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The Moderating Role of Family Ownership in the Relationship between Life Cycle and Real Earning Management in Tehran Stock Exchange Listed Companies[1]

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INTRODUCTION

The main purpose of this research is to investigate the effect of the company's position in the life cycle on real earning management, emphasizing the moderating role of family ownership. Control of family firms is stronger in the early stages of the life cycle than in the late stages. Previous studies have different judgments about the level of profit management in family companies compared to non-family companies. For this reason, we empirically evaluate the behavior of real profit management of family firms in comparison with non-family firms at different stages of the life cycle. For this purpose, the data of the companies admitted to the Tehran Stock Exchange, where access to the data is possible, is used.

MATERIALS AND METHODS

The method of research is applied in terms of purpose with a causal nature which takes a post-experimental method. Data source is the information included in the financial statements of the Tehran Stock Exchange listed companies. The time frame of research includes eight consecutive years from 2014 to 2021. The statistical sample embraces 141

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TSE-listed companies. The final analysis of data was done in Eviews and SPSS software. Firstly, the entire sample is divided into two groups of companies with family ownership and without family ownership. Then, the effect of the life cycle on earning management variables is tested using multivariate regression analysis in both samples, independently. Finally, the effect coefficients obtained in two samples are compared with each other by two-sample t-test (paired comparison). First, it is necessary to fit regression models for companies with and without family ownership. For this purpose, the reliability and co-accumulation of the explanatory variables were first ensured. Next, to check the collinearity between the explanatory variables of the model, the correlation matrix between the research variables was estimated and the obtained results showed that the correlation coefficients between the explanatory variables of the regression models exceeded the critical threshold (80%). After checking and controlling the assumptions of classical regression and determining the correct method of fitting with the F-Limer and Hausman test, the research hypotheses were tested at the sample level of companies without family ownership and companies with family ownership.

RESULTS AND DISCUSSION

The obtained results show that there is a significant relationship between the life cycle stages of companies and earning management through sales management, production cost management, and investment management. Also, the earnings management strategies used in the life cycle of family-owned firms are different from others. Based on the findings of this research, companies without family ownership use production cost management and sales management in the stages of introduction and maturity, respectively, and in the final stages of life (decline), they put earning management using investment management into practice. While family-owned companies do not use profit management in the early stages (introduction and growth), and in the maturity stages, they manage real earnings by using sales management.

CONCLUSION

Considering that the characteristic of family companies in the global economy is their importance and dynamism, family companies, due to their usual ownership structure, make different strategic decisions regarding profit management based on accruals. To investigate this issue, the effect of family ownership on the profit management status of companies in each stage of the life cycle is investigated. Based on the results of the research hypothesis, it can be said that in the early stages of a company's life (introductory), in family-owned companies, profit management through sales management is decreasing. Also, in the growth stages, of these companies, profit management through the sale of investments is decreasing. Based on the results obtained, in the mature stage of family-owned companies, real profit management and profit management through sales management are incremental; but in the decline stage, profit management through sales management has a decreasing trend.

About family-owned companies, the obtained results show that these companies do not use profit management in the stages of introduction and growth, but in the maturity stage, they seriously follow the use of real profit management and sales management. Family firms, due to their typical ownership structure, make different strategic decisions for earnings management based on accruals. The reason for not using profit management in the early stages in these companies is that the control of family companies in the early stages of the life cycle is stronger than in the final stages, which is according to Kreizer et al.'s research (2006). In the maturity stage, these companies seek to develop the current product market, offer new products in new markets, and reach more target customers, and probably for this reason, they use profit management the most in this stage. It is worth mentioning that the current research is one of the few domestic researches that examines the direct effect of life cycle and family ownership on profit management. Therefore, conducting research in this field is necessary and the results of this research can indicate the advantages (reduction of profit management) and disadvantages (increase of profit management) of family ownership. Considering that family ownership plays an important role in reducing the profit management options of companies in the stages of the life cycle, policy-making institutions active in the capital market are advised to consider the necessary measures and infrastructure to strengthen/support family ownership to subsequently see an increase in quality. Be a financial reporter. Institutions and audit organizations are also advised to pay special attention to the issue of family ownership of the company and placement of the companies in each stage of the life cycle when making decisions

about accepting work, determining remuneration, estimating audit risk, etc. Potential and actual shareholders of companies are also advised to pay attention to the advantages and disadvantages of family ownership (decrease and increase profit management) in investing companies while reviewing and monitoring the stages of the company's life cycle.

Keywords: Real earning management, Life cycle, Family ownership, Tehran Stock Exchange.

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