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OWNERSHIP BALANCING, MONITORING PERFORMANCES OF INDEPENDENT MANAGERS AND QUALITY OF EARNINGS FORECASTS BY MANAGEMENT

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ABSTRACT

This study is evaluated the relation between characteristics of independent managers and prejudice the earnings forecasts by management. Four independent variables include bonuses of board of directors' members, the percentage of independent managers in the board, the average of independent managers of the board and financial expertise were considered as the characteristics of independent managers, and quality of earnings forecasts which includes management prejudice about earnings forecasts, was considered as dependent variable. Statistical population of this study consists of companies listed in Tehran Stock Exchange, and companies in the automotive and also cement industries were used as statistical samples. Time period of this study was from the beginning of 2010 to the end of 2012. Sampling method was systematic elimination consists of 1 statistical models which were tested using multivariate regression. Data were collected using RAHAVARD NOVIN software and were analyzed using EViews 7 statistical software. The results of this study indicate that prejudice the earnings forecasts by management is significantly related with bonuses of board members, the percentage of independent managers in the board and the average of independent managers of the board. Then companies were divided into two categories consist of more balanced and less balanced ownership, and results showed a significant relation between bonuses of board members in

companies with more balanced ownership and prejudice the earnings forecasts by management. Also, results indicated a significant relation between the percentages of independent managers in the board of companies with less balanced ownership and prejudice the earnings forecasts by management, as well between the percentages of independent managers in the board of companies with more balanced ownership and prejudice the earnings forecasts by management.

Keywords: ownership balancing, monitoring performances of independent managers, quality of earnings forecasts, management

INTRODUCTION

Several mechanisms have been proposed in financial literature to reduce agency problems which corporate governance is one of the major of them. Corporate governance represents the process of monitoring and controlling over the company management, to ensure alignment of their performances with interests of shareholders, and its main elements are: shareholders and their ownership (ownership balancing), board members and composition of the board (the number of executive and non-executive managers) (Moghadam and Momeni Yansari, 2012). Studies about optional forecasts of management often assume that if managers want to maximize company value for shareholders, they must do management forecasts more, more precise and more accurate. However, administrators can also manipulate management forecasts for their interests (Song and Lee, 2013). Generally, it expressed that there is a reversed U-shaped (Ω) relation between ownership centralization and company profitability. In other words, when ownership centralization is starting to rise from a very low level, due to the increasing monitoring of major shareholders, agency costs will reduce and thus the profitability of the company will increase. But, when the ownership centralization increased to a certain extent, the costs associated with it will overtake the earnings and profitability will reduce (Ahmadpour and Montazeri, 2011). There are several studies on the relation between non-executive (independent) managers and company performance which are generally agreed that monitoring is the most important responsibility of non-executive managers.

Recently, Wang et al. (2008) argued that improvement in the level of disclosure and transparency of listed companies, both are used to control major shareholders and create a basis for evaluating the performances of non-executive managers. For 3 reasons, the quality of earnings forecasts by management

will be choosed to replace the quality of information disclosed of surveyed companies. First of all, an earnings forecast by management is an important aspect of company disclosure which has significant effect on financial investors and analysts. Second, there is a significant domain to manipulate earnings forecasts by management. Studies on optional earnings forecasts by management indicate that manager can manipulate timing, precision and accuracy of management forecasts. Third, this is very easy to measure the quality of earnings forecasts by management in review without using complex statistical models. In this study, we used prejudice (error) the earnings forecasts by management as a replacement for the quality of information disclosed by listed companies, and also we evaluated monitoring performance of independent managers with respect to the quality of disclosed information, and then this question is raised that do non-executive (independent) managers have any influence on the quality of earnings forecasts by management in balanced ownership condition?

2. Theoretical principles and hypotheses

2-1. Monitoring performance of independent managers

There are several studies on the relation between independent (non-executive) managers and company performance which are generally agreed that monitoring is the most important responsibility of independent managers. Always, boards of companies have had the legal authority and shareholders supports in active monitoring the CEO's decisions. Board of director with relevant knowledge, skills and abilities; potentially have also the ability to present unique tactical or strategic advantages to companies. Board of directors can help to future success of company due to three major roles: 1- The role of resources; board of directors can improve the access to vital external resources. 2- The role of service; board of directors can present important proposals to the executive director; and 3- The role of control; board of directors presents governmental supervisions and defines incentives to the performance of executive director (Van-Ness et al., 2009).

2-2. Prejudice every share's earning forecast

The word of "Prejudice" is derived from the Latin word which means preliminary or presumption and is so closely associated with the term of Prejudice means prejudging. In public literature, prejudice is related to concepts such as unfair negative attitude and prejudice in favor of some people or some things. Prejudice can be defined as a set of effective reactions that we have about some

people due to their membership in a special category (Schneider, 2004).

The earning is one of important and main items in financial statements which attract attention of financial statements users. Financial information derived from items in financial statements is widely based on forecasts and estimates of management. So it is expected that because of imperfect estimates of managers about future commercial of companies, the information disclosed through financial statements and other ones contain common errors. One of the information disclosed from financial statements is the earnings forecasts by management which reflects the management forecasting about future prospects (Lotfi and Hajipour, 2010).

The importance of forecasted earning is dependent to its variance from the actual value. How much this variance be lower, the forecast is more accurate. The present study indicates that market is significantly valuing to meet expectations of each share and also will react if it does not meet (Rees and Siavarama krishnan, 2007). When earning per share exceeds expectations, the market is optimistic about it and will consider it as good news. When earning per share is lower than forecast, the company credit in meet expectations will reduce (Payne, 2008).

2-3. Ownership balancing

Balancing (structure) of ownership have two aspects: 1- ownership centralization; and 2- identity of shareholders. This study is evaluated the ownership balancing from ownership centralization aspect. The focus of shareholders is considered as a power source which can be used to support or oppose management. Owners will support the decisions of management which maximize the efficiency towards providing their benefits and will oppose to decisions which maximize the management desirability (Nanka Bruce, 2006). On the other hand, ownership centralization leads to increase agency costs between major and minor shareholders. Overall, the centeralization of ownership has two potentially opposite effects on efficiency and performance which are discussed in two hypotheses of monitoring and making profit. According to the monitoring hypothesis, major shareholders could improve the quality of earnings forecasts by management through changing operating strategy of the company by discussions with management or by replace it (Shleifer and Vishny, 1986). According to the hypothesis of making profit, most major shareholders have the authority and incentive required to personal interest (for example, much salary or bonus for major shareholder or using company assets for

benefit of other companies owned by major shareholders) of their own controling right over the company (Gugler and Yurtoglu, 2003). Considering given theoretical principles and to achieve the main goal of the study, hypotheses can be proposed as follows:

H1: there is a significant relation between the characteristics of independent managers (non-executive) and prejudice the earnings forecasts by management.

H11: in condition of more balanced ownership, there is a significant relation between the characteristics of independent managers (non-executive) and prejudice the earnings forecasts by management.

H12: in condition of less balanced ownership, there is a significant relation between the characteristics of independent managers (non-executive) and prejudice the earnings forecasts by management.

LITERATURE REVIEW

Garcia-Sanchez (2010) was evaluated the impact of board of directors structure on technical performance of 92 large company listed in Spain Stock Exchange from 2004 to 2006. His study results were indicated that technical performance was positively correlated with heterogeneity of the board, not limited number of well-known members and increasing the number of expert committees. Jensen (1993) in a study entitled "industrial revolution, exit and the failure of internal control system", states that if the managers have the majority of shares, then internal control will be more effective and as the ownership of managers increases, they do not take into account the interests of other shareholders, so major ownership of board reduces the company performance. Koh (2003) in his study entitled "The relation between institutional investors and profit management in Australian's companies" was concluded that there was a non-linear concave correlation between institutional investors and profit management. Among the control variables, quality of audit (audit by one of the 6 big audit institutions), was inversely correlated to increasing discretionary accruals. Results of Liao et al. study (2010) was indicated that there was no relation between size of board, ownership percentage of board and ownership percentage of efficient management; but there was a significant positive correlation between major shareholders from outside the organization and efficiency. Results of Luo and Song study (2012) with the purpose of show how market reacts to management incorrect forecasts were indicated that market shows less reaction to current forecasts of companies which their past forecasts by management was incorrect. Nanka Bruce (2006) was evaluated the effect

of major shareholders and board structure on seven manufacturing industry efficiency in sixteen countries from 2003 to 2005 in a study entitled "the impact of major shareholders and the board structure on efficiency". His findings were indicated that the major shareholders from the outside of organization could help to increase the efficiency of company. Also, the efficiency was negatively correlated with the percentage of non-executive managers in the board and the size of board. In a study, Song and Ji (2012) in order to understanding when the management's forecast should be done, were concluded that if the annual earnings of listed companies are predicted that will exceed its initial specified value, companies should expected to forecast by management.

METHODOLOGY

The present study is classified as practical based on the purpose. The purpose of a practical study is to develop practical knowledge in a particular field. Also, the present study is descriptive-correlation in terms of the methodology and the nature of study. The present study is evaluated the relation between variables, and is sought to prove the existence of this relation in the current situation based on historical data. So, it can classify as post-event. Study carried out on non-financial (manufacturing) companies listed in Tehran Stock Exchange from 2010 to 2012. Using Tehran Stock Exchange databases, the website of this organization and stock softwares such as RAHAVARD NOVIN, required data to test hypotheses are collected. The statistical population is companies listed in Tehran Stock Exchange and the statistical sample includes automotive and cement companies (49 companies) which have the following criteria:

1) Their fiscal year ends in 12/29.

2) Have at least 100 working days of trading.

3) Provide all information you need.

Library function is used to collect required information. In this function, at first primary studies and compiling the literature section and theoretical framework are done using library resources including books, journals, theses, articles and internet. Data required to test hypotheses collects using databases of Tehran Stock Exchange, the website of this organization and stock softwares such as RAHAVARD NOVIN. Cross-sectional regression using partial least squares method is used to test hypotheses. All tests were performed using Eviews7 software.

Modeling and variables measurement methodology

Figure 1 illustrates the relations between hypotheses in two different conditions include

more balanced and less balanced companies in form of a conceptual model.

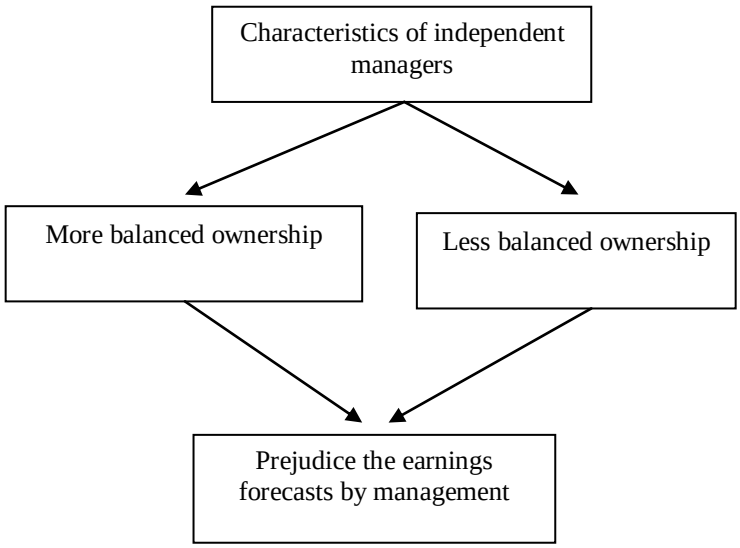

Figure 1: effect of managers' characteristics on prejudice the earnings forecasts at two different conditions of ownership balances

Since the BIAS (prejudice the earnings forecasts by management) is a continuous variable, in this study the multiple regression and following model were used respectively:

Model1: $\text{BIAS}_{it} = \alpha_0 + \alpha_1 \text{OUT}_{it} + \alpha_2 \text{CPA}_{it} + \alpha_3 REPUT_{it} + \alpha_4 COMPEN_{it} + \alpha_5 UE_{it} + \alpha_6 ROA_{it} + \alpha_7 MONTH_{it} + \alpha_8 SIZE_{it} + \varepsilon_{i,t}$

Where:

BIAS is forecasted net earnings (EPS) minus true net earnings (EPS) divided by total assets.

COMPEN is equals to 1, if bonuses of board members be more than the average of industry, and is zero otherwise.

The average of industry = sum of bonuses of evaluated companies divided by number of these companies.

CPA is equals to 1 if the company has at least one independent manager under graduated in accounting, and is zero otherwise.

MONTH is equals to 1 if earnings forecasts (EPS) of company done before end of fiscal year, and is equals to 2 if forecasts done one month after end of fiscal year (April), and is equals to 3 if forecasts done between May and June.

OUT is the percentage of independent managers in the board.

REPUT is the average of independent managers whose serve as board members.

ROA is the net earnings of year divided by total assets.

SIZE is natural logarithm of total assets.

UE is the net earnings (EPS) of current year minus the net earnings (EPS) of last year divided by total assets.

Ownership balancing- the balance of ownership will be classified using Z score, witch is equals to the shares held by the main shareholder divided by total shares held by second to fifth major shareholders. If the Z score is not greater than industry average in the same year, so more balanced ownership group will assign to less balanced ownership group.

Industry average = sum of total stocks of all companies in the industry divided by the number of companies in the industry.

RESULTS

In the present study, effect of characteristics of independent managers on prejudice the earnings forecasts by the managements of companies listed in Tehran Stock Exchange has evaluated. Then the effect of ownership balancing on this relation is tested. The correlation between variables and regression equations through the panel data method is used to test research hypotheses, and finally research hypotheses are tested in two groups, more balanced ownership and less balanced ownership, and model results are compared using Z-Cramer test to evaluate the effect of ownership balancing on relation between characteristics of independent managers and prejudice the earnings forecasts by managements.

4-1. Analysis of first main hypothesis (H1)

This hypothesis is considered to evaluate effect of characteristics of independent managers on prejudice the earnings forecasts by management, and is tested using the following model:

$$\begin{aligned} \mathrm{BIAS}_{it} = {} & \alpha_0 + \alpha_1 \mathrm{OUT}_{it} + \alpha_2 \mathrm{CPA}_{it} \\ & + \alpha_3 REPUT_{it} + \alpha_4 COMPEN_{it} \\ & + \alpha_5 UE_{it} + \alpha_6 ROA_{it} \\ & + \alpha_7 MONTH_{it} + \alpha_8 SIZE_{it} \\ & + \varepsilon_{i,t} \end{aligned}$$

At first, depending on type of the model, fixed sectional and time effects were tested. In the combined data, time and sectional effects of data and also their simultaneously effects were tested. According to the Chow test statistic, if the probability of model is more than 0.05 the H0 hypothesis is rejected based on differences between intercepts, and fixed effects model (H1) is preferred. In test all hypotheses of the study, with respect to that the probability of Chaw test statistic of fixed sectional effects and fixed time effects is always greater than 0.05, thus the H0 hypothesis based on the differences between the intercepts for fixed sectional effects and fixed time effects is rejected and Pool model (H1) is preferred. Also results of Durbin-

Watson statistic of all models are showed the relative independence of data. Results of first main hypothesis test are presented in table 1.

Table1: analysis of first main hypothesis

0.651938					**Adjusted coefficient of determination**
34.94907					**F-statistic**
0					**Probability (Prob.)**
1.854106					**Durbin-Watson statistic**
Significance level	**Probability**	**t-statistic**	**Standard deviation**	**Coefficient**	**Explanatory variable**
Non-significant	**0.2971**	**1.046592**	**05- 5.21 E**	**05- 5.45 E**	**CPA**
%95	**0.0127**	**2.525813**	**05- 2.04 E**	**05-5.16 E**	**COMPEN**
Non-significant	**0.9582**	**0.052504**	**05- 4.00 E**	**06-2.10 E**	**MONTH**
%99	**0**	**4.61378-**	**0.000168**	**0.00078-**	**OUT**
%99	**0**	**10.2384-**	**0.066888**	**0.48006-**	**UE**
%99	**0.0009**	**3.39806-**	**05- 1.61 E**	**05-5.46E-**	**SIZE**
%99	**0**	**5.78037-**	**07- 5.55 E**	**06-3.21E-**	**ROA**
%99	**0**	**5.691916**	**05- 9.24 E**	**0.000526**	**REPUT**
Non-significant	**0.0996**	**1.65809**	**0.000136**	**0.000225**	**C**

According to F-statistic and its probability it can be concluded that the regression equation is significant at 99% confidence level. The adjusted coefficient of determination of the model indicates the relevance of independent variables and dependent variable (prejudice the earnings forecasts by management). According to table 1, the adjusted coefficient of determination of the model is 0.65. Thus, on average, 65% of the changes in dependent variable explained by this model. according to test results and the probabilities of variables, bonuses of board members (COMPEN), the percentage of independent managers in the board (OUT), and the average of independent managers of the board (REPUT) have the probability less than 0.05 and less than 0.01 respectively, so these variables are significant at 95% and 99% confidence level, respectively, but financial expertise (CPA) has a higher probability of 0.05. Thus, this variable is not significant at 95% confidence level. Among covariates, unexpected earnings (UE), company size (SIZE) and return of assets (ROA) have the probability less than 0.01. So these variables are significant in the model at 99% confidence level. But the variable of timing the earnings forecasts by management (MONTH) has a probability more than 0.05. Therefore, this variable is not significant in model at 95% confidence level, so among characteristics of independent managers according to significance of bonuses of board members (COMPEN), the percentage of independent managers in the board (OUT), and the average of independent managers of the board (REPUT), there is a significant relation between these variables

and prejudice the earnings forecasts by management, but there is not a significant relation with financial expertise (CPA) and prejudice the earnings forecasts by management.

4-2. Analysis of first and second sub-hypotheses (H11 and H12)

Testing the model in companies with more balanced ownership group

Results of first sub-hypothesis test in companies with more balanced ownership are presented in table 2. According to F-statistic and its probability it can concluded that the regression equation is significant at 99% confidence level.

Table 2: analysis of first sub-hypothesis (companies with more balanced ownership)

0.48795					**Adjusted coefficient of determination**
12.55433					**F-statistic**
0					**Probability (Prob.)**
2.054626					**Durbin-Watson statistic**
Significance level	**Probability**	**t-statistic**	**Standard deviation**	**Coefficient**	**Explanatory variable**
Non-significant	**0.14**	**1.489014**	**4.48 E-05**	**6.67 E-05**	**CPA**
99%	**0.0095**	**2.64996**	**1.67 E-05**	**4.42 E-05**	**COMPEN**
995	**0.0003**	**3.725955**	**1.14 E-05**	**4.24 E-06**	**MONTH**
Non-significant	**0.3308**	**-0.97792**	**0.000247**	**-0.00024**	**OUT**
99%	**0**	**-7.39248**	**0.044274**	**-0.3273**	**UE**
Non-significant	**0.5794**	**0.556246**	**2.37 E-05**	**1.31 E-05**	**SIZE**
99%	**0.0009**	**-3.42733**	**9.41 E-07**	**-3.21E-06**	**ROA**
Non-significant	**0.2072**	**1.270466**	**0.000123**	**0.000157**	**REPUT**
Non-significant	**0.2727**	**-1.10368**	**0.00018**	**0.0002**	**C**

The adjusted coefficient of determination of the model indicates the relevance of independent variables and the dependent variable (prejudice the earnings forecasts by management). According to the model test results and probabilities of variables, bonuses of board members (COMPEN) has a probability less than 0.01, so this variable is significant in the model at 99% confidence level, but the percentage of independent managers in the board (OUT) and the average of independent managers of the board (REPUT) and financial expertise (CPA), have the probabilities more than 0.05. Therefore, these variables are not significant in the model at 95% confidence level. Among covariates unexpected earnings (UE), timing management forecasts, and return of assets (ROA) have the probabilities less than 0.01; so these variables are significant in the model at 99% confidence level, but company size (SIZE) has a probability more than 0.05, thus this variable is not significant in the model at 95% confidence level. Therefore, among characteristics of independent managers, with regard to significance of bonuses of board

members (COMPEN), there is a significant relation between this variable and prejudice the earnings forecasts by management, but there is not significant relation between the percentage of independent managers in the board (OUT), the average of independent managers of the board (REPUT), financial expertise (CPA) and prejudice the earnings forecasts by management.

Testing the model in companies with less balanced ownership group

Results of first sub-hypothesis test in companies with less balanced ownership are presented in table 3. According to F-statistic and its probability, it can be concluded that the regression equation is significant at 99% confidence level.

Table3: analysis of second sub-hypothesis (companies with less balanced ownership)

0.689839					**Adjusted coefficient of determination**
14.0668					**F-statistic**
0					**Probability (Prob.)**
2.048479					**Durbin-Watson statistic**
Significance level	**Probability**	**t-statistic**	**Standard deviation**	**Coefficient**	**Explanatory variable**
Non-significant	**0.4241**	**-0.80782**	**0.000158**	**-0.00013**	**COMPEN**
Non-significant	**0.9443**	**0.070272**	**0.000286**	**2.01E-05**	**CPA**
99%	**0**	**-5.25773**	**0.000106**	**-0.00056**	**MONTH**
95%	**0.0289**	**-2.07512**	**0.00207**	**-0.00223**	**OUT**
Non-significant	**0.2888**	**1.075482**	**0.001341**	**0.001442**	**REPUT**
995	**0.0099**	**-2.71383**	**2.16 E- 06**	**-5.87E-06**	**ROA**
95%	**0.0199**	**2.428285**	**8.17 E-05**	**0.000198**	**SIZE**
99%	**0**	**-6.24585**	**0.132685**	**-0.82872**	**UE**
Non-significant	**0.0548**	**-1.97959**	**0.000284**	**-0.00056**	**C**

The adjusted coefficient of determination of the model indicates the relevance of independent variables and the dependent variable (prejudice the earnings forecasts by management). With respect to results of testing the model and probabilities of variables, the percentage of independent managers in the board (OUT) has a probability less than 0.05 so this variable is significant in the model at 95% confidence level; but bonuses of board members (COMPEN), the average of independent managers of the board (REPUT) and financial expertise (CPA) have the probabilities more than 0.05. Thus these variables are not significant in the model at 95% confidence level. Among covariate variables, unexpected earnings (UE), timing the earnings forecasts by management (MONTH) and returns of assets (ROA) have the probabilities less than 0.01, thus these variables are significant in the model at 99% confidence level; while company size (SIZE) has a probability less than 0.05 and is significant in the model at 95% confidence level. Therefore, among the characteristics of independent managers, with

respect to significance of the percentage of independent managers in the board (OUT), there is a significant relation between this variable and prejudice the earnings forecasts by management, but there is no significant relation between bonuses of board members (COMPEN), the average of independent managers of the board (REPUT) and financial expertise, and prejudice the earnings forecasts by management.

In these hypotheses, influence of ownership balancing (more balanced and less balanced ownership) on the relationship between characteristics of independent managers and prejudice the earnings forecasts by management will be evaluated; thus, Z-Cramer test is used to determine the significance of differences in adjusted coefficients of determination.

Table 4: results of Z-Cramer test of first and second sub-hypotheses

Probability	Z-Cramer statistic	Adjusted coefficient of determination	Group
0	11.459	0.48	More balanced ownership
		0.68	Less balanced ownership

Results of Z-Cramer test is presented in table 4. The statistic of test is significant at 99% confidence level for both groups. Therefore it can be concluded that differences between adjusted coefficients of determination obtained from models tests, are significant in more balanced and less balanced ownerships, so it can be argued that ownership balancing infuences the relation between characteristics of independent managers and prejudice the earnings forcasts by management. On the other hand, the adjusted coefficient of determination is larger in less balanced ownership group which suggests that the relation between characteristics of independent managers and prejudice the earnings forcasts by management is stronger in less balanced ownership group, as well, in table 5 the relation between each characteristics of independent managers and prejudice the earnings forcasts by management is evaluated in both more balanced and less balanced ownership groups.

Table5: results of first and second sub-hypotheses tests – comparison of model in two groups: more balanced ownership and less balanced ownership

Model test result	Significance level	Probability of variable in themodel	Tested variables	Group
Relation exsits	99%	0.0095	Bonuses of board members (COMPEN)	More balanced ownership
Relation does not exsit	Non-significant	0.3308	Percentage of independent managers in the board (OUT)	
Relation does not exsit	Non-significant	0.2072	Average of independent managers of the board (REPUT)	

Relation does not exsit	**Non-significant**	**0.14**	**Financial expertise (CPA)**	
Relation does not exsit	**Non-significant**	**0.4241**	**Bonuses of board members (COMPEN)**	**Less balanced ownership**
Relation exsits	**95%**	**0.0289**	**Percentage of independent managers in the board (OUT)**	
Relation does not exsit	**Non-significant**	**0.2888**	**Average of independent managers of the board (REPUT)**	
Relation does not exsit	**Non-significant**	**0.9443**	**Financial expertise (CPA)**	

Among 4 characteristics of independent managers (bonuses of board members, the percentage of independent managers in the board, the average of independent managers of the board and financial expertise), bonuses of board members in companies with more balanced ownership, and, the percentage of independent managers in the board in companies with less balanced ownership, have a significant relation with prejudice the earnings forecasts by management.

DISCUSSION AND CONCLUSION

In first main hypothesis, the effect of characteristics of independent managers on prejudice the earnings forecasts by management is tested; results argued that the model is significant at 99% confidence level with adjusted coefficient of determination of 65%. The probabilities of variables indicate significance of bonuses of board members (COMPEN), the percentage of independent managers in the board (OUT) and the average of independent managers of the board (REPUT) and non significance of financial expertise (CPA) at 95% confidence level. Results of this study do not match to results of Song et al. (2013) study. They were concluded that independent managers have not a significant impact on the prejudice the earnings forecasts by management. Companies were divided into two groups based on ownership balancing: companies with more balanced ownership and less balanced ownership, to evaluate effect of ownership balancing. The model in group of companies with more balanced ownership was significant at 99% confidence level with adjusted coefficient of determination of 48%, while the model in group of less balanced ownership was significant at 99% confidence level with adjusted coefficient of determination of 68%. Results were indicated difference and increase in adjusted coefficient of determination in group of companies with less balanced ownership. Z-Cramer test was used to evaluate the significance of differences of adjusted coefficients of determination. Test statistic was significant at 99% confidence level for both groups. Therefore, it can be concluded that the

differences between adjusted coefficients of determination of models evaluating are significant in both groups, so it can be argued that ownership balancing of company impacts on the relation between characteristics of independent managers and prejudice the earnings forecasts by management. On the other hand, adjusted coefficient of determination of the model in less balanced ownership group was larger, which indicate that the relation between characteristics of independent managers and prejudice the earnings forecasts by management is stronger in less balanced ownership group. The relation between each characteristic of independent managers and prejudice the earnings forecasts by management was evaluated in both groups. Among 4 characteristics of independent managers (bonuses of board members, the percentage of independent managers in the board, the average of independent managers of the board and financial expertise), bonuses of board members in companies with more balanced ownership, and the percentage of independent managers in the board in companies with less balanced ownership, have a significant relation with prejudice the earnings forecasts by management.

Practical suggestions

According to first main hypothesis which represents a direct correlation between bonuses of board members, the average of independent managers of the board and prejudice the earnings forecasts by management, as well, an inverse correlation between the percentage of independent managers in the board and prejudice the earnings forecasts by management; companies's board recommended that increase the percentage of independent managers in the board as possible, which is in the field of corporate governance, to reduce prejudice (error) the earnings forecasts by management. According to first main hypothesis which more balanced ownership evaluated represents a direct correlation between bonuses of board members and prejudice (error) the earnings forecasts by management; companies with more balanced ownership and their board recommended that avoid the excessive bonuses to the board of directors, due to loss of sufficient incentive which increases prejudice (error) the earnings forecasts by management. According to second sub-hypothesis results which less balanced ownership is evaluated, the only influential factor was the percentage of independent managers, which seems that the percentage of independent managers is far more effective than any other control factors.

This effect is inversely correlated, that means how the percentage of independent managers is increased, prejudice the earnings forecasts by management will decrease; therefore, companies with less balanced ownership and shareholders recommended that use more independent managers in their board to prevent optimistic prejudice the earnings forecasts by management.

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