Article can be accessed online at http://www.publishingindia.com

Corporate Governance and Management Earning Forecast: The Case of Tehran Stock Exchange

Snor Khosh Bakht*, Saeid Jabbarzadeh Kangarlouei, Morteza Motavassel****

Abstract

The purpose of this study is to find the ways to increase management earning forecast preciseness. Corporate governance is regarded as a tool for this purpose. However, this study examines the relation between some components of the corporate governance mechanisms (outside board of director, institutional ownership, duality, auditor quality, firm's age, and firm's ranking in organisation of industrial management) and accuracy of earning forecast by management. The sample of study consists of 53 companies listed in Tehran Stock Exchange during the years of 2007-2012. To test research Hypothesis, multiple linear regression models are used. Research findings indicate that outside board of director, audit quality and firm's age have positive impact and duality, institutional ownership, corporate ranking in organisation of industrial management have no impact on accuracy of earnings forecast.

Keywords: Corporate Governance, Management Earning Forecast and Tehran Stock Exchange

Introduction

Financial information disclosure is different in firms. Recognition of possible effective factors on decisions regarding management financial disclosure is a subject that can be useful for market policy makers. One of information that firms disclose is income forecast. Corporate governance is a factor that may result in firm's performance improvement especially quality of information rendered by firm's management. Corporate governance mechanisms have an important effect on firm's disclosure quality. Financial reporting transparency mitigates agency problems through reducing of information asymmetry between management and stockholders. In contrast, weak financial information disclosure misleads shareholders having an unfavorable impact on shareholders wealth (Karamanou *et al*., 2005).

Earnings forecast by management is the most important informational resources for investors and other potential parties. Forecast provided by managers as to firm's future profitability has a valuable potentials helping investors in their decision-making. These forecasts validity is related to its correctness from investor's view (Gholam Alipour & Sagafi, 1991). Researches have shown that earnings forecast preciseness by management is a clear sign of management credit. Williams (1996) finds out that managers gain credit and reputation considering their previous forecasts which is sign of his or her future forecasts believability.

Nagar *et al.* (2003) argue that managers use earnings forecast in order to refine information asymmetry and affect on stock price. Manager's forecast is one of the efficient tools of conveying management expectation to market. Management forecasts help investors to predict future income. According to Choi *et al.* (2008), income respond coefficient is high for firms that forecast income than firms without income forecast. However, good corporate governance may improve financial disclosure quality specifically earnings forecast.

Considering the above arguments, the purpose of this study is to find the ways to increase management earning forecast preciseness. Corporate governance is regarded as a tool for this purpose. However, this study examines the relation between some components of the corporate governance mechanisms (outside board

* Department of Accounting, Science and Research Branch, Islamic Azad University, West Azarbyjan, Iran.
** Department of Accounting, Urmia Branch, Islamic Azad University, Urmia, Iran. Email: jabbarzadeh.s@gmail.com
*** Department of Accounting, Science and Research Branch, Islamic Azad University, West Azarbyjan, Iran.

of director, institutional ownership, duality, auditor quality, firm's age, and firm's ranking in organisation of industrial management) and accuracy of earning forecast by management. More precisely, this study is to answer this question: Do corporate governance affect earnings forecast preciseness?

Literature Review

Corporate governance is defined as regulations, structures, cultures and systems that result in accountability, transparency, justice and protection of stakeholder's rights (HassasYeganeh & Bagmoyan, 2005). Corporate governance may has a significant impact on firms financial reporting process specifically earnings forecast preciseness. Many researchers have tried to unfold this impact. Followings represent some of them:

Ajinkya *et al.*(2005) investigated the relationship between board of director composition and institutional ownership with management earnings forecast. They find that there is a positive relationship between outside board of director and management earnings forecast preciseness. They also show that there is a negative relationship between institutional ownership and management earnings forecast preciseness.

Behn *et al.* (2008) investigated whether audit quality has a relationship with earnings forecast. They indicated that existence of specialized auditor in industry has a positive relationship with earnings forecast preciseness and negative relationship with earnings forecast error.

Mnif (2009) investigated the relationship between firm's age and earnings forecast preciseness. He indicates that older firms have a higher earnings forecast preciseness.

Nurwati *et al.* (2010) investigated the relationship between corporate governance and earnings forecast preciseness. They indicate that more members without executive duty in audit committee leads to more earnings forecast preciseness. They also could not find a significant relationship between corporate governance attributes and earnings forecast preciseness.

Marfu (2006) investigated the relationship between outside board of director and institutional ownership with earnings forecast attributes. They find a very weak relationship between outside board of director and institutional ownership with earnings forecast attributes (preciseness, timeliness and reversion times).

Moradi (2007) investigated the relationship between institutional ownership and informational content of earnings and indicate that there is a negative relationship between institutional ownership and earnings forecast capability.

Alavi *et al.* (2009) investigated the relationship between audit quality and firm's earnings forecast. They find that higher audit quality results in earnings forecast preciseness.

Mehrani & Safarzadeh (2011) investigated the relationship between corporate governance and audit quality. They indicate that corporate governance has a positive significant relationship with earnings forecast preciseness.

Truong & Dunstan (2011) examined the influence of three external corporate governance mechanisms - continuous disclosure regulatory reform, analyst following and ownership concentration and one internal corporate governance mechanism - board structure, on the likelihood, frequency, horizon, precision and accuracy of management earnings forecasts. They provide strong evidence that these four corporate governance mechanisms have a significant influence on management earnings forecast behavior.

Research Hypotheses

Research's main hypothesis is as following:

H_1: Corporate governance mechanisms have a positive impact on management earnings forecast.

There are many corporate governance characteristics affecting management earnings forecast. Following represents some of them.

Outside board of director has a stronger motivation to supervise executive managers and financial reporting process (Lipe,1990). Better supervision on executive managers improves board of director's reputation (Peasnell, Pope & Young, 2000). Empirical researches support the notion that increasing the outside board of director in board composition mitigates agency costs

(Xie *et al.*, 2003). Lim *et al.* (2007) find out positive significant relationship between outside board of directors and voluntary disclosure in Australia. They indicate that good corporate governance improves financial reposing quality and mitigates information asymmetry. However, following hypothesis is regarded:

$H_{1\text{-}1}$: Outside board has a positive impact on management earnings forecast.

Institutional investors are experienced stockholders. They purchase firms stocks who are improving their disclosure quality which includes management forecasts preciseness (Ajinkya *et al.*, 2005). However, with increasing institutional ownerships, it is expected that firms have a tendency to forecast more accurately. However, following hypothesis is regarded:

$H_{1\text{-}2}$: Institutional ownership has a positive impact on management earnings forecast.

The role of board of director is to supervise chief executive management. Chief executive management has a power of controlling board of director minutes and meetings. Influence of chief executive management may have a negative impact on market participant perception as to management performance and financial reporting process (Agaee *et al.*, 2009). However, following hypothesis is regarded:

$H_{1\text{-}3}$: Board of director duality has a negative impact on management earnings forecast.

Audit quality as a corporate governance mechanism may have a crucial impact on quality of disclosed information by management. Specifically, high audit quality increases confidence on financial reporting through reducing errors (Behn *et al.*, 2008). Lang and Lundholm (2000) indicate that firms audited by big audit firms have a good disclosure quality. Lee *et al.* (2006) indicate that good audit quality has a significant positive relationship with earnings forecasts preciseness. However, it is expected that big audit firms pursuit firms to report more accurate forecasts. However, following hypothesis is regarded:

$H_{1\text{-}4}$: Audit quality has a positive impact on management earnings forecast.

Older firms have more experience than young firms about earnings forecasts do. Therefore, it is expected that older firms report more accurately (Sarban and Ashtab, 2008). Mnif (2009) states that newly established firms are not capable of understanding environmental effect on their future performance and having no historical background make hard to forecast earnings. However, following hypothesis is regarded:

$H_{1\text{-}5}$: Aged firms have better management earnings forecast.

Financial rating agencies have an important role on industry environment. These agencies, through introducing industry best firms, determine their situation in competitive environment according to various indexes. Reporting this information provide suitable opportunity for investors in investment decisions. In Iran, from 1997 industry management organisation begin to rating 100 best Iranian firms according to one index. The aim of this organisation is to improve business environment transparency and Iranian firm's placement and rating them according to their effectiveness in national economic with the aim of developing business competition. However, firms are to obtain good rating to improve their placement in industry. To obtain good rating, they may improve their forecasts. However, following hypothesis is regarded:

$H_{1\text{-}6}$: Better firm's rank in industrial management organization improves management earnings forecast.

Population and Research Sample

Research sample consists of all the firms listed in Tehran Stock Exchange. However, in sampling process following conditions are posited to reach a homogenous sample:

1. Sample firms must not be investment, leasing, insurance companies and banks.
2. Sample firms must have listed before 2006 in Tehran Stock Exchange.
3. Firms fiscal year must be ended at the end of year.
4. During studied period, the firms must not be loss maker and must not change their fiscal period and their actives.
5. Sample firms must issue forecasted earnings per share at the end of third quarter.
6. Sample firms must not have transaction intervals more than four month.

Considering the above conditions, a sample of 83 firms is selected to be studied reaching 498 observations.

Research Variables

Management Earnings Forecast

Cheng and Firth (2000) model is used to measure management earnings forecast in which it is measured through earnings forecast error. Earnings forecast error is evaluated through the difference between actual earnings and forecasted earnings divided by absolute value of forecasted earnings as following:

$$AEF = \frac{Ai,t - Fi,t}{|Fi,t|}$$

Where AEF: Actual earnings forecasts

$A_{i,t}$: actual earnings per share for firm i in time t

$F_{i,t}$: forecasted earnings per share for firm i in time t

Management earnings forecast is measured through earnings forecast error in which less forecast error leads to more exact management earnings forecast, less earnings forecast error.

Outside Board of Director

It is ratio of outside board of director to all board of director. Outside board of director has more motivation to supervise management affairs (Fama & Jensen,1992). Then it is expected that more outside board of director result in more information transparency, better supervision.

Institutional Ownership

Institutional ownership is sum of stock held by institutional ownerships such as banks, insurances, holding firms, financial institutions and governmental agencies.

Duality

Chief executive officer duality is a situation in which firm's president of board of director is chief executive officer. This has two alternatives, if chief executive officer is also firm's present takes 1, otherwise takes zero.

Audit Quality

If firm is audited by Iranian audit organisationit takes 1, otherwise takes zero.

Firm's Age

Older firms have more experience than young firms do. More experienced firms may forecast more accurately. The reason for this is the fact that earnings forecast for newly established firms is more complicated than older firms (Jelic *et al*., 1998).

Rating in Industrial Management Infrastructure

Firm's rating is one of the most important tools for indicating firms creditability in terms of financial disclosure. Firms with more information disclosure have more external users and it is expected to have higher earnings forecast preciseness (Alivar, 1992).

Control Variables

Firm's Size

Firm's size indicates the dispersion and volume of firms activities. Firm's size is measured through logarithm of total assets.

Firm's Leverage

Firm's leverage is captured through dividing total debts to total assets.

Growth Opportunity

Growth opportunity is captured through dividing market value to book value.

Methodology

This research can be classified as applied study since it is to investigate the impact of independent variables on dependent variable which results may be used by various financial statement users. To investigate the research hypotheses, multivariate regression model is used However, this research can be classified as correlation study.

Research Model

To achieve the goal of study following multivariate regression model is regressed:

Table 1: Descriptive Statistic

	AFE	OBD	INSOWN	AGE	RATING	MK-BOOK	SIZE	LEV
Mean	0.096122	0.621687	0.730778	33	2.170157	2.079131	5.681267	0.604549
Median	0.073120	0.600000	0.756500	33	2.212188	1.806619	5.649420	0.620164
Maximum	1.413333	1.000000	1.000000	60	2.591065	12.40693	7.472487	0.975047
Minimum	-0.997797	0.000000	0.000000	50	0.000000	-2.762005	4.116276	0.103737
Std. Dev.	0.415705	0.218306	0.153090	12.4214	0.332869	1.630245	0.598623	0.197348
Skewness	0.424890	-0.420106	-1.261102	0.1251	-3.273943	0.911741	0.405650	-0.329293
Kurtosis	3.792265	2.968117	5.904102	-0.76168	18.07270	10.90405	3.184455	2.753979

$AFE_{it} = \alpha_0 + \alpha_1 OBD_{it} + \alpha_2 INSOWN_{it} + \alpha_3 AUD_{it} + \alpha_4 DUAL_{it} + \alpha_5 AGE_{it} + \alpha_6 RATING_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9 MK\text{-}BOOK + \varepsilon_{it}$

where i stands for firm and t stands for time:

AFE: Accuracy forecasts of earning

OBD: outside board of director

INSOWN: institutional ownership

AUD: Auditor quality

DUAL: Chief Executive Officer Duality

AGE:firm'sage

RATING:rating in Industrial Management Infrastructure

SIZE: Logarithm of total assets

LEV:Financial leverage

MK-BOOK:Growth opportunities

e: regression error

Empirical Results

Descriptive Statistic

Descriptive statistic of research variables is presented in Table 1. Because of the nature of variable, board of director duality and board of director duality (dummy variables), frequency of these variables are calculated which is represented in Tables 2 and 3.

According to Table 1, mean of outside board of director is 0.62 showing 62 percent of board composition is from outsiders. Institutional ownership consists 0.73 of firm's ownership because mean of this variable is 0.73 which is relatively high. Market to book value has a mean of 2 showing that sample firm's market vault is double of book value which may result from high inflation in Iran and using historical cost in balance sheet not having high growth opportunity. Firms leverage mean is 0.6 indicating that 60 percent of firm's total assets is financed from debts.

Table 2: Frequency of Board of Director Duality

	Frequency	Percent	Valid Percent	Cumulative Percent
No	30	6.0	6.0	6.0
Yes	468	94.0	94.0	100.0
Total	498	100.0	100.0	

According to Table 2, 30 firm's chief executive managers arealso board of director president which is 6 percent of total firms.

Table 3: Frequency of Audit Quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Private ins	352	70.7	70.7	70.7
Audit org	146	29.3	29.3	100.0
Total	498	100.0	100.0	

According to Table 3, 146 firms are audited by audit organisation which is 29 percent of total firms.

Normality Test

To test the normality of research variables distribution, Kolmogorov-Smirnov Test is used. The results is shown in Table 4.

Table 4: Kolmogorov-Smirnov Test

	AFE	*OBD*	*INSOWN*	*AGE*	*Rating*	*MK-BOOK*	*SIZE*	*LEV*
N	498	498	498	498	498	498	498	498
K-S	1.187	4.629	1.470	3.816	4.195	2.923	.793	1.061
Sig.	.107	.000	.066	.000	.000	.000	.556	.210

Table 5: Summary Results of First Hypothesis Test

	Coefficient	*t*	*Prob.*
C	0.688	3.154	0.002
β_1 (OBD)	0.308	3.300	0.001
β_2 (MKB)	0.033	2.324	0.020
β_3 (SIZE)	– 0.100	– 3.016	0.003
β_4 (LEV)	– 0.466	– 4.080	0.000
F Prob.	14.437 0.000	Breusch-Godfrey Prob.	0.095 0.385
D-W	1.881	Whith H Prob.	9.684 0.000
Limer Prob.	1.138 0.338	R^2 Adj R^2	0.104 0.097

As it is indicated in Table 4, variables of earnings forecast preciseness, institutional ownership, firm's size and firm's leverage have a normal distribution since their significance is more than 5 percent confidence level.

Hypotheses Test

First Hypothesis Test

There is a significant relationship between outside board and management earnings forecast.

To test this hypothesis, following regression model is used:

$AFE_{it} = \alpha_0 + \alpha_1 OBD_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9$ MK-BOOK $+\varepsilon_{it}$

The result of regression is indicated in Table 5.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is regressed after correction of Heteroscedasticity. Breusch-Godfrey test indicates that there is not serial autocorrelation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that outside board of director has a positive impact on management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 9 percent of management earnings forecast is explained by dependent variable and control variables.

Second Hypothesis Test

There is a significant relationship between institutional ownership and management earnings forecast.

To test this hypothesis, following regression model is used:

$AFE_{it} = \alpha_0 + \alpha_1 INSOWN_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9$ MK-BOOK $+ \varepsilon_{it}$

The result of regression is indicated in Table 6.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is

Table 6: Summary Results of Second Hypothesis Test

	Coefficient	*t*	*Prob.*
C	0884	3.847	0.000
β_1 (INSOWN)	0.001	0.005	0.995
β_2 (MKB)	0.030	2.040	0.042
β_3 (SIZE)	– 0.098	– 2.981	0.003
β_4 (LEV)	– 0.483	– 4.129	0.000
F Prob.	10.566 0.000	Breusch-Godfrey Prob.	0.852 0.427
D-W	1.887	White H Prob.	6.454 0.000
Limer Prob.	0.940 0.454	R^2 Adj R^2	0.078 0.071

Table 7: Summary Results of Third Hypothesis Test

	Coefficient	*t*	*Prob.*
C	0.786	3.354	0.001
β_1 (DUAL)	0.106	1.055	0.291
β_2 (MKB)	0.031	2.185	0.029
β_3 (SIZE)	– 0.099	– 2.998	0.000
β_4 (LEV)	– 0.480	– 4.155	0.000
F Prob.	11.092 0.000	Breusch-Godfrey Prob.	1.017 0.362
D-W	1.875	White H Prob.	7.955 0.000
Limer Prob.	1.062 0.380	R^2 Adj R^2	0.082 0.075

regressed after correction of Heteroscedasticity. Breusch-Godfrey test indicates that there is not serial auto correlation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that there is not a significant relationship between institutional ownership and management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 7 percent of management earnings forecast is explained by dependent variable and control variables.

Third Hypothesis Test

There is a significant relationship between board of director duality and management earnings forecast.

To test this hypothesis, following regression model is used:

$$AFE_{it} = \alpha_0 + \alpha_1 DUAL_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9 \text{ MK-BOOK} + \varepsilon_{it}$$

The result of regression is indicated in Table 7.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is

Table 8: Summary Results of Fourth Hypothesis Test

	Coefficient	*t*	*Prob.*
C	0.952	520.4	0.000
β_1 (AUD)	0.095	2.428	0.015
β_2 (MKB)	0.032	2.256	0.024
β_3 (SIZE)	– 0.113	– 3.367	0.000
β_4 (LEV)	– 0.509	– 4.369	0.000
F Prob.	12.067 0.000	Breusch-Godfrey Prob.	0.711 0.491
D-W	1.900	White H Prob.	7.231 0.000
Limer Prob.	0.831 0.528	R^2 Adj R^2	0.089 0.082

Table 9: Summary Results of Fifth Hypothesis Test

	Coefficient	*t*	*Prob.*
C	0.571	2.491	0.013
β_1 (AGE)	0.231	2.630	0.008
β_2 (MKB)	0.031	2.100	0.036
β_3 (SIZE)	– 0.104	– 0.083	0.002
β_4 (LEV)	– 0.496	– 4.336	0.000
F Prob.	12.212 0.000	Breusch-Godfrey Prob.	0.877 0.416
D-W	1.887	White H Prob.	0.407 0.000
Limer Prob.	0.936 0.457	R^2 Adj R^2	0.090 0.082

regressed after correction of Heteroscedasticity. Breusch-Godfrey test indicates that there is not serial auto correlation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that there is not a significant relationship between board of director duality and management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 7 percent of management earnings forecast is explained by dependent variable and control variables.

Fourth Hypothesis Test

There is a significant relationship between audit quality and management earnings forecast.

To test this hypothesis, following regression model is used:

$$AFE_{it} = \alpha_0 + \alpha_1 AUD_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9 MK\text{-}BOOK_{it} + \varepsilon_{it}$$

The result of regression is indicated in Table 8.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is regressed after correction of Heteroscedasticity. Breusch-

Table 10: Summary Results of Sixth Hypothesis Test

	Coefficient	*t*	*Prob.*
C	1.115	2.927	0.003
β_1 (AGE)	– 1.058	– 0.824	0.410
β_2 (MKB)	0.032	2.111	0.035
β_3 (SIZE)	– 0.116	– 2.769	0.006
β_4 (LEV)	– 0.495	– 4/159	0.000
F Prob.	10.783 0.000	Breusch-Godfrey Prob.	0.912 0.402
D-W	1.883	White H Prob.	8.623 0.000
Limer Prob.	0.885 0.490	R^2 Adj R^2	0.080 0.072

Godfrey test indicates that there is not serial auto correlation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that there is not a significant relationship between audit quality and management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 8 percent of management earnings forecast is explained by dependent variable and control variables.

Fifth Hypothesis Test

There is a significant relationship between firm's age and management earnings forecast.

To test this hypothesis, following regression model is used:

$$AFE_{it} = \alpha_0 + \alpha_1 AGE_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9 MK\text{-}BOOK_{it} + \varepsilon_{it}$$

The result of regression is indicated in Table 9.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is regressed after correction of Heteroscedasticity.Breusch-Godfrey test indicates that there is not serial auto correlation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that aged firms have better management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 8 percent of management earnings forecast is explained by dependent variable and control variables.

Sixth Hypothesis Test

There is a significant relationship between firms rank in industrial management organisation and management earnings forecast.

To test this hypothesis, following regression model is used:

$$AFE_{it} = \alpha_0 + \alpha_1 RATING_{it} + \alpha_7 SIZE_{it} + \alpha_8 LEV_{it} + \alpha_9 MK\text{-}BOOK_{it} + \varepsilon_{it}$$

The result of regression is indicated in Table 10.

Considering the results, significance of F Limer is more than 5 percent level showing preference of pooled model over panel model. The results of White H indicate that there is Heteroscedasticity problem. However, model is regressed after correction of Heteroscedasticity.Breusch-Godfrey test indicates that there is not serial auto correlation problem in model. Durbin Watson is between 1.5 and 2.5 indicating that there is not an autocorrelation

among models residuals. F statistic indicates that the whole model is significant. The results as to hypothesis test indicate that there is not a significant relationship between firms rank in industrial management organisation and management earnings forecast. In addition, the results indicate that firm's size and firms leverage has a negative impact management earnings forecast. However, market to book value has a positive impact on management earnings forecast. Adjusted R^2 shows that 7 percent of management earnings forecast is explained by dependent variable and control variables.

Conclusion

The purpose of this study is to examine the relation between some components of the corporate governance mechanisms (outside board of director, institutional ownership, duality, auditor quality, firm's age, and firm's ranking in organisation of industrial management) and accuracy of earning forecast by management. The sample of study consists of 53 companies listed in Tehran Stock Exchange during the years of 2007-2012. To test research hypothesis, multiple linear regression models is used. Six hypotheses are developed to capture the aim of the study. First hypothesis supposes that outside board has positive impact on management earnings forecast. Outside board of director has a stronger motivation to supervise executive managers and financial reporting process. Better supervision on executive managers improves board of director's reputation. Empirical researches support the notion that increasing the outside board of director in board composition mitigates agency costs. The results indicate that there is a positive significant relationship between outside board of director and management earnings forecast. This result is according to the results of Ajinkya (2005). Second hypothesis argues that institutional ownership has positive impact on management earnings forecast. Institutional investors are experienced stockholders. They purchase firms stocks who are improving their disclosure quality which includes management forecasts preciseness. However, with increasing institutional ownerships, it is expected that firms have tendency to forecast more accurately. The results indicate that there is not a significant relationship between institutional ownership and management earnings forecast. This result is against the results of Ajinkya (2005). Third hypothesis suggests that board of director duality has negative impact on management earnings forecast.The role of board of director is to supervise chief executive management. Chief executive management has a power of controlling board of director minutes and meetings. Influence of chief executive management may have a negative impact on market participant perception as to management performance and financial reporting process. The results indicate that there is not a significant relationship between board of director duality and management earnings forecast. Fourth hypothesis highlight that audit quality has positive impact on management earnings forecast. Audit quality as a corporate governance mechanism may have a crucial impact on quality of disclosed information by management. Specifically, high audit quality increases confidence on financial reporting through reducing errors. The results as to hypothesis test indicate that there is not a significant relationship between audit quality and management earnings forecast. The results indicate that there is not a significant relationship between audit quality and management earnings forecast. Fifth hypothesis explains aged firms have a better management earnings forecast. Older firms have more experience than young firms about earnings forecasts do. Therefore, it is expected that older firms report more accurately. Newly established firms are not capable of understanding environmental effect on their future performance and having no historical background make hard to forecast earnings. The results indicate that there is a positive significant relationship between firm's age and management earnings forecast. Sixth hypothesis highlights that firms rank in industrial management organisationhas positive impact on management earnings forecast. Financial rating agencies havean important role on industry environment. These agencies, through introducing industry best firms, determine their situation in competitive environment according to various indexes. Reporting this information provide suitable opportunity for investors in investment decisions. In Iran, from 1997 industry management organisation begin to rating 100 best Iranian firms according to one index. The aim of this organisation is to improve business environment transparency and Iranian firm's placement and rating them according to their effectiveness in national economic with the aim of developing business competition. However, firms are to obtain good rating to improve their placement in industry. To obtain good rating, they may improve their forecasts. The results indicate that there is not a significant relationship between firms rank in industrial management organisation and management earnings forecast.

In addition, the results of control variables indicate that there is a negative significant relationship between firm's size and firms leverage with management earnings forecast.

On the whole, research findings indicate that outside board of director, audit quality and firm's age have positive impact and duality, institutional ownership, corporate ranking in organisation of industrial management have no impact on accuracy of earnings forecast.

These results manifest that from board of director aspect only outside board of director has a positive impact on accuracy of earnings forecast. The results bring the case to improve real corporate governance mechanisms to have an impact on firms forecast quality. For example, institutional ownership has no significant impact on accuracy of earnings forecast. This is may stem from the fact that most of institutional ownerships in Iran are governmental parties which has not a strong motivation to monitor firms affair.

References

Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors and the properties of management earnings forecasts. *Journal of Accounting Research, 43*, 343-75.

Agaee, M., & Chalaki, P., (2009). The investigation of the relationship between corporate governance attributes and earnings management in firms listed in Tehran Stock Exchange. *Accounting Researches, 4.*

Alavi, H., Khalifeh Soltan, A., & Shahbandian, N. (2009). Audit quality and earnings forecast. *Accounting Research Journal, 3*, 22-35.

Alivar, A. (1991). Finaicial reporting disclosure. *Audit organization publication, 68.*

Behn, B. K., Choi, J. H., & Kang T. (2008). Audit quality and properties of analyst earnings forecasts.*The Accounting Review, 83*(2), 327-349.

Cheng, T., & Firth, M. (2000). An empirical analysis of the bias and rationality of profit forecasts published in new issue prospectuses. *Journal of Business Finance & Accounting*, 27, 423-446.

Choi, J. H., & Wong, T. J. (2007). Auditors' governance functions and legal environments: an international investigation. *Contemporary Accounting Research, 24*(1), 13-46.

Chin, C., Lin, H. W., & Lee, P. (2006). Earnings forecast disclosure regulation and earnings management: Evidence from Taiwan IPO firms. *Review of Quantitative Finance & Accounting, 26*, 275-99.

Fama, E. F., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Eco. 26*(2), 301-325.

Hasas, Y. I., & Baghmoeean, R. (2010). Corporate governance and financial reporting quality. *Qualrterly Journal of Certified Public Accountant*.

Jelic, B., Saadouni, B., & Briton, R. (1998). The accuracy of earnings forecasts in IPO prospectuses on the Kuala Lumpur Stock Exchange. *Accounting & Business Research, 29*(3), 57-62.

Gholamalipour, R., & Sagafi, A. (2012). Informational content of earnings forecasts, bias repetition in presenting forecasts and factors effecting on forecast error. *Quarterly Journal of Tehran Stock Exchange, 5*, 173-203.

Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: An empirical analysis. *Journal of Accounting Research, 43*, 453-86.

Lim, S., Matolcsy, Z., & Chow, D. (2007). The association between board composition and different types of voluntary disclosure. *European Accounting Review, 16*, 555-83.

Lipe, R. (1990). The relation between stock return and accounting earnings given alternative information.The Accounting alternative information. *The Accounting Review, 65*, 49-71.

Lang, M. H., & Lundholm. R. J. (2000). Voluntary disclosure and equity offerings: Reducing information asymmetry or hyping the stock? *Contemporary Accounting Research, 17*(4), 623-662.

Marfu, M. (2006). *The relationship between outside board of director and institutional ownership with earnings forecasts attributes*. M.A thesis in accounting, Allame Tabatabai University.

Mehrani, K., & Safarzadeh, M. H. (2011). Determination of the relationship between corporate governance and earnings quality with national approach. *Journal of Accounting Kholedge, 2*(7), 69-98.

Moradi, M. (2007). *The relationship between institutional ownership and earnings quality,* MA thesis in accounting, Tehran University.

Mnif A. (2009). Corporate governance and management earnings forecast quality: Evidence from French IPOS, University of Sfax, High School of

Commerce, Sfax, Tunisia. Retrieved from http://hal.archivesouvertes fr.

Nagar, V., Nanda, D., & Wysocki, P. (2003). Discretionary disclosure and stock-based incentives. *Journal of Accounting and Economics, 34*, 283-309.

Nurwati A. A. Z., & Wan N. W. H. (2010). Corporate governance and earnings forecasts accuracy. *Asian Review of Accounting, 18*(1), 50-67.

Peasnell, K. V., Pope, P. F., & Young, S. (2000). *Board monitoring and earnings management: Do outside directors influence abnormal accruals?* Working paper, Lancaster University.

Williams, P. A. (1996). The relation between a prior earnings forecast by management and analyst response to a current management forecast. *The Accounting Review, JNBB, 71*(1), 103-115.

Xie, B., Davidson, III W. N., & Da Dalt, P. J., (2003), Corporate Governance: The role of the board and the audit committee. *Journal of Corporate Finance, 9*, 95-316.

Truong, T. P., & Dunstan, K. L. (2011). *The influence of corporate governance on management earnings forecast behaviour in a low private litigation environment*. Retrieved from http://ssrn.com/abstract=2028724 or http://dx.doi.org/10.2139/ssrn.2028724.

Sareban, M. R., & Ashtab, R. (2008). Recognition of the effective factors on earnings forecast prediction in newly listed firms of Tehran Stock Exchange. *Social and Humanities Research.*