Exchange for the year 2007-2012. In this study there have been used to measure earnings management, the modified Jones model, to collect data on the changing social responsibility questionnaire Syngapkdy and colleagues (1996) and a questionnaire for collecting data related to organizational commitment Hunt and colleagues (1989), due to their high reliability and validity. In this study, 39 companies listed in Tehran Stock Exchange were reviewed for the (2007-2012) period. To test the hypotheses with regression models used econometric software E views 6. The research findings show a negative relationship between earnings management and corporate social responsibility, and about 15% of corporate social responsibility of the variation in the inverse variables is affected by the size of the company, financial and earnings management. The company's financial performance positively related to earnings management. Finally, organizational commitment is negatively associated with earnings management and firm performance.

**Keywords:** Earnings Management, Social Responsibility, Financial Performance

**Introduction:**

During the last decades leadership and management of organizations in the management is considered in all aspects of the development. Although Complexity of the changes and ups and downs in this field has gained involved experts and researchers more than before, on the other the other hand economic, financial and accounting analysis of new approaches have more effective role in expressing fully operational areas. Until early 20th century, concepts were restricted only to quantitative analysis and the theoretical fundamentals of the project were limited to unidirectional equations. Paradigms were defined in the same range. However, the development of theoretical economics and common views of the authors, focused attention on new applications of information systems in financial Accounting.

The nature and content of such systems almost related to a majority of issues raised in the field of economics, financial resources and productivity of material resources. In terms of economic perspective and assumption of logical behavior, it is assumed that everyone to seek to maximize own interests in the first step. However, managers are no exception of this rule. They are interested in the direction –maximization of personal resources ,social welfare and own fixed job position to present a favorable picture of the financial position in the business unit to beneficiaries shareholders and other members. However, in some cases, increasing requirements of wealth managers does not in order to improving shareholders wealth such as other groups. In view of the conflict theory between managers and owners, commercial unit managers have motivations to modify earnings in order to maximize their own benefits.

**Problem Statement:**

In view of informational perspective, concept of “ benefit” express the result of economic activities but as a basic performance mature is still doubtful. Base on the efficiency of capital markets, the experimental studies confirms the accounting earnings involve informational content.

(Truth and Free, 2008). The accrual accounting has granted to managers the choice of considerable to determining benefit in different period of time. Actually in this type of accounting system, managers have significant control over certain items and identify time of income and expenses. (Mashaykhi and Safari 2005). This has led to make a category known as earning management. Earnings management is defined as a process of consciously taking steps in the area of accepted accounting principles to deliver reported earnings to expected profit. Closing the reported profit to profit target is done by manual accounting.

(Mola nazari and Karimi Zand 2007)

The financial statements did not have a problem to putting in the framework accounting standard.

And auditors of financial statements could not be objection, but considering the profit is one of the most important factors influencing the decision, therefore knowledge of users in .However should be noted that the organizational strategic of manager, earning per organizational unit is an important part of management responsibilities including accountability to the owners of capital.

Many of their decisions for organizational unit also will have worth or benefits costs. Therefore, investors, creditors, employees, customers and managers are considerable profit in the organizational unit ability to make desired beneficiaries. According to necessity, this research to investigate the relationship between earnings management and at the same time the requirements of social responsibility with an emphasis on new paradigms.

This study, based in order to the need to enrich the study of accounting as well as giving the benefit of investors, the issue is whether there is a rational relationship between earnings management and social responsibility or not?

Other topics that will be examined in this study the effect of corporate social responsibility with profitability management practices that affects a company's financial performance. The beneficiaries theory consider the good management by positive relationships to improve financial performance.

The main assumption in this theory is that social responsibility as an organizational tool that makes effective use of resources and has a positive impact on the company's financial performance (Dvinalasv and Preston, 1995)

### **The History of research**

Jean and Derzdenco (2010) in a study of the relationship between ethics, organizational social responsibility concluded the systematic organizational managers compared to machine organization has high level of social responsibility and morality. Turner (2009), in research named corporate social responsibility in Bangladesh concluded that corporate social responsibility have effects of positive potential especially in countries with social limitations. In his study Parivar and colleagues (2008) in his study titled Investigation of the relationship between earnings management and corporate social responsibility had concluded, earnings management has a positive impact on corporate social responsibility and the relationship between these two variables, causes a negative impact on the financial performance of the company.

Bromer and his colleagues (2007) discussed in a study to investigate the relationship between organizational commitment and understanding Corporate Social Responsibility of employees within the mode this is derived from social identity theory.

In this study, the relationship between organizational commitment and social responsibility aspects were examined. Results of this study has significant implications for implementation of social responsibility inside the organization strategies along.

And that is focused the positive relationship between employees' understand of social responsibility on organizational commitment that may result from the investment in Corporate Social Responsibility.

such studies related to earnings management and social responsibility in the field of listed companies in Tehran stock exchange in the country has been worked, we can noted to Khajavi, Bayazid and Kngarloo (2010) in the same issue. In this study demonstrated there is a negative relationship between variables.

### **Research Hypothesis**

- 1 – There is a significant relationship between profit and social responsibility in the management of listed companies in Tehran Stock Exchange.
- 2-Threr is a significant relationship between a corporate performance management and profitability of listed companies in Tehran Stock Exchange.
- 3-There is a significant relationship between a corporate performance and social responsibility of Tehran Stock Exchange listed companies.
- 4-Threr is a significant relationship between profit management and organizational commitment among the listed companies in Tehran Stock Exchange.
- 5-There is a significant relationship between organizational commitment and performance of the listed companies in Tehran Stock Exchange.

6- Social responsibility, along with enhancing performance effected reduction on listed companies in Tehran Stock Exchange.

The key assumptions are as follows:

- 1 - Selected sample should necessarily be accepted in Tehran Stock Exchange since 2006.
- 2- The selected sample should not managing change and changes in performance financial period and a financial year is ending last March.
- 3 - The selected sample should not be considered investment companies and financial intermediation.
- 4 - With regard to above circumstances, a number of private companies will be selected as a model.

### Statistical Population and Sampling Method

Statistical population of enhancing profit is companies listed in Tehran stock exchange for the period

2007 to 2012. There is some heterogeneity among firms listed in Tehran Stock enhancing which caused to apply the Selection of certain assumptions.

### Methodology and data collection Method

In order to collect data on profit management will be used of the company's financial statements during the period of the study. For collecting data relating to the changing social responsibility Singapukdy and his colleagues questionnaire (1996) is used with a few changes and to collecting the data relating to organizational commitment questionnaire modified by Hunt and colleagues (1989) due to their high reliability and validity will be used.

Emphasize and note that for measurement of organizational commitment to social responsibility the questionnaire will be used based on Likert scale.

There will be used the modified Jones model to measure earnings management (1995), this is the only Model has the capability of problem solving measure of earnings management.

To test the hypotheses, regression models and econometrics software E views 6 is used.

### Research Models

In this Research the modified Jones model is used to measure the earnings management because this model is able to solving the ongoing research, also the relationship between profit management and organizational social responsibility will be examined and measured through social (questionnaire).

Modified Jones model to measure profit management are used as follows:

$$TAC_{it}/TA_{it-1} = a_{0j}(1/TA_{it-1}) + a_{1j}(\Delta REV_{it} - \Delta REC_{it})/TA_{it-1} + a_{2j}(PPE_{it}/TA_{it-1}) + e_{it}$$

Aggregate accruals: (Profit before Unexpected items minus operating cash flow TACit) in year t

$TA_{it-1}$  Total assets at year t--1 for the company under study i.

$\Delta R EV_{it}$   $\Delta$  changes in income 1 - t to t for company under study i.

$REC_{it}$   $\Delta$  Changes in received accounts and notes during t-1 to t for company under study i.

$PPE_{it}$  Impure amount of property, machinery and equipment in year t for company under study i.

$e_{it}$  Generally it is assumed that the cross-sectional regression error  $V_{it}$  is uncorrelated normal distribution with mean zero

The estimated coefficient from regressions of the study was to estimate accruals management

for each sample, the fraction of the sum of unmanaged accruals  $TAEM_{it}$  is derived as follows:  
 $TAEM_{it} = TAC_{it} / TA_{it-1} - a_{0j}(1/TA_{it-1}) - a_{1j}(\Delta REV_{it} - \Delta REC_{it}) / TA_{it-1} - a_{2j}(PPE_{it} / TA_{it-1})$

$TAEM_{it}$  Components of accrual management company in the study of aggregate discretionary

**Accruals:**

To measure the performance of companies listed on the stock returns on the assets used as:  
 $ROA_t = NI_t / TA_t$

$TA_t$  Book value of total assets at end of year t

$NI_t$  Pure profit at end of year t

In order to measure financial resources of the control variables used in the following equations:

$FR_t = OCF_t / TA_t$                        $Size = \ln(TA_i)$

There are:

$OCF_i$  Cash flow at the end of the year t

$TA_i$  Book value of total assets at end of year t

$\ln(TA_i)$  Normal logarithm of total assets at end of year t

**Statistical Analysis**

Descriptive statistical methods organize and summarize data in way they are understanding and summarized. The first step in organizing the data sorting the data based upon a reasonable measure then extracted the central tendency and dispersion parameters.

In conclusion, using appropriate descriptive statistical methods can express exactly features a set of information. Descriptive statistics is used to determine and describe all features are information of the research. In this part, to analyze the data, descriptive statistics of the data are calculated.

Table (1-4): Descriptive statistics for research variables

Coefficient of Variation	Minimum	Maximum	Standard deviation	Center	Average	Statistics Variable
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-2/197	-3/51	2/54	0/7406	-0/2587	-0/3371	Earnings Management(TAEM <sub>t</sub> )
0/072	2/44	3/41	0/2106	2/940	2/9305	Social Responsibility(SR)
0/1299	2/00	3/41	0/335	2/59	2/579	Organizational Commitment (OR)
5/42	-0/10	2/79	0/4385	0/1169	0/1814	Financial performance
2/129	-0/05	3/50	0/6087	0/1419	0/2859	Financial resources (FR <sub>t</sub> )
0/0979	11/53	17/41	1/3816	13/771	14/1151	Company Size (Size=ln(TA <sub>i</sub> ))

Table (2-4): Correlation coefficient (significance level) between research variables

(FR <sub>t</sub> )Funds	Financial performance	Organizational Commitment	Social Responsibility	Earnings Management	Variables
				1	Earnings Management (TAEM <sub>t</sub> )
			1	(0/478)0/117	Social Responsibility (SR)

		1	(0/806)0/041	(0/221)-0/200	Organizational Commitment (OR)
	1	(0/794)0/043	0/660)0/073(	(0/000)0/619	Financial performance (ROAt)
1	(0/952)0/01	0/089)0/276(	(0/708)-0/062	(0/000)-0/696	Financial resources (FRt)
(0/153)-0/233	(0/852)-0/031	(0/555)-0/097	(0/782)0/046	(0/291)0/174	Company Size (Size=ln(TA <sub>i</sub> ))

Table (3-4): The

$SR_{it} = \beta_0 + \beta_1 TAEM_{it} + \beta_2 FR_{it} + \beta_3 Size_{it} + e_{it}$					
Method of least squares regression		Views:39	Dependent variable, social responsibility		
VIF	T-statistic significant level	T-statistics	Coefficient	Variables	
-	0/000	7/611	2/872	Constant value( $\beta_0$ )	
1/94	0/546	0/610	0/040	Earnings Management(TAEM <sub>it</sub> )	
1/99	0/852	0/188	0/015	Financial resources (FR <sub>t</sub> )	

1/06	0/856	0/856	0/005	Company Size (Size=ln(TA <sub>i</sub> ))
Watson statistic camera 1/76		The coefficient of determination (0/015)	Value (probability) F-statistic (0/91) 0/18	
Value (probability) KS statistic (0/48)0/84			Adjusted coefficient of determination (0/007)	

regression model, the impact of profit management on social responsibility

Table (4-4): The regression model, the impact of company performance on profit management

TAEM <sub>it</sub> = β <sub>0</sub> + β <sub>1</sub> ROA <sub>it</sub> + β <sub>2</sub> FR <sub>it</sub> + β <sub>3</sub> Size <sub>it</sub> + e <sub>it</sub>				
Method of least squares regression		Views: 39	Dependent variable Earnings Management (TAEM)	
VIF	T-statistic significant level	T-statistics	Coefficient	Variables
-	0/277	-1/104	-0/52	Constant value(β <sub>0</sub> )
1/01	0/000	10/528	1/058	Financial performance (ROA <sub>t</sub> )
1/06	0/000	-11/353	-0/845	Financial resources(FR <sub>t</sub> )
1/06	0/628	0/503	0/017	Company Size (Size=ln(TA <sub>i</sub> ))
Watson statistic camera 1/832		The coefficient of determination (0/876)	Value (probability) F-statistic (0/000)82/52	
Value (probability) KS statistic (0/544)0/80			Adjusted coefficient of determination (0/866)	

Table (5-4): The regression model, the impact of company performance on corporate responsibility

$SR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FR_{it} + \beta_3 Size_{it} + e_{it}$				
Method of least squares regression		Views: 39	Dependent variable social responsibility (SR)	
VIF	T-statistic significant level	T-statistics	Coefficient	Variables
-	0/000	7/529	2/853	Constant value( $\beta_0$ )
1/01	0/661	0/442	0/036	Financial performance( $ROA_t$ )
1/06	0/755	-0/315	-0/019	Financial resources ( $FR_t$ )
1/06	0/839	0/205	0/005	Company Size ( $Size = \ln(TA_i)$ )
Watson statistic camera 1/756		The coefficient of determination (0/010)	Value (probability) F-statistic (0/946)0/123	
Value (probability) KS statistic (0/378)0/911			Adjusted coefficient of determination (0/001)	

Table (6-4): The regression model, the impact of profit management on company's organizational commitment

$OC_{it} = \beta_0 + \beta_1 TAEM_{it} + \beta_2 FR_{it} + \beta_3 Size_{it} + e_{it}$				
Method of least squares regression		Views: 39	Dependent variable Organizational Commitment(OC)	
VIF	T-statistic significant level	T-statistics	Coefficient	Variables
-	0/000	4/569	2/655	Constant value( $\beta_0$ )
1/937	0/944	-0/071	-0/007	Earnings Management( $TAEM_t$ )
1/987	0/270	1/121	0/141	Financial resource( $FR_t$ )
1/06	0/836	-0/208	-0/008	CompanySize ( $Size = \ln(TA_i)$ )
Watson statistic camera 2/028		The coefficient of determination (0/077)	Value (probability) F-statistic (0/414)0/978	
Value (probability) KS statistic (0/796)0/647			Adjusted coefficient of determination (0/002)	

Table (7-4): The regression model the impact of company performance on the company's organizational commitment

$OC_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FR_{it} + \beta_3 Size_{it} + e_{it}$
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Method of least squares regression		Views: 39	Dependent variable Organizational Commitment (OC)	
VIF	T-statistic significant level	T-statistics	Coefficient	Variables
-	0/000	4/430	2/655	Constant value( $\beta_0$ )
1/241	0/274	-1/112	-0/665	Financial performance(ROAt)
1/164	0/587	-0/548	-0/100	Financial resource( $FR_t$ )
1/13	0/814	0/238	0/010	Company Size (Size= $\ln(TA_i)$ )
Watson statistic camera 2/21		The coefficient of determination (0/064)	Value (probability) F-statistic (0/526)0/758	
Value (probability) KS statistic (0/867)0/598			Adjusted coefficient of determination (0/021)	

Table (8-4): The regression model the impact of social responsibility with financial performance on Profit management practices

$ROA_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FR_{it} + \beta_3 Size_{it} + e_{it}$					
Method of least squares regression		Views: 39	Dependent variable Financial performance(ROAt)		
VIF	T-statistic significant level	T-statistics	Coefficient	Variables	
-	0/405	0/843	0/54	Constant value ( $\beta_0$ )	
1/02	0/859	-0/179	-0/031	Social Responsibility(SR)	
1/96	0/000	10/345	0/719	Earnings anagemen( $TAEM_t$ )	
1/99	0/000	7/128	0/608	Financial resource( $FR_t$ )	
1/06	0/613	-0/511	-0/014	Company Size(Size= $\ln(TA_i)$ )	
Watson statistic camera 1/747		The coefficient of determination (0/760)	Value (probability) F-statistic (0/000)26/99		
Value (probability) KS statistic (0/646)0/739			Adjusted coefficient of determination (0/732)		

## Conclusion

The results of this study indicate that there is not a significant relationship between profit management and social responsibility listed companies in Tehran Stock Exchange. A brief discussion of the results of this study is follows:

1 - The results show that the level of profit management of study has lower stability, profit management is influenced by various factors, as well as corporate social responsibility has high constancy and stability.

2- Results show that larger companies with greater financial resources or sheets in Tehran Stock Exchange social responsibility and financial performance and have lower performance due to low correlation with the companies has large extent independent of organizational social responsibility.

3- The relationship between corporate social responsibility and manage profits are weak and insignificant, this indicates that Iranian managers conducted and manage profit to increase performance in short term, therefore of social responsibility is not used as a shield for earnings management or because the considering these responsibilities is to reduce the company's performance in the short term, managers do not need to hide behind this shield.

4- The results indicate that there is a positive relationship between a company's financial performance and earning management, mean with increasing profit management increases the company's financial performance.

The results also indicates that larger companies have lower performance, it can said there is a directly significant and strong relationship between company performance and profit management of listed companies enhancing Tehran Stock Exchange and with the increasing company performance, profit management is greater.

However there is the inverse, strong and significant relationship between financial resources management and profit of listed companies in Tehran Stock Exchange, and with increased financial resources, profit management is reduced too.

5-The results indicates that there is negative relationship between performance and corporate social responsibility is inverse and this indicates that Iranian managers partially have short-term vision and they have relying on short-term policies and neglect the long-term social responsibility, and by consumer greater resource consumption will be reduced the influence of long-term performance of the company.

6-The results suggest a negative relationship between profit management and organizational commitment its mean with increasing organizational commitment, the levels of profit management is reduced this indicates that the larger companies have more profit management and vice versa profit management companies with more financial resources have fewer profit.

7 - The results indicate that there is a negative relationship between firm performance and organizational commitment by increasing the organizational commitment, the company performance is reduced.

8 - The results indicate that corporate social responsibility corporate social responsibility in the management of inverse effect on the profit of financial performance and will improve company performance and by increasing corporate social responsibility with profit management, performance of the company will increase.

9 - The results confirm expectations contained in the theoretical framework with the results of research carried out by Jones (1995), Parivar and colleagues (1999), Donaldson and Preston (1995) and Khajoo Kngrlv Bayazid (1389) also in corresponded .

### The research Proposals:

Proposals from this study divided two suggestions: resulting research suggestion into and some suggestion for future researches:

A-To all investors and creditors (including banks and financial institutions and credit) is recommended that in addition their decisions to buy and sell stock in companies or lending them, determine other studies, fluctuations in sales and demand. Since a fluctuations in the amount of high sales and trade receivables, and managers have tried to smoothing reported profits to hide this issue from the perspective of investors and creditors probably transmit the operational and financial status of the company is not satisfactory and managers have tried by smoothing reported profits to hide this issue from the perspective of investors and creditors.

B- Considering the social responsibility of the company's long-term can have be favorable effect on company performance. Therefore suggested that investors to consider the issue of corporate social responsibility before they took the decision.

C-It is suggested that Tehran Stock Exchange, rules and regulations as may be adopted that measure the actual amount of social responsibility.

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