EFFECT OF CORPORATE GOVERNANCE MECHANISM ON TIMELINESS OF EARNING OF LISTED COMPANIES IN COMPANIES

Marziyeh Hanifeh Dahbaneh and Ali Zabihi (ph.D)*

1Department of Accounting, Mazandaran Science and Research Branch, Islamic Azad University, Mazandaran, Iran.

*2Department of accounting, Aliabad katoul branch, Islamic Azad University, Aliabad katoul, iran.

Corresponding author: Ali Zabihi

ABSTRACT: *The purpose of this study is to investigate the impact of corporate governance mechanisms on the timeliness of reporting profits of companies in Tehran Stock Exchange. To achieve this purpose, four hypotheses have been formulated; the sample included 144 companies listed on the stock exchange whose data has been collected and statistically analyzed for a period of 5 years, from 2009 to 2013. This research is inductive and regarding nature and purpose, correlational and descriptive. To test the research hypotheses, combined data and multiple variable regressions were used; to estimate the research model, the generalized method of least squares (pls) with pooled coefficients were used Empirical evidence from the research hypotheses suggests that ownership concentration and state ownership have a significant and negative impact on the timeliness of reporting profits of companies, and institutional ownership and individual shareholders have a positive and significant effect on the timeliness of reporting profits of companies.*

Keywords: Ownership Concentration, State Ownership, Institutional Ownership, Individual shareholders, timeliness of Reporting Profit

INTRODUCTION

Many users take advantage of the information with specified schedule published by companies in the capital markets. Published information helps investors to improve their decision-making process. Perhaps the information related to the profit is the most interesting one which is also more represented. In addition to the several studies conducted in other countries [1 and 2], research has been also conducted in Iran, at the Tehran Stock Exchange in order to assess the financial criteria affecting investors' decision making [3 and 4] They concluded that the earnings of per share is one of the most important criteria in investment decision [4].

Tending to delay reporting bad news about interest is one of the factors that cause a lack of timely access to financial information. This hypothesis in accounting literature is introduced as strategic disclosure hypothesis. According to some researchers, many factors affect management in disclosure of information related to the profit and selecting the time of publishing this information including published data content, ownership structure, agency costs, the number of outside directors, time zone, the costs of ownership, the size of company and accounting complexity [5] It is important to investigate these factors' effect on choosing the time of publication and disclosure of companies' information, the value of shares on the market and their impact on investors' decisions. The present study, investigates the impact of corporate governance mechanisms on the timeliness of corporate financial reporting.

RESEARCH THEORY

After the scandals at companies like Enron, WorldCom, and Parmalat that reduced the reliance on independence and credibility of the professional institutions and financial markets, corporate governance became more important [6].

In recent decades, particularly following the collapse of the economic and financial crises in many developed countries and developing countries, the importance of the corporate governance is increased [7]. Defines corporate governance as the way organizations are managed and managers accountability to owners. In general it can be said that corporate governance is considered as laws, regulations, structures, Processes, cultures and systems that achieve the objectives of accountability, transparency, justice and observe the rights of stakeholders According to a comprehensive report by the Organization for Economic Cooperation and Development (OECD) in 2004, corporate governance is acceptable by the company as a system of guidance and supervision which is the key element in economic growth and efficiency and increases the confidence of investors. To achieve good corporate governance, the company should focus on all aspects of corporate governance [8].

Good corporate governance should create the right incentives for the board and company' management in a way that they follow their goal to the benefit of the company and shareholders. The corporate governance should also facilitate the effective control The corporate governance suggested in an organization when two conditions exist; Firstly, they represent an agency problem or a conflict of interest between members-directors, owners, employees or customers; secondly, the transaction costs are in a state that they don't resolved by the agency or a contract [9].

In this situation, the existence of ownership concentration, which originates from the absolute control of the major shareholder over the affairs of the company, may reduce agency problems due to the major shareholders' enough information for a better control of performance management Profit information in order to be relevant must be immediately released and available to all users in the market place. In other words, the information must be timely. Timeliness of profit, related to the timeliness of information. Timeliness of profit refers to the interest that is able to convey information in a more efficient way. Therefore, profits have informative and qualitative benefits for the investors outside the organization, and reduce the information asymmetry between managers and investors. The stock price in companies with more timeliness in their financial reporting, will fall lower because of the information asymmetry between managers and investors [10].

Companies that have a greater percentage of free float shares, their shares are traded more potentially in the market and therefore they are more attractive to investors. Such companies are more attractive to investors and the media. They are more willing to schedule their earnings announcements. They publish bad news on the earnings at the end of the week or during the hours after market closing and the good news are reviled during weekdays and office hours [11].

According to the theoretical concepts, information must be updated and should be accessible to all users before they lose their value. Thus, it seems that timeliness could be potentially useful for users of financial information (including shareholders); so that they use their own tools to get timely information from their managers.

LITERATURE REVIEW

Chambers and Penman [12] and Kross and Schroeder (1984) [13], studied the relationship between the timeliness of the profit and stock return. Their research results showed that early announcement including better news and bigger abnormal returns.

Ansah [14], studied the relationship between firm size, profitability, age of company, industry, the financial risk level and the timing of financial statements reporting in emerging markets. He concluded that the factors affecting the length of time since the announcement of the news of interest can influence the audit. Based on the theory of learning curves, whatever the company's age is more, reporting time decreases.

Gompers and Metrick [15], in their study, point out that the institutional investors guide stock prices to their intrinsic values that is the step towards a more efficient capital market.

Wang [10] examined the relationship between the timeliness of earnings and capital expansion through issuing new shares. His research was based on the theory that the stock price will drop during its exposition and one of the reasons expressed for this price reduction is the information asymmetry between managers and investors. He concluded that in companies with more timely benefit, the stock price drop will be less because of less information asymmetry.

Ghaemi and et al [11] investigated the management of timeliness of corporate financial reporting. For a closer look at their paper and testing the strategic disclosure hypothesis, we observe the announcement of profits which were changed between weekdays and weekends. Hypothesis test results show that managers are not strategic to the timing of the profits announcement. The percentage of free float shares has effect on the announcement of the news related to the profit.

RESEARCH HYPOTHESES

To answer the main research question, these important hypotheses were formulated:

1) Ownership concentration has a negative and significant effect on timeliness of corporate reporting profit.
2) Institutional ownership has a positive and significant effect on timeliness of corporate reporting profit.
3) State ownership has a negative and significant effect on timeliness of corporate reporting profit.
4) Individual shareholders have a positive and significant effect on timeliness of corporate reporting profit.

RESEARCH METHODOLOGY

The present research is applied regarding goal. It is descriptive and correlation type regarding administration. Specifically the present research is going to determine the relationship between economic value added and the return earned by the shareholders regarding corporate governance approaches. This research has studied the relationships between the variables mentioned and wants to approve this relationship in the present situation based on historical data. Therefore, we can categorize it as one of post incidental researches.

The research statistical population including all companies listed on the Tehran Stock Exchange. In order to increase the strength of the sample, they were selected by a screening method according to the following criteria. . The sample selection process is presented in Table 1.

Based on conditions above 144 active companies in Tehran Stock Exchange were selected for the time period between 2008 and 2013. The data needed were collected through statistical databases such as Rahavard-e-Novin and Tadbirpardaz and valid internet websites such as Caudal and DVDs published by Stock Exchange Organization.

Table 1: Sample selection process

The total number of companies listed at the end of the year 2013	478
The number of companies that have been inactive in the period of 2007-2013 in Stock Exchange	(159)
The number of companies that are accepted after 2007 in Stock Exchange.	(36)
The number of firms that change their fiscal year in the period of 2007-2013 or their fiscal year is not ending in March.	(51)
Their equity should not be negative during studied period.	(13)
The number of companies that have been part of the holding, investment, financial intermediation, banks or leasing.	(44)
The number of companies whose shares trade over six months have been interrupted in the period of 2007-2013	(31)
The number of sample firms	144

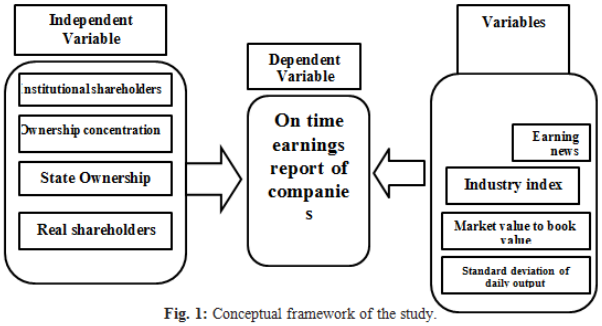

Fig. 1: Conceptual framework of the study.

RESEARCH VARIABLES AND THEIR CALCULATION

DEPENDENT VARIABLE:

In this study, the timeliness of reporting profit is measured according to Lim et al [16] research and Bix and Brown [17] model based on the daily stock value of companies.

Model (1)

$$Timeliness = \frac{\sum_{t=-364}^{t=0} |\{\ln(P_0) - \ln(P_t)\} - \{\ln(I_0) - \ln(I_t)\}|}{365}$$

Pt: Latest stock price, P0: the first price after the general assembly meeting

It: total stock market daily index, I0: index of total stocks market on the day of announcement

INDEPENDENT VARIABLES:

Percentage of institutional ownership: Institutional owners including foundations and government agencies, pension funds and investment firms, which in theory have good expertise in stocks investment, and in some cases purchase stocks in order to influence the company's equity investment. In this study, in accordance with the definition used in the research by Cueto [18], and Rahmani et al (2010) [19] the number of shares owned by institutional shareholders to the total number of shares issued in the company is considered as a percentage of institutional ownership.

State ownership: in accordance with the definition used in the research [15], the number of shares owned by state shareholders to the total number of shares issued in the company is considered as a percentage of state ownership.

Ownership Concentration: To calculate the concentration of ownership in accordance with the research by Rahimian *et al* [20] and Rahmani *et al* [19] the herfindahl hirschman index will be used. Herfindahl hirschman index is an economic indicator that is used to measure the degree of monopoly in the market. Regarding this, the percentage shares of each institutional shareholder will be dabbled and summed together are:

OC= 2ownership Percentage of each institution which is between 0 and 1, the concentration is much more than it is closer to 1. Thus, firms with concentrated ownership were given 1 and zero will be assigned to other companies.

Individual shareholders: in this study in accordance with the definition and research by Lim et al. [16], the percentage of shares owned by the shareholders of the company is defined.

RESEARCH CONTROL VARIABLE

Firm size (Size):

To calculate this variable, the natural logarithm of the market value of the company's stock is used.

Leverage

The ratio of total debt to total assets (Financial leverage)

Book value to Market value

To calculate this variable, the ratio of book value to market value of the company's equity is used.

The standard deviation of daily stock returns (Volatility)

Profit News (Bad News): it is a dummy variable when the company's profits have declined over the previous year, it will be (1) and otherwise (0). If earnings of per share is lower than the previous year; the value is 1, otherwise it is zero. This will be used as the control variable.

THE RESULTS OF THE STATISTICAL ANALYSIS OF RESEARCH HYPOTHESES

DESCRIPTIVE STATISTICS OF RESEARCH VARIABLES

Summary of descriptive statistics of the research variables is presented in Table 2.

Table 2: descriptive statistics of research variables

Expansion	*Skewness*	*Max*	*Min*	*Standard deviation*	*Mean*	*Views*	*Variable*
5.377	1.471	1.7004	0.0007	0.3126	0.3838	712	(*Timeliness*)
3.865	-1.079	100	6.201	18.503	72.656	712	(*OC*)
3.160	-1.189	100	0	28.611	69.829	712	(*IO*)
1.614	0.014	98.260	0	32.340	42.978	712	(*SO*)
8.104	2.450	86.830	0	18.312	8.377	712	(*Other Owners*)
3.889	0.779	18.817	10.031	1.539	13.824	712	(*Size*)
2.518	-0.337	0.9633	0.0964	0.1750	0.5835	712	(*Leverage*)
5.028	1.290	8.8696	0.2983	1.3874	2.2253	712	(*Book to Mkt*)
4.963	1.231	0.5123	0.0025	0.8080	0.1363	712	(*Volatility*)
1.059	0.243	1	0	0.4966	0.4396	712	(*Bad News*)

Table 3: normal distribution test of the dependent variable of Research

variable	Jarque-Bera statistics	Significance level
(Timeliness)	417.244	0.000

Table 4: The results of the normal distribution of dependent variable after normalization process

variable	Jarque-Bera statistics	Significance level
(Timeliness)	2.279	0.3199

Table5: The results of sample selection to estimate model of the research

Test type	Test statistics	Test statistic amount	Degrees of freedom	*P-Value*	*result*
F Limer Test	F	2.205	(143.559)	0.0019	Panel Data
Hausman test	χ^2	51.586	9	0.000	Fixed effects

According to Table 1, the average timeliness of sample corporate reporting profit which is measured by Beekes and Brown (2006) [17] is 0.3838 and the minimum and maximum amount is respectively 0.0007 and 1.7004. Due to the low standard deviation of the variable (0.3126) compare with the average variable, it can be concluded that the dispersion is relatively low for variable of timeliness of sample corporate reporting profit. Investigating Kurtosis and Skewness factor of this variable indicates that data is not normally distributed for the timeliness of reporting profit; so that the skewness is equal to 1.471 and Kurtosis is 5.377.

NORMAL DISTRIBUTION TEST OF THE DEPENDENT VARIABLE OF RESEARCH

The normality of the variables has been examined using Jarque-Bera statistics.

Since the significance level of Jarque-Bera statistics for dependent variable (Timeliness) is less than 0.05 (0.0000), so, dependent variables do not have normal distribution. In this study, to normalize the data, the transfer function of Johnson has been used.

According to this table, since, after normalization of the data, the significance level of Jarque-Bera statistics for dependent variable (Timeliness) has increased to more than 0.05(0.3199), therefore, H_0 hypothesis is approved at 95% confidence level, indicating that the dependent variable has a normal distribution after normalization process.

RESULTS FROM THE RESEARCH HYPOTHESIS

According to the results of the Limer F test, since the P-Value of the test is less than 0.05 (0.0019), differentially intercept is verified. To estimate the model, data panels was used. Also according to the results of the Hausman test, since the P-Value test is less than 0.05 (0.000), the model must be estimated using fixed effects methods. Table 6 shows the results of the models as well as the classical regression and statistics outcomes.

Investigating the general significance of the model, according to the probability (P-VALUE), F-statistic is smaller than 0.05 (0.000) with 95% confidence, the overall significance of the model is confirmed. The coefficient of adjusted model determination also suggests that 61.01 percent of changes in the timeliness of corporate reporting profit is explained by the variables in the model. Also checking the validity of the model and the assumptions of the classical regression, Jarkva- results indicate that the remaining 95% from the estimated model is not normally distributed, so that the probability (P-VALUE) for this case is smaller than 0.05 (0.0000). Regarding this issue, due to the high number of observations and the central limit theorem, residuals abnormal distribution can be ignored.

The residual variance consistency is confirmed since the probability (P-VALUE) for Brsh- Pagan test is greater than 0.05 (0.0629). The residuals are not correlated. According to the results, obtained value of Watson camera (1.799) is between 1.5 and 2.5. it indicates that there is no correlation between the residuals of the regression model. Since the co-linearity among the variables in the model and the VIF statistics for all variables is less than 10, and close to number 1, it can be said there is no severe co- linearity among them and also the assumption of the classical regression is confirmed.

TEST ASSUMPTIONS SUMMARY AND ITS COMPARISON WITH RESEARCH LITERATURE REVIEW

Based on the results presented in Table 5, the probability value of (P-VALUE) t-statistics for the variable "ownership concentration" is smaller than 0.05 (0.0000) and its coefficient is negative (-0.0045). Therefore, there is a significant inverse relationship between ownership concentration and timeliness of reporting profits. As a result, the first hypothesis was confirmed in 95% of reliability. It shows that ownership concentration has negative effects on the timeliness of the profit reporting of the firms listed in Tehran Stock Exchange. The findings of the first hypothesis is consistent with the research by and inconsistent with the results of because they concluded that the ownership concentration has a significant and positive relationship with corporate performance and value.

Table 6: Results of estimating model of the research

$$Timeliness_{i,t} = \beta_0 + \beta_1 OC_{i,t} + \beta_2 IO_{i,t} + \beta_3 SO_{i,t} + \beta_2 OtherOwners_{i,t} + \beta_5 Size_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 BadNews_{i,t} + \beta_8 Book\ to\ Mkt_{i,t} + \beta_9 Voaltility_{\ i,t} + \varepsilon_{i,t}$$

Dependent variable: Timeliness
Observations: 712 year - company

VIF	*P-Value*	t statistics	Coefficient	Variable
-	0.0029	-2.986	-0.6918	C
1.277	0.000	-14.756	-0.0045	(OC)
1.430	0.000	26.868	0.0046	(IO)
1.454	0.0307	-2.165	-0.0008	(SO)
1.548	0.000	4.812	0.0048	$(OtherOwners)$
1.143	0.000	5.819	0.0927	$(Size)$
1.045	0.000	4.387	0.2786	$(Leverage)$
1.034	0.000	-6.365	-0.0628	$(BadNews)$
1.186	0.0103	-2.575	-0.0140	$(Book\ to\ Mkt)$
1.196	0.1417	-1.471	-0.1103	$(Volatility)$

The adjusted coefficient of determination model: 0.6101

26.262 (0.000)	Jarque-Bera Statistics (*P-Value*)	5.754 (0.000)	F model Statistics (*P-Value*)
1.799	Durbin-Watson Statistics	1.811 (0.0629)	Breusch-Pagan Statistics (*P-Value*)

The probability value of (P-VALUE) t-statistics for the variable "institutional ownership" is smaller than 0.05 (0.0000) and its coefficient is positive (0.0046). Therefore, there is a direct significant relationship between institutional ownership and timeliness of reporting profit. Therefore, by increasing the amount of institutional owners in the ownership structure of firms, the timeliness of reporting profit increases. As a result, the second hypothesis was confirmed in 95% of reliability. It shows that institutional ownership has positive effects on the timeliness of the profit reporting of the firms listed in Tehran Stock Exchange.

The results were compatible with the theoretical research and also with the results of Noorvash va Ebrahimi Kordlar [21].

According to the results, the probability value of (P-VALUE) t-statistics for the variable "state ownership" is smaller than 0.05 and its coefficient is negative (-0.0008). Therefore, there is a significant inverse relationship between state ownership and timeliness of reporting profits. There is a direct relationship between institutional ownership and timeliness of reporting profit. Therefore, by increasing the percentage amount of state ownership, the timeliness of reporting profit decreases. As a result, the third hypothesis was confirmed in 95% of reliability. It shows that state ownership has negative effects on the timeliness of the profit reporting of the firms listed in Tehran Stock Exchange. The findings of the third hypothesis are consistent with the research by Lim and et al (2014) [16]

Finally, the probability value of (P-VALUE) t-statistics for the variable "individual shareholders" is smaller than 0.05 (0.0000) and its coefficient is positive (0.0048). Therefore, there is a direct significant relationship between individual shareholders and timeliness of reporting profit. Therefore, by increasing the amount of individual shareholders in the ownership structure of firms, the timeliness of reporting profit increases. As a result, the forth hypothesis was confirmed in 95% of reliability. It shows that individual shareholders have positive effects on the timeliness of the profit reporting of the firms listed in Tehran Stock Exchange. These findings are consistent with the results of Liu *et al* [22].

CONCLUSION

Corporate governance reduces the capacity of managers to manage profit and improve the reliability of accounting profits. Thus, it improves the reliability of profit useful information According to when shareholders are concentrated, it is relatively easy to overcome asymmetric information. Therefore, the demand for information and coordination of operations on the management level takes place easily. They actually adopt this view of that "someone does not steal from his" and developed this hypothesis that founders of the greater property are less deviated. The results showed that the corporate governance will be improved by ownership concentration. But according to the results of the first hypothesis test, the ownership concentration has a negative effect on the timeliness of reporting profit. In this regard, it can be concluded that in the Iranian companies, the ownership concentration is not an effective factor in the timeliness of reporting profit and the ownership concentration in Iranian companies should be avoided.

In many countries, the role of institutional investors in financial markets is penetrating. They prove their influence through their own actions as well as stock trading. This influence is very strong, so that it will lead the corporate operation to a specific direction. In contrast, institutional investors can act as a team and avoid investing in some particular companies. They can also increase the costs of corporate capital. Therefore, the role of institutional investors in corporate governance and incentives that lead to play such a role, and also the crises in recent years has been the subject of many professional circles.

The second hypothesis evaluates the impact of institutional investors on the timeliness of reporting profit. The results show that institutional ownership has a positive and significant effect on the timeliness of reporting profit. The results are compatible with research theories and also with the results of the researchers put the bases of their argument on the regulatory role of institutional investors. They suggest that institutional investors have more motivations to monitor management and therefore their presence will have positive effects on corporate value. However, at high levels of ownership, institutional investors may encourage the board to non-optimized decisions.

The third hypothesis evaluates the impact of state ownership on the timeliness of reporting profit. The results show that state ownership can act as a team and avoid investing in some particular companies. It has a negative and significant effect on the timeliness of reporting profit. The results are compatible with the results of In contrast, it is inconsistent with the theoretical foundations and observing role of the government ownership. This can be considered in the form of state- owned Iranian companies. It seems that the state-owned companies in the sample did not play their role properly as expected. The reason could be that the state owners pay less attention to their interest's protection in the companies or for playing such a role, expertise is not enough. This approach makes it difficult for them to play properly their role in the companies they owned.

The forth hypothesis evaluates the impact of individual shareholders on the timeliness of reporting profit. The results show that the individual shareholders have a positive and significant effect on the timeliness of reporting profit. Therefore, by increasing the amount of individual shareholders in the corporate ownership structure, the timeliness of reporting profit will increase.

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