International Journal of Academic Research in Accounting, Finance and Management Sciences
Vol. 7, No. 4, October 2017, pp. 206–215
E-ISSN: 2225-8329, P-ISSN: 2308-0337

www.hrmars.com

Investigating the Role of Institutional Intermediary Variable in Explaining the Relationship between Firm Value and Profit Quality in Listed Firms in the Tehran Stock Exchange

Ahmad KAABOMEIR[1]
Abdolnabi ALBOGHOBEISH[2]
Hamidreza TAHERI[3]

[1,2,3]Department of Accounting, Ahwaz Branch, Islamic Azad University, Ahwaz, Iran,
[3]E-mail: hamid_taheri15@yahoo.com (Corresponding author)

Abstract *The goal of this study is to investigate the relationship between firm value and profit quality considering the role of mediator of institutional ownership in listed firms on Stock Exchange. In this study, to measure and evaluate the quality of profit, according to Laurie and Jenkins (6002) and Wang (2006), also the ownership of investors categorize at three levels: high, medium and low. The research population of this study is the listed firms on Tehran Stock Exchange and the statistical sample includes 222 companies in the period from 2009 to 2013. Investigating the relationships between variables after controlling the company's specific features has done by using multiple linear regressions and the panel method. The results of the research show a significant relationship between the firm's value and the quality of profit that by increasing investor ownership, a stronger relationship established between firm value and profitability.*

Key words Earnings quality, firm value, ownership, investors, reporting, Stock Exchange

DOI: 10.6007/IJARAFMS/v7-i4/3509 URL: http://dx.doi.org/10.6007/IJARAFMS/v7-i4/3509

1. Introduction

Financial reports are one of the most important products of the accounting system that providing the necessary information for performance evaluation, corporate profitability, future cash flows prediction and company value are their most important goals. One of the accounting items, presented in the income statement (profit and loss statement), is net profit. Related financial analysis shows that the executives and investors define the profit as one of the important factors determining the value of a company. The facts such as accounting various estimates and methods and the conflict of interests between managers and owners have led to a real profit of an enterprise be different to reported earnings in financial statements and this usage of profit, which is a criterion for decision making ,has doubted(Izadinia and Nazarzadeh 2010). Therefore, considering the wide dimensions of profit utilization, careful consideration in different aspects and the examination of different perspectives of calculating and providing profits seems necessary. In general, an important feature of profit is the quality of profit. Profitability is one of the important tools for evaluating financial health of the firms. The profit quality related to fair methods reflects the future profitability of the business unit. Future profitability of the business unit is related to specific decisions taken by specific decision makers (Dichoo and Scandinavia, 2003). The High profitability provides more information about the firm's financial performance features. These features are related to decisions made by a specific decision maker (Dichow *et al*., 2010). Low profitability leads to risk in resource allocation and economic growth through inappropriate allocation of funds, diversion of resources towards unrealistic returns and increased information risk. (Kurdistani and Tayefe, 2013)

Profit quality is a very important aspect of accounting profit because shareholders' awareness of the quality of profit on stock prices, dividends, and stock returns. Also, low-quality profits can lead to non-optimal allocation of resources with unrealistic returns and, consequently, it decreases the economic growth (Haghighat and Iranshahi, 2010). In other words, it may the manager manage profits to achieve

predetermined goals. As a result, accruals accrue are increase. If the reported profit be the result of a real economic unit performance, it will have an insignificant quality. As a result, it cannot play a role in economic decision-making. Therefore, the issue of earnings quality has much importance to investors and owners. Generally, one of the most important factors that affects the quality of profit is apply of control and supervision by shareholders, in particular institutional investors. The institutional owners play an important role in corporate governance and supervising managers (Hadani, 2011).

Usually Investors want to present accurate and timely information about the company and continuously make questions as company to giving the accurate future profits. They analyze the important information related to the stock value, which is not reflected in current profits, and then consider them in stock prices. Considering that the major shareholders in the combination of ownership of most companies admitted to the Tehran Stock Exchange, which, according to the corporate governance mechanism, have the ability to exert greater oversight than shareholder participation. Secondly, the ownership structure of most companies and organizations in Iran is based on institutional ownership. Regarding the Iranian state economy, the lack of separation of management content from ownership in private companies, the rule of old and inefficient corporate governance, and the weak capital market ,seems that the model of political economy of corporate governance can explain and predict appropriately in the context of the corporate governance of Iran (Rezaei and Fakhreddin, 2013).

So according to the above mentioned, this research investigates the relationship between the quality of profits and the value of the firm regarding the role of mediating institutional ownership, to determine that is there a meaningful relationship between earnings quality and company value? Is the intensity of the relationship between the quality of profits and the value of the company depends on the amount of institutional ownership?

2. Theoretical Foundations and literature review

Porter (1992) believes that frequentative transactions and the ownership concentration of institutional investors in the short time will lead the management to make more profits; otherwise, the lack of profits will lead to the sale of shares by institutional investors and decline the company's stock price. He believes that institutional investors mainly focus on current profits, and they also bring managers along in this way (Porter, 1992). The primary purpose of a profit report is to provide useful information for those who are most interested in financial reports, but accounting profit cannot always be good criteria for investor decisions and sometimes manipulated by management. So the concept of profit quality was introduced to help investors making the right and correct decisions. Loogie and Marquardt (2004) argue that the profits which are closer to the value of the firm in the long term values contain more information content. Blowari *et al.* (2006) describe the earnings quality as the reported profitability in reflecting the entity's real profits, the ability to predict future earnings, and the sustainability and non-changeability of reported earnings. In most of the studies conducted in the context of examining the relationship between company values and profit quality, earnings quality has been measured by criteria such as Gross Profit Ratings, Accounts Receivable Valuation, Asset Ratio, Cash Outcome, and Continuous Growth Rate (Chen *et al*., 2006).

Therefore, in this study, for measuring and assessing the quality of profit, according to the studies of Volori and Jenkins (2006) and Wang (2011), one of the most important features of earning quality has been used which Include honest earnings reporting, profit forecasting, timely reporting of profit, profitability and accruals. The honest reporting of profits, the degree of manager’s honesty to provide fair and accurate information for decision makers have defined and it should be clear and free of any profits manipulation (Bernadet *et al.*, 2010). Therefore, efficiency is a function of changes in profit, and Profit change coefficient is considered as a measure of profit quality (Etemadi and Deylami, 2009).

The profit forecasting value is one of the assessing criteria for the profits quality, which allows financial statements users to predict operating profit and operating cash flow certainty. The value of forecasting is when individuals use the accounting profit to estimate the operating cash flow. When reported earnings figures can to predict future earnings, it is possible to assess the future profitability and future prospects of cash flow. In this situation, profits have a good quality (Volori and Jenkins, 2006). In order to the profits information help investors to decide, they must be available for investors on time. If

timely information profits be available, investors' expected returns will be real. On the other hand, as the information reported at short intervals, due to the high level of information available to investors, the company's information risk will be lower. This will reduce the overall investment risk in the company and increase the quality of profits (Vang, 2011). Profits Stability means the repeatability of current profits. Stability of profit is a qualitative figure of accounting profit and it based on accounting information (Nikomram and Fathi, 2001). Based on accounting standard principles, accounting profit includes two components: cash and accrual. Accrual accounting is a component of financial reporting that assist financial information users in predicting cash flow. In this way, the assessment, the ability to create cash through focusing on financial position, financial performance and cash flows of a business unit and using them to predict expected cash flows and measure financial flexibility have easy to get. Since managers are reluctant to recognize the time of revenue and costs. Some believes that accruals can be manipulated by managers (profit management) to align profits with their own personal desires (Tomax and Wang, 2011).

Fakhari and Taheri (2010) examined the relationship between institutional investors and the firm's value. The results of their research show that the presence of institutional investors increases the monitoring of the performance of managers, and reduce the information asymmetry and finally, through increase the ownership in this group of shareholders; the value of the company is reduced. Hessam Yeganeh *et al*. (2009) investigated the relationship between institutional investors and the firm's value. In general, their research results show a positive relationship between institutional investors and firm's value, and claims that there is no linear relationship between ownership concentration and firm's value. Ghaemi *et al.* (2009) examined the role of accruals in describing the profitability of firms admitted on the Tehran Stock Exchange. They studied the relationship between earnings quality through accruals and its constituent components with the ordinary and unusual efficiency of stocks. The sample includes 136 companies and accrual items are separated into optional and optional components. The results show that firms audit returns are affected by the amount of accruals and related components. There is a significant difference between the returns of firms which accrual items are reported to the lowest and most. Ahmadpour *et al.* (2009) examined the impact of non-obligated managers and institutional investors on the behavior of earnings management. The results of the study of the behavioral probability show that unusual accruals cannot justify the profitability changes and be as a sign of profitability in the next years. Also, the results of study "the role of corporate governance instruments in the profit management behavior", suggests that when there is a big motivation to manipulate, non-executive and major institutional investors play the weak role in reducing unusual accruals malformations. Kordler *et al.* (2010) examined the effect of institutional ownership on the performance and value of admitted firms in the Tehran Stock Exchange during the years 1998 to 2006. Findings of the research generally indicate that there is a significant positive relationship between both types of institutional ownership and firm performance. Kurdistani and Majdi investigate the relationship between the five qualitative characteristics of profit, including profit stability, profitability predictability, and relevance of earnings to stock value, timeliness and conservatism of profit with the cost of capital stock. According to research limitations, seventy firms listed in Tehran Stock Exchange during the period of 1993-2003 were studied. The results of the research confirm the inverse relationship between qualitative profit characteristics, including profit stability, profitability predictability, relevance of profit to stock value and timeliness with the cost of ordinary equity, this relationship is statistically significant. But there is no meaningful relation between conservatism and the cost of ordinary stock investment (Kordestsni and Majdi, 2007).

Laurie and Jenkins (2006) examined the role of institutional investors in the quality of profits and the effects of variables such as investor ownership percentage, ownership concentration, ownership percentages of managers, firm size and debt ratio on earnings quality were investigated by using multiple regression. The results of this research show that there is a positive and significant relationship between institutional owners and the quality of profits, and the ownership concentration negatively affects the quality of profits. Kim and Giow investigated the profitability and stock returns with macroeconomic variables. They set the quality of accruals as a criterion for assessing the quality of profits and they concluded that the quality of accruals changes through macroeconomic variables. In fact, the firms by low accruals quality are more vulnerable to shocks and macroeconomic developments.

(Kim and Gio, 2010; Bohl *et al.*, 2009) investigated the impact of institutional investors on the capital market. The results of the research show that the presence of institutional investors in the capital market

leads it to efficiency, thus the institutional investors monitor the accuracy and accuracy of providing information by monitoring the firm's information accurateness and observing professional ethics by emphasis on their influence. Jung and Kenn (2002) examined the relationship between ownership structure and quality of profit in Korea. Findings of this study indicate that, it may the institutional investors and large shareholders have no incentives to monitoring because of some reasons such as lack of skills, the presence of spongers and relationship with management, as information institutional investors increases, the content of the information content of profit increases too. Cheney and others (2010) examined the quality of accounting information in companies with political relations. They showed that firms having political relations provide lower quality information then due to the lack of market penetration they provide low quality information to increase the quality of accounting information (Nikomram *et al*., 2013). Hadani *et al.* (2011) studied the relationship between institutional ownership and profit management. The results of their research through the period of 2001-2004 showed that the increasing ownership of institutional investors reduces profits.

3. Research hypotheses

Based on the theoretical foundations and literature review, the research hypotheses are designed and developed as follows:

Main Hypothesis 1: There is a significant relationship between firm value and earnings quality.

Sub hypothesis

-There is a significant relationship between firm value and predictability profit value.

-There is a meaningful relationship between company value and accruals.

-There is a significant relationship between the firm value and the honest reporting of profits.

-There is a significant relationship between firm value and timely profits reporting.

-There is a meaningful relationship between firm value and profits sustainability.

Main Hypothesis 2: The relationship between firm value and profits quality depends on the amount of institutional ownership.

Sub hypothesis

-The relationship between firm value and profits predictability value depends on the amount of institutional ownership.

- The relationship between firm value and accruals depends on the amount of institutional ownership.

- The relationship between the firm's value and the honest reporting of profits depends on the amount of institutional ownership.

- The relationship between firm value and timely reporting of profits depends on the amount of institutional ownership.

- The relationship between firm value and profit stability depends on the amount of institutional ownership.

4. Methodology of research

This research is correlational and applicable. The research data was collected through the firm's data due to financial statements, explanatory notes and using the "TDBIR PARDAZ" software (Ltd) and the reports of the general meetings of the firms. Therefore, the statistical population of this study is all listed firms on Tehran Stock Exchange. A systematic removal method has been used to select a sample among 222 firms. The data and statistical data relating to the firms listed in the statistical sample were collected from 2009 to 2013.

To test the hypotheses, multiple regression analysis of combined data and "Eviews" software has been used. In the combination data method, the "F limmer" test was used to choose between Panel and Pooling methods. Then the Hausman test is used to testing the second hypothesis and its sub-hypotheses. Finally, the research hypotheses are tested by t, F Fisher R^2 and tests and the Phillips Paron test was used to test the variables reliability. Durbin-Watson Test is also used to check the errors independence from each other.

4.1. Research variables

The Independent variable

In this research, earning quality is considered as an independent variable and comprehensive measurement describe as follow:

First, the five criteria such as the quality of profit predicting, accruals, profits honest reporting, profit timely reporting and profitability will be used.

Predictability Profits Value: Dacho's research results indicate that the current year's profits are generally a good predictor for future cash flows (Ducho, 1994). Therefore, in this study, the quality of profits is examined by analyzing the relationship between operating profits for the current year and the operating cash flows of the next year describe as:

$$CFO_{it+1} = a_o + a_1 EBIT_{it} + \varepsilon_{it} \quad (1)$$

Where:

CFO_{it+1} = Operating cash flow at the end of next year.

$EBIT_{it}$ = Operating profits at the end of the year.

Accruals: Accruals represent the difference between the accounting profits and the cash flows of operating activities. In the financial literature, there are two models proposed for calculate accruals, which include a balance sheet model and income statement model. Therefore, the use of the balance sheet approach has led to results in poor quality, it is better to use the income statement method to calculate accruals (Harribar and Collins, 2011), as follows:

Accrual=EBIT-CFO

CFO= Cash flows according to cash flow+ dividend disbursement+ Cash flows related to investments and financing payments- Tax-related cash flows

Honest Reporting Profit: To measure honesty of profits, the relationship between profits and stock returns of twelve months should be tested (Harribar and Collins, 2002), as follows:

$$R_{it} = a_0 + a_1 E_{it} + a_2 \nabla E_{it} + \varepsilon_{it} \quad (2)$$

E_{it} = firms net income in this year;

$\Delta^{\nabla E_{it}}$ =change in flow net income over the previous year.

Timely Income (profit) Report: To evaluate the timeliness of profit, the Francis et al. Model (2004) has been used as follows:

$$E_{it} = a_o + a_1 NEG_{it} + a_2 R_{it} + a_3 NEG_{it} \times R_{it} + \varepsilon_{it} \quad (3)$$

The negative returns index NEG_{it} equals 1, if,$R_{it} < 0$, otherwise it will equal 0.

Profits Stability: Freeman et al. (2010) considered the stability of profits in the probability of recurring and observing the profits or its components in the future.

It supposes that, the higher stability of profits leads to the higher reported profits quality (Richardson et al., 2004), follows:

$$E_{it+1} = a_0 + a_1 E_{it} + \varepsilon_{it} \quad (4)$$

a_1: It is an indicator of stability. If the obtain number be closer to 1 the profit stability is more and when it is closer to zero, the temporary profit is more.

The dependent variable:

Firm Value: firm valuation is a requirement of planning for managers and investors. Hence, the value of a company is important for financiers, investors, managers, creditors and other stakeholders in their assessment of the firm's future and its impact on risk and return on investment and stock prices. (Naviesand Niker, 2006). In this study, the ratio of "Q Tobin "belongs Leigh et al. (6022) was used.

$$TobinQ = \frac{prcc - f \times csho + at - ceq}{at} - median(\text{TobinsQ}^{Industry}) \quad (5)$$

Where:

Prcc__f: the market value per share

Csho: number of shares belongs to shareholders

At: Book value of assets

Ceq: Book value of equity

Q Tubin Median industry

Intermediary Variable:

Institutional ownership: The institutional ownership is the research intermediary variable, and some shareholders who have bought more than 5% of the firm's stock considered as institutional owners (Nasrallahi and Arefmannesh, 2010). With regard to the degree of institutional investors' ownership in firms, their ownership divided into three levels of institutional ownership, moderate institutional ownership and low institutional ownership then, the effect of each level on the relationship between earnings quality and stock returns had examined.

Table 1. Classification of Institutional Ownership

Number of firms	Return on equity	Institutional Ownership
30	From0% to 32%	low
37	From 33% to 65%	medium
44	Over 66%	high

5. Findings of the research

At first we examine the reliability of the variables. The results of Table 2show that the "Phillips Proon" statistic is significant 5% for all variables. Therefore, on the basis of this test, all variables are reliable and there is no need to co-integration test.

Table 2. Phillips Proon test results

Firms area	Firms value	Profits stability	Timely profits reporting	Honesty Profits Reporting	Accruals	Predictability of Profit Value	Variables
413/116	395/38	308/788	396/494	353/798	313/202	251/075	Statistic
0/000	0/000	0/000	0/000	0/000	0/000	0/.319	P-value

Also, the results of Husmen's test indicate that we have to use the random effects method for first, third, fourth, and the first main hypothesis. In this case, the variances of the different sections are not the same and the model has heterogeneity of variance.

Findings of the first hypothesis test and its sub-hypotheses

The results of the hypotheses regression (the tables below) show that the t-statistic is accepted for all the profit-quality criteria which under the level of error. It also shows that there is a positive and direct relationship between all the criteria for the profits and firm's quality. Also, the results of the first hypothesis test show that there is a significant relationship between earnings quality and stock returns.

Table 3. The test results of the first main hypothesis

0/936802	R^2	p-Value	T-Statistics	standard error	Coefficient	Variable
		0/000	27/946930	0/034528	1/134535	C
2/035687	D-W Statistics	0/0325	3/040356	0/023497	1/045347	Predictability of Profit Value
		0/0169	1/987304	0/093457	0/033435	Accrual
101/5390	F Statistics	0/0005	5/912870	0/031846	0/099935	Honesty Profits Reporting
		0/000	12/802956	0/145644	1/845367	Timely profits Reporting
0/000	P-Value	0/000	41/503572	0/005042	0/547890	Profits Stability
		0/000	3/012909	0/067801	0/032592	Firm Area

Table 4. The first sub-hypothesis test results

0/317921	R^2	P-Value	t-statistics	Standard error	Coefficient	Variable
1/459072	D –W Statistic	0/000	6/918038	0/039027	0/147890	C
1/386036	F Statistic	0/0038	2/610912	0/075903	0/116034	Predictability of Profit Value
0/000079	P-Value	0/000	4/803807	0/019034	0/059127	Firm Area

Table 5. The second sub hypothesis test results

0/348041	R^2	p-value	t-statistic	Standard error	coefficient	variable
2/240578	D- W Statistics	000/0	6/025898	0/025609	0/157803	C
2/491056	F statistics	0/0073	3/909379	0/037902	0/018023	Accruals
000/0	P-value	000/0	6/937034	0/019034	0/093467	Firm Area

Table 6. Third sub -hypothesis test results

0/378903	R^2	p-value	t-statistic	Standard error	coefficient	variable
2/045902	D-W statistic	0/000	6/935970	0/035789	0/147804	C
2/350567	F statistics	0/0379	2/730345	0/007690	0/069045	Honesty Profits Reporting
0/000	P-value	0/000	5/093467	0/026890	0/006098	Firm Area

Table 7. Fourth sub-hypothesis test results

0/594590	R^2	P-value	t-statistic	Standard error	coefficient	variable
2/347809	D-W statistic	0/000	11/50456	0/037096	0/458904	C
6/898723	F statistics	0/000	16/90346	0/124690	1/704598	Timely Profits Reporting
0/000	P-value	0/0001	4/10693	0/023706	0/068034	Firm Area

Table 8. Fifth sub -hypothesis test results

0/670236	R^2	P-value	t-statistic	Standard error	coefficient	variable
2/830356	D-W statistic	0/000	8/168256	1/192349	9/345045	C
8/926089	F statistics	0/000	5/039379	0/037897	0/438903	Profit stability
0/000	P-value	0/000	7/394089	0/070236	0/057912	Firm Area

Findings of the first main hypothesis test and its sub-hypotheses:

The result of the second main hypothesis test (following tables) show that, the intensity of the relationship between earnings quality and company value at the level of institutional ownership, is higher.

Table 9. Second main hypothesis test result

R^2	T-statistic	P-value	coefficient	variables	Amount of institutional ownership
0/369036	2/789345	0/0104	0/956803	Predictability of Profit Value	Low institutional ownership
	1/093467	0/0157	0/004578	accruals	
	6/703456	0/000	2/479804	Honesty Profits Reporting	
	7/812678	0/000	0/068093	Timely Profits Reporting	
	3/592367	0/0085	0/041689	Stability profits	
	2/513488	0/0148	0/469032	Firm area	
0/594803	4/268096	0/0031	0/0035890	Predictability of Profit Value	Medium institutional ownership
	1/278045	0/0001	0/016795	accruals	
	2/560987	0/0432	0/469032	Honesty Profits Reporting	
	11/78977	0/000	1/945689	Timely Profits Reporting	
	2/864689	0/0076	0/068934	Stability profits	
	2/769034	0/0360	0/034780	Firm area	
0/719034	2/823567	0/0370	0/178034	Predictability of Profit Value	High institutional ownership
	1/567907	0/0146	0/001567	accruals	
	2/763890	0/0189	0/089023	Honesty Profits Reporting	
	8/167890	0/000	3/542789	Timely Profits Reporting	
	2/658907	0/0260	0/207895	Stability profits	
	5/986309	0/0001	0/089034	Firm area	

Table 10. The first sub-hypothesis test results

R^2	t-statistic	P-value	coefficients	variables	Amount of institutional ownership
0/185698	2/956789	0/0076	0/132678	Predictability of Profit Value	Low institutional ownership
	4/458097	0/0008	0/045678	Firm value	
0/246709	2/981067	0/0043	0/116578	Predictability of Profit Value	Medium institutional ownership
	2/569076	0/0165	0/097890	Firm value	
0/380934	4/238790	0/0005	0/649034	Predictability of Profit Value	High institutional ownership
	3/904567	0/0012	0/089034	Firm value	

Table 11. Second sub hypothesis test results

R^2	t-statistic	P-value	Coefficients	variables	Amount of institutional ownership
0/667890	1/096789	0/0034	0/004567	accrual	Low institutional ownership
	5/568679	0/000	0/067890	Firm area	
0/368907	1/236789	0/0187	0/005490	accrual	Medium institutional ownership
	2/789056	0/0456	0/025678	Firm area	
0/257809	1/059087	0/0034	0/006709	accrual	High institutional ownership
	3/898056	0/0043	0/089456	Firm area	

Table 12. Third hypothesis test results

R^2	t-statistic	p-value	coefficients	variables	Amount of institutional ownership
0/245678	2/780956	0/0053	0/012456	Honesty Profits Reporting	Low institutional ownership
	4/358906	0/000	0/028678	Firm area	
0/307896	2/659078	0/0067	0/059675	Honesty Profits Reporting	Medium institutional ownership
	2/809445	0/0034	0/035897	Firm area	
0/350967	2/258790	0/0456	0/068043	Honesty Profits Reporting	high institutional ownership
	2/348909	0/0369	0/032678	Firm area	

Table 13. fourth sub-hypothesis test results

R^2	t-statics	P-value	coefficients	variables	Amount of institutional ownership
0/367890	13/568790	0/000	2/067895	Timely Profits Reporting	Low institutional ownership
	2/346789	0/0167	0/093467	Firm area	
0/639812	6/345690	0/000	3/789034	Timely Profits Reporting	medium institutional ownership
	3/125678	0/0005	0/035889	Firm area	
0/679034	16/806945	0/000	1/939567	Timely Profits Reporting	High institutional ownership
	2/879034	0/0321	0/036890	Firm area	

Table 14. fifth sub-hypothesis test results

R^2	t-statistic	p-value	coefficients	variables	Amount of institutional ownership
0/368907	2/768904	0/0115	0/079345	Stability profits	low institutional ownership
	2/458907	0/0246	0/081567	Firm area	
0/431256	4/935670	0/000	0/105687	Stability profits	Medium institutional ownership
	6/247890	0/000	0/034678	Firm area	
0/690235	4/792345	0/0001	0/169067	Stability profits	High institutional ownership
	3/803456	0/0004	0/075589	Firm area	

6. Discussions and conclusions

In this study, the role of institutional intermediary variable in explaining the relationship between firm value and earnings quality in listed firms on Tehran Stock Exchange has discussed. In general, the results of the research indicated that there is a significant relationship between the firm's value and the profits quality, and increasing the ownership of institutional investors will create stronger relationship among firm's value and profitability. The findings show that profit stability has a stronger relationship with the value of the company among earning quality measures. Therefore, it's better that the investors should be mindful of the profit quality and profit quantity, when they choosing and purchasing the shares. When the profit quality increases, this is a positive sign in terms of transparency and integrity in reporting, reporting at profit and stability and profitability predictability. This could lead to a decreasing information risk, a prediction of future cash flows, and increasing the stock prices, thereby increasing the firm's value. But the findings from the second main hypothesis and its related sub-hypotheses suggest that through increasing in institutional investors' ownership, the intensity of the relationship between the profits quality and the firm value will increase. This confirms "the active monitoring hypothesis". Institutional owners have monitored the management, accounting process and financial reporting process, and reducing any manipulations in profits, judgmental actions, and personal opinion of managers, so, this process will increase the profit quality and ultimately increase stock prices and firm value. But, there is a strong relationship between accruals and company value at a low institutional level. Because at this level, due to decreasing the institutional ownership, the probability of personalized managers' manipulation and profit manipulation increased, which results in an increase in accruals and a decrease in stock returns and the firm value in the long term.

References

1. Etemadi, H. and Deilami, Z.D. (2009)."The Effect of Financial Managers' Ethical View on the Quality of Financial Reports Companies," Ethics in Science and Technology, vol. 4, no. 1-2, pp. 11-20.

2. Ghaemi, M.H., Livani, A.J. and Bozorgi, S.D. (2008). "Earnings Quality and Stock Returns," Accounting investigations and audition, vol. 15, no. 3.

3. Haghighat, H. and Shahi, A.A.I. (2010). "Investigate the reaction of investors to the aspects of investment in accruals," Journal of Accounting and Auditing - University of Tehran, vol. 17, no. 61.

4. Izadi Nia, N. and Nazarzadeh, Y. (2009). "Investigating the relationship between earnings quality and stock returns in companies admitted to the Tehran Stock Exchange," journal of development and investment, no. 3, pp. 87-110.

5. Kordestani, G.R. and Tayefeh, S. (2013). "Earnings Attributes and Cost of Equity," Journal of financial investigations, vol. 15, no. 1, pp. 75-94.

6. Kordlor, E. and Erabi, M.J. (2009) "Ownership Concentration and Earnings Quality in the Listed Companies in Tehran Stocks Exchange, magazine of financial accounting investigations," Magazine of accounting and financial researches, vol. 2, no. 2, pp. 95-110.

7. Maram, H.N., Bani Mahd, B., Roodposhti, F.R. and Kiani, A. (2013)."Political Economy Perspective and Earnings Management," periodical operation researches of accounting and management, vol. 6, no. 18, pp. 31-43.

8. Nasrollahi, Z. and Manesh, Z.A. (2010)."The Relation between Accruals Quality," Journal science, vol. 1, no. 3, pp. 117-138.

9. Pour, A., Malekian, E. and Tabar, H.K. (2009) "Investigating the Impact of Non-Mandated Managers and Institutional Investors on Profit Management (Earnings management based on the threshold model)," Accounting Research, vol. 1, no. 3, pp. 68-87.

10. Rezaie, M.M. and Rezaie, F.M. (2013). "In search of a suitable theory for the corporate governance of Iran," Tadbir Magazine, vol. 23, no. 251, pp. 46-53.

11. Yeganeh, Y.H., Moradi, M. and Eskandar, H. (2008)."Investigating the relationship between institutional investors and company value," Journal of Accounting and Auditing - University of Tehran, vol. 15, no. 52, pp. 107-122.