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Value Relevance (VR), Earnings Management and Corporate Governance System

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Abstract

Today, to make investment decisions, investors analyze the stock in the stock market and an information source used by them is the financial report of the related firms. In some cases, the report may be prepared in accordance with management policies, which is known as an earnings management. Earnings management will affect intelligence value and consequently have negative impact. Due to these issues, in this study, the relationship between VR of earnings, earnings management and corporate governance is discussed. Using a sample of listed companies in Tehran Stock Exchange and the regression model, the results showed that the ownership of institutional investors has reduced the earnings management, but compared to major shareholders and company's audit by the National Audit Office, it has increased earnings management. The results also show that there is no significant relationship between management and the stock price as an indicator of measuring the VR of earnings.

Keywords: Earnings management, Corporate governance, Value relevance, Stock price.

1. Introduction

One of the items of financial statements that is used as a criterion to evaluate the performance and profitability of profit unit is "earnings reports." Accounting profit, which includes cash and accrual, is as a tool to forecast cash flows and investors use it to determine the value of the company, so accruals play a significant role in determining the future cash flows and company value, and decrease (increase) of earnings quality decreases (increases) the ability of investors and other users of financial statements to forecast the cash flows of the entity (Kim, 2010).

Calculation of net income of a profit unit is affected by the accounting and estimate methods. Authority of the managers in the application of the principles of realization and compliance, estimates and forecasts as well as applying procedures such as changing the inventory valuation method, goodwill amortization, the current cost or considering the costs of research and development as capital, and determining the cost of bad debts are of the issues through which applying managers can change the earnings. Because of greater awareness of the managers of the situation of the company and for reasons such as remaining in the company, receiving reward, etc., it is expected that information is provided and presented in such a way that reflects the company's status the best way possible. Under these circumstances, the real earnings differ from the earnings reported in the financial faces and earnings management has occurred (Nvrymn, 2013).

Moreover, one of the most important factors affecting information risk of the investors referred to in auditing standards and would have an impact on their ability to estimate the value of the company is earnings and accruals quality. Recurring in certain circumstances, a company may report earnings and its revenue grows; however, cash flows from the operations are negative and the company does not have the ability to create and generate liquidity. Such circumstances could potentially result from fraudulence in financial reporting and increase investors' risk in measuring corporate value. In this study, the qualities of accruals and earnings management are defined as factors that can affect the information risk. In general, reduction in the quality of accruals brings about future cash flows estimation risk that could have a negative impact on investment decisions in determining the enterprise value (Chou et al., 2015).

Previous studies, by focusing on regulatory agents that may reduce earnings manipulation, found evidence that corporate governance plays a significant role in the earnings management based on accrual. By reduction of earnings management, its reliability increases, and the investors risk is reduced in estimating the value of the company using it. Thus, we can expect that by improving corporate governance mechanisms, reliability and value relevance of earnings increase (Balsam et al., 2003).

Given the importance of earnings in determining and estimating future cash flows of the company, and thus its role in determining the company's value (the value relevance of earnings) and with regard to the relationship between the mechanisms of corporate governance and earnings quality, in this study, the relationship between VR of the earnings, earnings management, and corporate governance are discussed.

2. Theoretical Basics and Research Background

2.1. The Concept of Value Relevance

VR is studied in order to see the role of accounting information in explaining security returns. When investors evaluate the company's future in investment decisions, accounting information plays an important role in this assessment. Thus, considering the major role of capital in the economy of any country, it is necessary that investors be aware of the financial information of the companies to lead to good investment in the capital market and optimal allocation of resources on the capital market (Boubakri, 2012). For financial analysts to able to successfully predict future performance, there is a need for financial statements particularly accounting earnings. In this regard, the concept of VR is defined as the power of certain figures in the financial statements (such as the reported earnings) to describe the changes in the market value of equity in the sense that as the explanatory power is greater, VR is stronger. Researches show that accounting earnings for investors has VR (Burgstahler and Dichev, 1997). Researchers have proven strong correlation between earnings, changes in earnings, and a combination of them with changes in the value of equity. In other words, VR can be seen as the ability of one or more accounting digits that explain returns and price changes. The earnings that could make more changes in yields or prices has more quality, so in economic decisions, investors will be more beneficial (Brown and Teitel, 2006).

2.2. Definition and Necessity of Using Corporate Governance

There are many definitions for the issue of corporate governance but they all have certain features in common and one of them is accountability. The definitions provided below are excerpts of different approaches to corporate governance.

1. Corporate governance is the practices taken by company executives to determine the strategies that enable the company to achieve specified objectives, to control risk, and to use resources optimally (International Federation of Accounting, 2004).

2. The corporate governance is a system that directs and controls the company. The focus is on serving of senior managers in compliance with the principles of transparency, honesty, and accountability (Cadbury Report, 1992).

3. Corporate governance is the process of monitoring and control of functions of company executives, in a way that ensures the interests of shareholders (Parkinson, 1994).

System of corporate governance encourages the efficient use of resources, and accountability requirements of the company about carrying out the duty of stewardship for resource management and economic and social relations in firms and complexity of conflicts of interest among different groups in different areas that somehow interact with the firm all make the need to establish a proper corporate governance that supports the rights and interests of all stakeholders be felt more than ever.

Governance board in the legal, supervision, and discipline environments deals with issues such as fairness between different groups, the efficient use of economic resources firm, providing clear information, creating a healthy environment financial reporting, establishment of proper regulatory system and compensation (Parkinson, 1994).

2.3. The Concept of Earnings Management

With the separation of management from ownership, managers run the company as owners' representative, and with the formation of this relationship, conflict of interest between managers and shareholders is created, which means that administrators may show opportunistic behavior and make decisions in line with their own interests and against the interests of shareholders. One of these opportunistic behavior is management (manipulation) of earning where the manager of a profit unit manipulates the earnings and shows the status of the company as good for reasons such as remaining in the company, receiving rewards, and other incentives (Namazi, et al., 2011). In the accounting literature, various definitions of earnings management are provided, some of which are mentioned:

i. Watts and Zimmerman (1990) suggest that earnings management is setting freedom to accounting figures assuming the presence or absence of restrictions in this area.

ii. Dechow, Sloan and Sweeney (1995) define earnings management as the targeted intervention of the managers in the management of external financial reporting process to private interests.

iii. Scott (1997) sees earnings management as company's authority profit in choosing accounting policies to achieve some specific goals of the manager.

iv. According to the definition by Aghaei and Chalaki(2009) earnings management is the sum of a degree of flexibility and suggesting that managers have in their financial reporting. Managers may use this power to manage opportunistic profits or transfer of confidential information about the company's future performance.

Earnings management activities are generally divided into two general groups: 1) accounting earnings management, 2) management of real earnings. Accrual-based earnings management involves choosing one of the accepted accounting principles and changes in accounting estimates. However, real earnings management includes issues such as increased production and changing investment policies, such as research and development. Moreover, changes in the practice of selling and general and administrative expenses are of other real profit management solutions. Standards and accepted accounting principles have limited the managers in the use of accruals to manage earnings. Note that when managers act within the framework of accounting standards, both earnings management in terms of legitimate are without objection. Managers in the mentioned framework can use their authorities to mandate conservative or aggressive financial reporting policies (Matsuura, 2008).

2.4. Corporate Governance, Earnings Management and VR

One of the most important elements of financial reporting is corporate earnings and its components. Given the importance and significant role of the reported earnings, users of financial statements emphasize its reliability. From the perspective of users (investors, creditors, and other users), as the reliability of the components of financial statements, and in particular earnings is higher, determining and analyzing the performance of the company will be more valuable. Moreover, to make investment decisions, investors began to analyze the stock market and a source of information for them is the corporation's financial reporting. In preparing financial statements, accounting standards are used. However, in some cases, the report may be prepared in accordance with management policies. This action that changes the financial statements in accordance with the wishes of the management company is known as an earnings management (Nuryaman, 2013).The work undertaken by the company management to manage the earnings has reduced reliability of reported earnings and quality of earnings as a result, earnings quality as the company's information earnings reduces to economic realities. By reducing the value of its information for the users of financial statements, the request to obtain information to make economic decisions will fall (Scott & Williams, 2011).

On the other hand, the companies can use corporate governance mechanisms (such as independent auditors, independent board, etc.) as a tool to improve the reliability of financial statements. Improving the quality of corporate governance mechanisms can improve the confidence of users of financial statements to report, so that financial information can be used as a basis for economic decision making. Previous studies regarding mechanisms of corporate governance and earnings quality show that there is a positive relationship between corporate governance effectiveness and quality of earnings (Nuryaman, 2013).Effective corporate governance by restricting opportunist actions of the management of manipulating earnings has a significant role in reducing misleading accruals. In such circumstances, information content of earnings increases and can more accurately estimate future cash flows and consequently the value of the company. Thus, improving the quality of corporate governance affects valuation of earnings. In other words, certifying strength and earnings predicted by improving efficiency and effectiveness of corporate governance increases. In general, quality corporate governance by reducing earnings management and improving financial reporting plays a substantial role on increasing the reliability of financial statements. As a result, the users of financial statements analyze financial statements with more assurance. In such circumstances, the reliability of financial reporting and value communicating of the earnings increase (Scott & Williams, 2011).

2.5. Literature

Wilson (2015) in an article studied the effect of earnings management based on real activity on the information content of accounting. The results of the analysis of the study data show that companies that have earnings management based on real activities have lower earnings information content profits than firms that have less earnings management based on real activities.

Shan (2015), in a study titled "The value relevance of earnings management and corporate governance in China" studied the effect of earnings management on the relationship between the value of profits and limiting the role of governance in payment of earnings management activities. The results indicate that the negative effects of VR for the companies involved in the management of earnings of companies is higher than those not engaged in earnings management. Moreover, in companies with good corporate governance practices earnings management is limited to a great possibility.[10]

Martinez and colleagues (2015) examined the relationship between earnings management using real activity and investors' understanding of it. The results indicate that different companies have different levels of management in the real profits. Moreover, the results indicate that investors are unable to distinguish the actual activities in line with earnings manipulation.

Chiet al. (2015) examined the relationship between family ownership and earnings management with regards to the independence of the board's mediatory role. The results indicate that family ownership increases earnings management. In addition, the results show that the proportion of independent directors has a negative significant relationship with reduced earnings management in family firms. In addition, the findings show that the duplicity of functions of director of the directorate of the board has a significant relationship with earnings management in family owned companies.

Nuryaman(2012) proved that the quality of corporate governance is one of the factors that can enhance the company's market value. Moreover, the results of the research conducted by him indicated that there was a positive relationship between corporate governance and firm performance. [9]

Kouki, et al. (2011) in a study examined the impact of corporate governance on earnings management and concluded that the independent Audit Committee and no duality of duty have been prevented from earning management. The number of board members is not much more, not much less because the number of board members on average (10 people) can be optimized.

Bayatet al. (2015) examined the relationship between earnings stability and value relevance of accounting information. The results of this research indicate a direct relationship between profit and value relevance of sustainability information [3]

Mehran and Nowrouzi (2015) examined the role of corporate governance in reducing the negative impact of earnings management on the value of companies listed in Tehran's Stock Exchange. The results show that shareholders consider earnings management as opportunistic and earnings management has a negative effect on the value of the company, but this effect decreases in companies with strong corporate governance.

Mehrani and Motmaen (2014) explored the relationship between conservatism and the value relevance of accounting information in the period from 2005 to 2010. The findings of this study show that despite the increase in conservatism in recent years, conservatism cannot be related to the value relevance of accounting information.

Talebi et al. (2013) examined the relationship between strategic system and the value relevance of accounting information. The study of the relationship between accounting numbers and stock prices as a measure of the quality of accounting information as well as the Board of Directors and the Audit Committee used as an indicator of governance. The results of the research hypotheses using regression analysis show that companies with strong strategic structure have high value relevance of accounting information. Moreover, certain economic variables of the companies are of the most important factors in the value relevance of accounting information.

Mahdavi et al. (2013) investigated the effect of corporate governance characteristics on earnings quality expected by the management of limitations. The results show that corporate governance variables that affect the earnings quality of listed companies in Tehran Stock Exchange is not anticipated by management.[7]

3. The Hypotheses

According to the theory proposed and in line with achieving the research objectives, hypotheses were formulated as follows:

1) There is a significant relationship between earnings management and value relevance of earnings.

2) There is a significant relationship between firm governance and earnings management.

4. Methodology

4.1. Research Methodology

This study from the perspective of division in terms of research is applied research and regarding data collection, it is descriptive research. According to various categories of descriptive research, the present study is correlational. In this research, to examine the relationship between variables and the dependent variable, the significance of the proposed model the regression analysis is used.

4.2. Sample Selection

The population of the study is the companies listed on Tehran Stock Exchange, and study sample is adjusted by applying the following three conditions:

1. The fiscal year ending in March.

2. Banks and investment firms were excluded due to specific activities.

1. The information they need is available.

2. During the investigation, companies should not have financial year change.

4.3. Research Model

In this study, to test the hypotheses, a 2SLS model that includes the following two equations is used. The first equation (Equation 1) is designed to test the first hypothesis that measures the relationship between earnings management and value relevance and the second equation (Equation 2) is designed to measure the second hypothesis: the relationship between earnings management and governance.

Equation 1: earnings VR (to test the first hypothesis)

$PRICE_{i,t} = \beta_0 + \beta_1 BVPS_{i,t} + \beta_2 EPS_{i,t} + \beta_3 ABNRPT_{i,t} + \beta_4\ EPS*ABNRPT_{i,t} + \beta_5 Roa_{it} + \varepsilon_{i,t}, cov(x, \varepsilon)t(1)$

where:

$PRICE_{i,t}$= is market value per share of company i in year t

$EPS_{i,t}$= earnings per share of company i in year t

$ABNRPT_{i,t}$= earnings management of company i in year t

$BVPS_{i,t}$= book value per share of company i in year t Roa_{it} = return on assets

To test the first hypothesis, EPS * ABNRPT variable coefficients is used.

Moreover, in order to test the second hypothesis on the relationship between corporate governance and earnings management, the following equation is used:

Equation 2: earnings management (to test the second hypothesis)

$ABNRPT_{i,t} = \beta_1 + \sum_{i=2}^{6} \beta_i CGQ_{i,t} + \beta_7 ROA_{i,t} + \beta_8 SIZE_{i,t} + \beta_9 AGE + \beta_{10} Lev_{it} + \varepsilon_{i,t}(2)$

where:

$ABNRPT_{i,\ t}$= earnings management of company i in year t

$CGQ_{i,\ t}$= quality of corporate governance of company i in year t

$ROA_{i,\ t}$= profitability of company i in year t, which is equal with net income virtually assets

$SIZE_{i,\ t}$= size of the company i in year t, which is equal to natural logarithm of total assets

$AGE_{i,\ t}$=age of the company i; the time between establishment date up to the time concerned

4.4. The Quality of Measuring the Variables

In this study, the stock market value (as an indicator of relationship value) as the dependent variable and corporate governance is defined as the independent variable. Moreover, earnings management in the first hypothesis is as independent variables and as the dependent variable was introduced as in the second hypothesis. In the following, each of these indicators are defined:

4.4.1. Company Governance Quality (CGQ) Is Used to Measure the Variables of the Following Criteria

1. Majority ownership: In this study, following Astami and Tower (2006), ownership concentration is defined as follows: total stock of natural and legal persons that have more than 10 percent of the stock of the company.

2. Institutional ownership: the meaning of institutional shareholders is shareholders that are intermediaries between individuals and companies and prepare equity portfolios on behalf of

the individuals. This variable is measured by calculating the percentage of total shares owned by institutional shareholders (Yaghoobnezhad et al., 2011).

3. The size of the board: If the number of board members is larger than the median in the sample examined, it is placed as one otherwise as zero.

4. The independence of the board: If the ratio of the number of non-executive members of the board to the whole Board of Directors is larger than the median in the sample examined, it is placed as one otherwise as zero.

5. Independent audit quality: If the audit firm is the audit company it is placed as one otherwise as zero.

4.4.2. Earnings Management

To calculate earnings management, the following model derived from the unusual transactions with related parties of Jian and Ong (2010) is used:

$$RLPT_{i,t} = \beta_0 + \beta_1 LEVERAGE_{i,t} + \beta_2 FIRMSIZE_{i,t} + \beta_3 MKVE_{i,t} + \varepsilon_{i,t}$$

RLPTi,t = ratio of total assets transactions with related parties to the company i in year t.

LEVERAGEi, t = ratio of debt to assets of company i in year t.

FIRMSIZEi, t = natural log of total assets now i in year t.

MKVEi, t = ratio of market value to book value of equity i in year t.

4.4.3. VR

To measure VR of the earnings, the index of stock market value on the stock exchange is used.

4.4.4. Control Variables

In this study, the variables of profitability, firm size, and firm age are used as control variables:

ROAi, t = i in year t, which is equal profitability with net income virtually assets.

SIZEi, t = size of the company i in year t is the natural logarithm of total assets.

AGEi, t is the age of firm i; establishment date up to the year concerned.

4.5. Studying Descriptive Statistics Variables during the Research Period

In Table 1, some of the concepts of descriptive statistics of variables including mean, median, minimum observations, maximum observations, and standard deviation are provided. The main Central Index is mean, which reflects the equilibrium point and the centre of gravity and is a good indicator to show the data centrality. For example, according to the table (1), the mean value for each variable of financial leverage is about 36 year, which reflects that the most data is concentrated around this point and the average lifespan of sample firms is about 36 year. Another indicator of Central Index is median that shows the status of the population.

As shown in Table (1), median of return on assets is about 10 percent, which indicates that half of the sample companies during the study period have ROA ratio of over 25 percent.

Table 1. Descriptive statistics of research variables

Variable name	Symbol	The number of observation	Mean	Median	Maximum	Minimum	SD
Company life	AGE	410	36.68	39	62.00	11.00	12.60
Auditor size	BIGA	410	0.20	0.00	1.00	0.00	0.40
Major shareholder	BIGSTOCK	410	74.74	77.26	98.71	16.71	14.27
Independence of Board of Directors	Bordindep	410	0.22	0.20	0.80	0.00	0.15
Size of board	BSIZE	410	5. 0	5.00	8.00	5.00	0.14
Book value per share	BVPS	410	2183	1808.0	10548.0	40.00	1374.7
Earnings per share	EPS	410	876.5	497.00	7659.00	-1507.0	1170.5
size of the company	FIRMSIZE	410	13.50	13.50	16.92	10.22	1.17
Institutional investors	INST	410	31.95	17.47	98.80	0.00	31.96
Debt ratio	LEV	410	0.62	0.60	3.06	0.09	0.31
Market to book value of the stock	MKVE	410	3.53	2.18	173.60	-13.56	10.83
stock price	PRICE	410	6778	3752.0	64516.0	452.00	8309.6
Transaction with related parties	RLPT	410	0.34	0.13	6.45	0.00	0.62
ROA	ROA	410	0.11	0.10	0.55	-0.34	0.13

5. The Results of Testing the Research Hypothesis

5.1. First Hypothesis: There Is a Significant Relationship between Earnings Management and Value Relevance of Earnings

To test this hypothesis, the results of the research model presented in Table 2 are used. The probability (or significance) F is equal to 0.000, and because the amount is less than 0.05, the null hypothesis is rejected at the 95% confidence level, the model is significant. Watson-Durbin statistic value is 1.5629, which shows the absence of autocorrelation of errors (first stage).

Results indicate that the adjusted coefficient of determination explains almost 77 percent of the changes of the dependent variable is explained by the dependent and control variable of the models.

In general, the results show that earnings management variable co-efficient is 0.68, indicating a positive relationship between earnings management and relationship value. In other words, it can be said that the relationship between earnings management and profit is a positive relationship, which is due to the significance level (0.349), which is more than 5%, and not significant. According to the above, the first hypothesis is not confirmed.

Table 2. The results of the estimation of the first research model

$PRICE_{i,t} = \beta_0 + \beta_1 BVPS_{i,t} + \beta_2 EPS_{i,t} + \beta_3 ABNRPT_{i,t} + \beta_4\ EPS*ABNRPT_{i,t} + \beta_5 Roa_{it} + \varepsilon_{i,t}$,					
Variable	**Symbol**	**The estimated coefficient**	**SD**	**T statistic**	**Probability**
Constant (intercept)	C	-586.435	717.996	-0.817	0.415
Book value of stock	BVPS	0.527	0.219	2.405	0.017
Earnings per share	EPS	5.683	0.245	23.196	0.000
Earnings management	ABNRPT	166.716	650.021	0.256	0.798
* Earnings per share earnings management	ABNRPT*EPS	0.683	0.728	0.939	0.349
Financial Leverage	LEV	1806.590	868.760	2.080	0.038
The coefficient of determination	0.778262				
Adjusted determination coefficient	0.775266				
Durbin-Watson	1.56294				
F statistic	259.7274				
The probability (statistics F)	0.0000				

5.2. The second Research Hypothesis: There Is a Significant Relationship between Governance and Earnings Management Firm

To test this hypothesis, the results of the research model are presented in Table (3). The probability (or significance) F is equal to 0.0001, and because the amount is less than 0.05, the null hypothesis is rejected at the 95% confidence level, the model is significant. Durbin-Watson camera statistic value is 1.7258, which shows the absence of autocorrelation of errors (first stage). The results of adjusted coefficient of determination show that approximately 7 percent of the changes of the dependent variable is explained by the dependent and control variable of the models.

In general, the results show that the coefficients of the variables associated with the system of corporate governance (proportional to institutional investors and major, size and board independence and audit quality), are respectively, 0.11, 0.12, 0.10, 0.02 and 0.10, which indicate a negative relationship between institutional investors and the size of the board with earnings management and the positive relationship between major shareholders, board independence, auditor size, and earnings management. Due to the significant level of variable coefficients, auditor size, the percentage of significant major shareholders and institutional shareholders proportion is less than 5% and significant. Given the above, it can be concluded that increasing the proportion of major shareholders and management Audit by Corporate Audit increase profit margins. Moreover, the hypothesis test results indicate the decrease of earnings management as a result of increase in proportion of institutional shareholders.

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Table 3. Results of the estimation of the second model

$ABNRPT_{i,t} = \beta_1 + \sum_{i=2}^{6} \beta_i CGQ_{i,t} + \beta_7 ROA_{i,t} + \beta_8 SIZE_{i,t} + \beta_9 AGE + \beta_{10} Lev_{it} + \varepsilon_{i,t}$					
Variable	**Symbol**	**The estimated coefficient**	**SD**	**T statistic**	**Probability**
Constant (intercept)	C	0.1809	0.2128	0.8499	0.3959
Book value of stock	INST	-0.1161	0.0337	-3.4479	0.0006
Earnings per share	BIGSTOCK	0.1222	0.0349	3.5002	0.0005
Earnings management	BSIZE	-0.1093	0.3128	-0.3495	0.7269
* Earnings per share earnings management	BINDEP	0.0200	0.0445	0.4492	0.6535
Financial Leverage	BIGA	0.1021	0.0428	2.3854	0.0175
The coefficient of determination	ROA	-0.1302	0.2002	-0.6504	0.5159
Adjusted determination coefficient	FIRMSIZE	-0.0084	0.0159	-0.5321	0.5949
Durbin-Watson	AGE	-0.0034	0.0014	-2.3959	0.0171
F statistic	LEV	-0.0161	0.1155	-0.1393	0.8893
The probability (statistics F)	0.0868				
Constant (intercept)	0.0653				
Book value of stock	1.7258				
Earnings per share	4.0260				
Earnings management	0.0001				

6. Discussion

Accounting profit, which includes cash and accrual, is as a tool to forecast cash flows and investors use it to determine the value of the company, so accruals play a significant role in determining the future cash flows and company value, and decrease (increase) of earnings quality decreases (increases) the ability of investors and other users of financial statements to forecast the cash flows of the entity. In general, reduced accruals quality and increased earnings management bring about increase of risk of estimating future cash flows. This could have a negative impact on investment decisions in determining the company's value, so it is expected to be a significant correlation between earnings management and firm value. On the other hand, previous studies by focusing on regulatory housings that may reduce earnings manipulation found evidence that corporate governance plays a significant role in the reduction of the accrual-based earnings management. Thus, according to the theoretical foundations and the importance of quality of earnings in investment decisions, in this study, the relationship between the value relevance of earnings management and corporate governance are discussed. Based on the first hypothesis, it was expected to be a significant relationship between earnings management and stock price index as a measure of relative value of profits. In general, the results indicate that there is no relationship between earnings management and earnings. The results can be argued as active shareholders and investors in the stock market are not capable of detecting earnings management in the context of the work undertaken and this makes that despite the occurrence of earnings management in some companies, their stock prices are not affected.

According to the second hypothesis, it was expected to be a relationship between indices of corporate governance including institutional shareholders' ownership, ownership of major shareholders, board independence, and board size and audit quality with earnings management. In general, the results indicate that there is a significant relationship between major shareholders' ownership and audit quality with earnings management. Overall, the results showed that increase of the ratio of major shareholders and auditing of the company by the auditing company increase earnings management, however, increase in the proportion of institutional shareholders reduces earnings management.

7. Conclusion

In this study, the relationship between Value Relevance of earnings, earnings management and corporate governance was discussed. Using a sample of listed companies from 2009 to 2015 in Tehran Stock Exchange and the regression model, the results showed that the ownership of institutional investors has reduced the earnings management, but compared to major shareholders and company's audit by the National Audit Office, it has increased earnings management. The results also show that there is no significant relationship between management and the stock price as an indicator of measuring the VR of earnings.

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