



The Impact of Shareholders Participation in Annual Meetings on Earnings Management and Financial Restatement

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Abstract

The current study aims to assess the impact of the shareholders' participation in annual meetings on earnings management and financial restatement. Research hypotheses were examined using a sample of 768 firm-years observations on the Tehran Stock Exchange during 2012-2017. By using the multivariate regression model. The results show a negative and significant relationship between shareholders' partnership in annual meetings and both accrual and real earnings management. Moreover, the results indicate a positive and significant relationship between the shareholders' participation in annual meetings and financial restatement.

Keywords: Accrual-based earnings management, Financial restatement, Real earnings management, Shareholders participation in annual meetings

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1. Introduction

Investors are more willing to invest and transact the shares of those firms that appropriately present their reporting quality and information disclosure. Hence, the higher the disclosure quality of financial statements, the higher the financial reports' efficiency. Consequently, the less is the costs of public information processing, which lead to more transactions on that firm's shares through investment (Brown & Hilliest, 2007).

Among the annual concerns is an insignificant presence of shareholders' participation in annual meetings. According to Almutariri (2019), the tools of firms' strategic principles can cause the firm's better performance in specific situations. The shareholder asks for a higher return in the long run for his/her investment. An effective evaluation structure should be established to respond to this inquiry, and harmony should be achieved between management and shareholder. Besides, high participation rates lower the chance for large shareholders (Almutariri, 2019).

According to Seeger (2002), the meeting of shareholders in developed countries brings about several primary legal responsibilities. The most significant responsibility is supervisory board selection, which is assumed to reflect shareholders' interests in the firm. In turn, the supervisory board selects the management and appraises management measures to ensure that they align with shareholders' interests. Schipper (1989) defines earnings management as an intentional intervention in reporting outside the organization to obtain personal benefits from managers and shareholders' sides. Ronen and Yaari (2008) consider earnings management a set of managerial decisions that do not report short-term known management facts to maximize earnings value. Declaration No. 1 of the compilation board of Financial Accounting Standards Committee of America (1987) states that "the main goal of financial reporting is to provide the information that is provided by profit measurement and its constituting components and is indicative of the performance of the business firm" (Hendriksen, 1982). Earnings management is a type of earnings manipulation that is likely to decrease earnings reliability. The less reliable the earnings, the less useful information they carry.

On the other hand, when opportunistic earnings management is controlled using supervisory systems, accounting earnings are more reliable and contain more useful information (Dechow et al., 1995). Watts and Zimmerman (1986) declare that earnings management means the manager uses his freedom of action on accounting figures to assume the presence or absence of existing limitations in this field. According to Giroux (1992), earnings management includes a broad spectrum from conservative accounting to modified or unbiased accounting. It continues with violation and bias from principles, rules, agreements, or aggressive accounting and finally ends with fraudulent accounting, so we are faced with an extensive field of personal judgment in accounting, which has persuaded the managers to manipulate the profit. The motives for purposeful financial restatement can be classified into three groups:

The first group is the motivation of those firms that have a problem with low profitability and liquidity. These firms are more willing to improve their results by fraudulent measures and making intentional mistakes. The second group is the motivation of firms willing to satisfy the market's needs and predictions by making fraudulent and deliberate mistakes. The third group is the motivation resulted from some contracts. Stock value and firm performance bonus contracts are a sample of such agreements (Palmrose et al., 2004). The board is the main controlling factor of firm management and in charge of protecting shareholders' interests. This role originated from the agency theory and is the oldest role of the board.

Although financial restatement is not a new phenomenon, accounting mismanagement or fraud and the number and the cost of firm earnings restatement have

recently experienced a considerable increase due to the presence of aggressive accounting practices, so the issue gained increasing interest among most of the investors, analysts, and regulators (Wu, 2002). Earnings restatement and other financial information of previous years of firms are of great importance due to errors found in mathematical calculations, mistakes in applying accounting policies, and incorrect interpretation or ignoring the existing realities in providing these statements (Lev, 2003). Gertsen et al. (2006) classified financial restatement based on the management's intention and degree of distortion of information relatedness. The bulk of frequent financial restatement has brought about the doubt of financial statement users about the position of financial reporting, especially the auditing process in protecting public interests (Thompson & Larson, 2004).

According to Lev (2003), the modifying errors of income realization is the leading cause of financial restatement, and it seems that firms with modern technology are more willing to carry out financial restatement, such that more than one-third of the cases in the U.S. are related to high-tech firms and industries. Plumlee and Yohn (2009) carried out a study on the reasons for financial restatements and concluded that in most cases, the cause of the issue is internal errors of the firms. Protecting shareholders' interests obliges the management to present correct, honest, and flawless financial statements to shareholders, so the chance of financial restatement can be decreased with major external shareholders due to better managerial supervision (Abdullah et al., 2010).

2. Literature Review and Hypotheses Development

Demirkan (2007) shows that the small investors try to deal in time of presenting financial restatement and the reaction of this group is a function of whether restatement by the firm is recommended or obliged by the Financial Standards Committee or without considering the reason for restatement (including income identification, financial restructuring). This is while large investors thoroughly consider both the cause and the institution or unit of the restatement. This study shows that large investors analyze the probable problems, make more logical decisions for restatement, and deal before presenting restatement. Those firms were studied in this paper that embark on financial restatement due to accounting errors. According to Demirkan (2007), the cause of the difference in reacting to large investors, compared with small investors, is having access to more powerful resources and financial analysts for making appropriate economic decisions. According to this study, large investors decrease their investment in the related firm at least three months before presenting financial restatement.

Bowen et al. (2018) analyzed the effect of reporting motivations on financial restatement in the American market and other international markets. The results of this paper show that in case rules and regulations are numerous in the global markets. There is no significant difference in the number of restatements due to differences in standards. Further, those firms that are more aligned with the rules and regulations and have more arrangements are less willing to restate and manipulate the earnings. Roychowdhury et al. (2012) discover that earnings management has a closer and more detectable relationship with performance weakening after the secondary supply of stock in the market when such earnings management is carried out through manipulating real activities. Herly (2012) figured out that firms' earnings quality with financial restatement in the year of restatement and ten years before that is lower than similar firms with no financial restatement.

Moreover, this study indicates a decrease of difference between firms' earnings quality with the restatement and the control group after restatement. Kim and Sohn (2013) assess the relationship between capital cost and earnings management. Scholars discovered that capital cost is positively under the influence of real earnings

management after accrual-based management control. Enomoto et al. (2015) find that those countries with more thought rules about backing shareholders' rights are more willing to impose real earnings management. Sohn (2016) concluded that accounting information comparability leads to the decline of accrual-based earnings management and increased real earnings management. According to the previous studies on the impact of shareholders participation in annual meetings on earnings management and financial restatement and the significance of the issue, the first and second hypotheses of the study are as follows:

H₁: There is a significant relationship between shareholders' participation in annual meetings and financial restatement.

H₂: There is a significant relationship between shareholders' participation in annual meetings and financial restatement severity.

Since shareholders contribute to their share in firm profits and firm loss would cause the decline of profits or loss to shareholders, it is quite natural that they have the right to be informed of firm status. Participation is a process for utilizing the individual or group competencies of beneficiaries to achieve a group objective. In this process, conscious behaviour, collective demand, collective acceptance, selection, and mutual needs are important. This paper aims to measure the severity of financial restatement regarding previous studies. By following Livant and Tan's (2004) studies and Hirschey et al. (2012), annual adjustments were carried out in the years under study are used. Annual adjustments mean the items of the previous years accumulated in the adjustment of profit residual (loss) were considered at the beginning of the period and limited to those items resulting from a change in accounting policy and significant error modification of the previous periods.

H₃: There is a significant relationship between shareholders' participation in annual meetings and accrual-based earnings management.

H₄: There is a significant relationship between shareholders' participation in annual meetings and real earnings management.

Accrual-based earnings management is computed using a change in accounting methods and performed estimations and causes the accounting profit to get closer to the objective without leaving a cash effect. Similar to a change in assets depreciation method (Rahmani and Ghashghaei, 2017), real earnings management occurs with a change in the scheduling or structure of real commercial activities (Leggett et al., 2009). In the real earnings management method, management manipulates some effective earnings to reach the desired level. The manipulation of real activities contributes directly to cash flow (and some accruals). Roychowdhury (2006) considers three methods for real earnings management: change in sales scheduling (like offering a discount, credit terms), change in optional costs (like change in research and development costs, advertisement, etc.), and change in production volume (arranging the amount of production, surplus production costs) (Rahmani and Ghashghaei, 2017).

3. Research Methodology

Since it is carried out within a 6-year time interval during 2012-2017, it can be classified in retrospective research types since the user data are real and historical. Correlation among variables is determined using a correlation coefficient, and the range of changes of one or several variables is studied by the variety of changes of one or several other variables

In this paper, to collect data related to the empirical section and research hypothesis testing, data related to independent variable were gathered from audited financial statements of listed firms on the Tehran Stock Exchange, which are available on the website of the study, Islamic studies, and development, the official website of Tehran

Stock Exchange, and also from Tehran Stock Exchange databank (Iran Securities, Tadbir Pardaz, and Rah Avard-e Novin Software).

3.1. Statistical population and sample

This study's statistical population includes listed firms on the Tehran Stock Exchange from all industries during the study. The sample of this study is selected using the systematic elimination method, and firms with the following conditions were selected among the listed on the Tehran Stock Exchange:

- 1- They should not be affiliated with financial intermediaries, holdings, and banks, because such firms are different from other firms in terms of nature of activity and classification of financial statement items;
- 2- Firm transactions should not be halted completely during the period of the study (corporate icon being eliminated from the Stock Exchange);
- 3- Firms should be enlisted at least from the beginning of 2012 on the Tehran Stock Exchange; and,
- 4- All required data should be available from firms during the period of the study.

By considering the abovesaid conditions, several 128 firms remain, indicating the real statistical population.

3.2. Data analysis and hypothesis testing method

Fitted patterns for hypothesis testing

In this paper, the following multivariate logistic regression models are used:

Model (1) is used for testing the first hypothesis:

Model (1)

$$\begin{aligned} REST_{i,t} = & \alpha_0 + \alpha_1 Shop_{i,t} + \alpha_2 Psh_{it} + \alpha_2 M.Tenure_{i,t} \\ & + \alpha_3 M.Change_{i,t} + \alpha_4 Audit.Tenure_{i,t} + \alpha_5 Blnd_{i,t} \\ & + \alpha_6 M.Sh_{i,t} + \alpha_7 Own_{i,t} + \alpha_8 M.D_{i,t} + \alpha_9 Size_{i,t} \\ & + \alpha_{10} Lev_{i,t} + \alpha_{11} RoA_{i,t} + \alpha_{12} Age_{i,t} \\ & + \alpha_{13} growth\ sales_{i,t} + \alpha_{14} MTB_{i,t} + \alpha_{15} Loss_{i,t} \\ & + \alpha_{16} Industry_{i,t} + \alpha_{17} year_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Model (2) is used for testing the second hypothesis:

Model (2)

$$\begin{aligned} SREST_{i,t} = & \alpha_0 + \alpha_1 Shop_{i,t} + \alpha_2 Psh_{it} + \alpha_2 M.Tenure_{i,t} \\ & + \alpha_3 M.Change_{i,t} + \alpha_4 Audit.Tenure_{i,t} + \alpha_5 Blnd_{i,t} \\ & + \alpha_6 M.Sh_{i,t} + \alpha_7 Own_{i,t} + \alpha_8 M.D_{i,t} + \alpha_9 Size_{i,t} \\ & + \alpha_{10} Lev_{i,t} + \alpha_{11} RoA_{i,t} + \alpha_{12} Age_{i,t} \\ & + \alpha_{13} growth\ sales_{i,t} + \alpha_{14} MTB_{i,t} + \alpha_{15} Loss_{i,t} \\ & + \alpha_{16} Industry_{i,t} + \alpha_{17} year_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Model (3) is used for testing the third hypothesis:

Model (3)

$$\begin{aligned} AE.M_{i,t} = & \alpha_0 + \alpha_1 Shop_{i,t} + \alpha_2 Psh_{it} + \alpha_2 M.Tenure_{i,t} \\ & + \alpha_3 M.Change_{i,t} + \alpha_4 Audit.Tenure_{i,t} + \alpha_5 Blnd_{i,t} \\ & + \alpha_6 M.Sh_{i,t} + \alpha_7 Own_{i,t} + \alpha_8 M.D_{i,t} + \alpha_9 Size_{i,t} \\ & + \alpha_{10} Lev_{i,t} + \alpha_{11} RoA_{i,t} + \alpha_{12} Age_{i,t} \\ & + \alpha_{13} growth\ sales_{i,t} + \alpha_{14} MTB_{i,t} + \alpha_{15} Loss_{i,t} \\ & + \alpha_{16} Industry_{i,t} + \alpha_{17} year_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Model (4) is used for testing the fourth hypothesis:

Model (4)

$$\begin{aligned}
 RE.M_{i,t} = & \alpha_0 + \alpha_1 Shop_{i,t} + \alpha_2 Psh_{it} + \alpha_2 M.Tenure_{i,t} \\
 & + \alpha_3 M.Change_{i,t} + \alpha_4 Audit.Tenure_{i,t} + \alpha_5 Blnd_{i,t} \\
 & + \alpha_6 M.Sh_{i,t} + \alpha_7 Own_{i,t} + \alpha_8 M.D_{i,t} + \alpha_9 Size_{i,t} \\
 & + \alpha_{10} Lev_{i,t} + \alpha_{11} RoA_{i,t} + \alpha_{12} Age_{i,t} \\
 & + \alpha_{13} growth\ sales_{i,t} + \alpha_{14} MTB_{i,t} + \alpha_{15} Loss_{i,t} \\
 & + \alpha_{16} Industry_{i,t} + \alpha_{17} year_{i,t} + \varepsilon_{i,t}
 \end{aligned}$$

Where:

AEM: accrual-based management

REM: real earnings management

Psh: the percentage of shareholders' presence in annual meetings is equal to the amount of partnership of shareholders extracted from the decision declaration of the annual general meetings available on the Codal Website.

REST: restatement, a dummy variable which means if the firm understudy has had restatement 1, otherwise, 0.

Srest: the amount of financial statement severity is equal to the annual adjustment that leads to financial restatement in the year under study divided by total assets.

Shop: auditor opinion shopping, which means if financial statements of the previous year were restated in the year under study, the report of the previous year is plausible, and if the employer did not change his auditor in the current year 1, otherwise, 0.

Mtenure: CEO tenure, the period the CEO consistently has been the CEO of the firm.

Mchange: CEO change, if the CEO changes in the year under study 1; otherwise, 0.

BIND: board composition, the number of unbounded board members to total board members.

ROA: Return on assets, which are calculated according to net annual income to total assets.

LEV: financial leverage, which is achieved from the debt ratio (total debts divided by total assets).

Growth sales: sales growth is equal to sales of the current year minus sales of the previous year divided by sales of the previous year.

Age: firm age, which is equal to the number of years passed from firm establishment data.

Audit tenure: auditor tenure, the duration the auditor is in charge of the position.

M.SH: board ownership, the number of stocks available to the board divided by total published stocks.

Own: institutional ownership, the amount of stock available to public institutions, insurance, financial institutions, investment firms, and all state-owned institutions divided by total published stocks.

MD: CEO of duality. Suppose the CEO is the board director or vice-president1; otherwise, 0.

Size: firm size, which is equal to the market value of firm assets.

Loss: firm loss, if the firm is losing in the year under study 1; otherwise, 0.

MTB: book value to market value of firm equity.

Industry: dummy variable for controlling the industry effect.

Year: dummy variable for the year.

4. The Results

The collected data were arranged using the Excel Software; then, after the required modifications and classifications, the Stata 14 Software was entered for processing based on the study variables. Before testing the research hypotheses and final fitting of the model, descriptive statistics (central and dispersion indices, namely mean, median,

the standard deviation of a range of changes, etc.) were analyzed.

4.1. Descriptive statistics

The first stage of data analysis is describing or purifying them using descriptive statistics.

This study's descriptive findings include the mean, median, standard deviation, minimum observation, and maximum observation. It is worth mentioning that the number of firms under study is 128, which is collected for six consecutive years. Descriptive statistics are summarized in Table 1.

Table 1. Descriptive statistics

Sing	Variable	Mean	Std. dev.	Min	Max
<i>REM</i>	Real earnings management	0.154	0.865	0.002	0.606
<i>AEM</i>	Accrual-based earnings management	0.082	0.845	0.000	0.481
<i>REST</i>	financial statement of the year	0.799	0.401	0.000	1.000
<i>SREST</i>	financial statement severity of the year	0.001	0.898	-1.750	0.393
<i>PSH</i>	Shareholders' participation	0.795	0.235	0.000	3.110
<i>shop</i>	Opinion shopping	0.518	0.499	0.000	1.000
<i>M tenure</i>	CEO tenure	3.452	2.689	1.000	14.000
<i>M change</i>	CEO change	0.268	0.443	0.000	1.000
<i>Audit tenure</i>	Auditor change	3.762	3.981	1.000	16.000
<i>Bind</i>	Board composition	0.715	0.183	0.000	1.000
<i>M s h</i>	CEO ownership	0.217	0.289	0.000	0.954
<i>own</i>	Institutional ownership	0.557	0.346	0.000	0.99
<i>MD</i>	CEO duality	0.252	0.435	0.000	1.000
<i>MTB</i>	Book value to market value of equity	3.327	8.336	-114.477	103.153
<i>LOSS</i>	Virtual variable of loss	0.133	0.339	0.000	1.000
<i>SIZE</i>	Firm size	14.265	1.526	10.533	19.374
<i>LEV</i>	Financial leverage	0.611	0.264	0.090	4.003
<i>ROA</i>	Return on assets	0.091	0.583	-12.273	2.618
<i>Growthsale</i>	Sales growth	0.207	0.519	-0.845	7.705
<i>Age</i>	Firm age	38.436	12.739	10.000	66.000

Furthermore, information related to the descriptive statistics of qualitative variables is depicted below.

Table 2. Descriptive statistics of qualitative variables

Variable	One		Zero		Total	
	Frequency	Frequency percentage	Frequency	Frequency percentage	Frequency	Frequency percentage
Rest	614	79.95	154	20.05	768	100
Shop	398	51.88	370	48.18	768	100
Mchange	206	26.82	562	73.18	768	100
MD	192	25.23	569	74.77	761	100
Loss	102	13.28	666	86.72	768	100

4.2. Results of unit root test of variables

In economic data, it is assumed that there is a long-term and balanced relationship between the proposed variables in economic theory. In applied econometric analyses, to estimate long-term connections among variables, their mean and variance are considered during a fixed time independent of the time factor so that an implicit fixed behavior will be assumed for them, given that the presence of nonstationary variables in the model will cause the classic tests of F and t not to have the required credit. Under such circumstances, the implemented regression is not something more than a pseudo kind.

Hadri proposed a test in 2000, which is known as the Lagrange coefficient test (LM) based on residuals. In this test, the null hypothesis is indicative of no unit root in each

time series of panel data, and the opposite hypothesis points to the presence of unit root in panel data. The Hadri test is similar to the KPSS test, which is generalized from the time series to panel data. This test is based on the residuals of ordinary least squares of the estimation method obtained by regressing y_{it} intercept or intercept and time procedure. By evaluating the unit root for research data, all variables are at no unit root level (stationary). The results of the Hadri unit root test are presented as follows:

Table 3. The results of the Hadri unit root test

Variable	Level	Variable	Level
<i>Rest</i>	0.4044	<i>MSH</i>	0.2897
<i>Shop</i>	0.9875	<i>Own</i>	0.2154
<i>EM</i>	0.1897	<i>MD</i>	0.7895
<i>Audit.Tenure</i>	0.9998	<i>Size</i>	0.2154
<i>Mchange</i>	0.2357	<i>LEV</i>	0.8530
<i>LnFee</i>	0.2853	<i>ROA</i>	0.8284
<i>Mtenure</i>	0.4580	<i>Age</i>	0.3325
<i>Blnd</i>	0.7713	<i>MTB</i>	0.4044

4.3. Research model fitting

We should first determine whether the data are pooled or panel using the F test for model estimation. The null hypothesis in this test shows the pooled data, and the hypothesis one indicates panel data. After performing the F test, H₀ is rejected. The question here is that based on which models of fixed effect or random effect do the model is analyzable, determined by the Hausman test. Concerning the synthesis test results presented in the following tables, the null hypothesis concerning pooled data shows confidence at a 99% level for research data, so the panel data model should estimate these four models' coefficients.

Table 4. The results of the synthesis test based on Iranian data

	Calculated statistic	Probability level
Model 1	2.76	0.000***
Model 2	2.91	0.000***
Model 3	1.92	0.000***
Model 4	3.62	0.000***

4.4. Test for determining the effects

There are generally two methods for estimating the panel data model. These two methods are called fixed effects and random effects. Hausman test is used to determine an appropriate method for model estimation, through which the coefficients of the model should be estimated based on two estimators. Then, the significance of the difference is tested between estimated coefficients. Should the difference be significant, the model with fixed effects has priority over random effects?

Table 5. The results of the Hausman test based on data

	Calculated statistic	Probability level
Model 1	3223.89	0.000***
Model 2	6.68	0.9789
Model 3	13.31	0.6496
Model 4	75.97	0.000***

4.5. Model estimation and interpreting the results

4.5.1. Model fitting related to the first hypothesis

Table 6 and the obtained results show a positive and significant relationship between

the amount of shareholders' participation in annual meetings and financial restatement at a 99% confidence level. Its p-value is 0.000 lower than the 0.05 significance level. Its coefficient is the positive figure of 0.00004, which is indicative of a positive and significant relationship between these two variables. Hence, the higher the amount of shareholders' participation in annual meetings, the higher is financial restatements.

Table 6. The results of the model (1) estimation

	COEF.	STD.Err	Z	p-value
<i>SHOP</i>	0.35283	0.02686	13.13	0.000
<i>PSH</i>	0.00004	0.00005	7.95	0.000
<i>MTENURE</i>	0.02122	0.01216	1.75	0.083
<i>MCHANGE</i>	0.08911	0.03529	2.52	0.012
<i>AUDIT.CHANGE</i>	-0.03472	0.00455	-7.63	0.000
<i>BLND</i>	-0.22603	0.08829	-2.56	0.012
<i>MSH</i>	-0.11536	0.06149	-1.88	0.063
<i>OWN</i>	0.21628	0.06411	3.37	0.001
<i>MD</i>	0.05729	0.02603	2.20	0.028
<i>SIZE</i>	0.02602	0.00905	2.88	0.004
<i>LEV</i>	0.04395	0.02251	1.95	0.054
<i>ROA</i>	-0.06808	0.03472	-1.96	0.050
<i>AGE</i>	0.00236	0.00131	1.81	0.071
<i>GROWTHSALES</i>	-0.36569	0.10721	-3.41	0.001
<i>MTB</i>	-0.00978	0.00574	-1.70	0.091
<i>LOSS</i>	0.50682	0.10828	1.91	0.058
Constant	1.38562	0.65001	2.13	0.033
Number of obs.	739			
Adj. R - squared	0.8964			

4.5.2. Model fitting related to the second hypothesis

According to Table 7, there is a negative and significant relationship between the amount of shareholders participation in annual meetings and financial restatement at 95% confidence level because its p-value is 0.0005 lower than the 0.05 significance level and its coefficient is the negative figure of 0.0041, showing a negative and significant relationship between these two variables. Hence, the higher the amount of shareholders' participation in annual meetings, the less is the severity of financial restatements.

Table 7. The results of the model (2) estimation

	COEF.	STD.Err	Z	p-value
<i>SHOP</i>	-0.03058	0.00997	-3.07	0.002
<i>PSH</i>	-0.00409	0.00146	-2.79	0.005
<i>MTENURE</i>	0.00556	0.00217	2.56	0.010
<i>MCHANGE</i>	0.05646	0.02561	2.20	0.027
<i>AUDIT.CHANGE</i>	-0.00972	0.00522	-1.86	0.063
<i>BLND</i>	-0.05816	0.02078	-2.80	0.005
<i>MSH</i>	0.03006	0.00881	3.41	0.001
<i>OWN</i>	-0.01742	0.01043	-1.67	0.095
<i>MD</i>	0.04184	0.00986	4.24	0.000
<i>SIZE</i>	0.00361	0.00189	1.90	0.057
<i>LEV</i>	-0.06272	0.03310	-1.90	0.059
<i>ROA</i>	0.00358	0.00037	9.62	0.000
<i>AGE</i>	0.00317	0.00174	1.82	0.072
<i>GROWTHSALES</i>	0.03823	0.01446	2.64	0.009
<i>MTB</i>	-0.01091	0.00457	-2.39	0.017
<i>LOSS</i>	0.01264	0.00760	1.66	0.096
Constant	-0.00162	0.04327	-0.04	0.970
Number of obs.	739			
Adj. R - squared	0.8584			

4.5.3. Model fitting related to the third hypothesis

According to Table 8, there is a negative and significant relationship between the amount of shareholders participation in annual meetings and financial restatement at 95% confidence level because its p-value is 0.025 lower than the 0.05 significance level, and its coefficient is the negative figure of 0.0099 showing a negative and significant relationship between these two variables. Hence, the higher the amount of shareholder participation in annual meetings, the less accrual-based earnings management.

Table 8. The results of the model (3) estimation

	COEF.	STD.Err	z	p-value
<i>SHOP</i>	0.47987	0.24419	1.97	0.052
<i>PSH</i>	-0.00999	0.00444	2.25	0.025
<i>MTENURE</i>	-0.01774	0.00991	-1.79	0.074
<i>MCHANGE</i>	0.13210	0.05321	2.48	0.014
<i>AUDIT.CHANGE</i>	-0.03694	0.01624	-2.27	0.024
<i>BLND</i>	0.26448	0.11442	2.31	0.023
<i>MSH</i>	0.34669	0.15233	2.28	0.025
<i>OWN</i>	-0.08352	0.04702	-1.78	0.076
<i>MD</i>	-0.09558	0.14859	-3.72	0.000
<i>SIZE</i>	0.08376	0.04531	1.85	0.064
<i>LEV</i>	-0.85871	0.02724	-31.52	0.000
<i>ROA</i>	-0.04910	0.02061	-2.38	0.017
<i>AGE</i>	-0.00345	0.01272	-1.92	0.054
<i>GROWTHSALES</i>	-0.07385	0.03395	-2.18	0.030
<i>MTB</i>	0.00437	0.00097	4.49	0.000
<i>LOSS</i>	-0.11890	0.06755	-1.76	0.08
Constant	0.03978	0.03775	1.05	0.292
Number of obs.	739			
Adj. R - squared	0.9516			

4.5.4. Model fitting related to the fourth hypothesis

According to Table 9, there is a negative and significant relationship between the amount of shareholders participation in annual meetings and financial restatement at 95% confidence level because its p-value is 0.004 lower than the 0.05 significance level and its coefficient is the negative figure of 0.0075, showing a negative and significant relationship between these two variables. Hence, the higher the amount of shareholders' participation in annual meetings, the less is real earnings management.

Table 9. The results of the model (4) estimation

	COEF.	STD.Err	z	p-value
<i>SHOP</i>	-0.00873	0.00415	-2.10	0.035
<i>PSH</i>	-0.00756	0.00258	-2.93	0.004
<i>MTENURE</i>	0.00922	0.00222	4.15	0.000
<i>MCHANGE</i>	-0.1053	0.00511	-2.06	0.039
<i>AUDIT.CHANGE</i>	0.00135	0.00073	1.84	0.066
<i>BLND</i>	-0.09056	0.02474	-3.66	0.000
<i>MSH</i>	-0.03174	0.00643	-4.93	0.000
<i>OWN</i>	-0.01873	0.00374	-5.01	0.000
<i>MD</i>	-0.01267	0.00565	-2.24	0.025
<i>SIZE</i>	0.00219	0.00115	1.90	0.057
<i>LEV</i>	0.02810	0.01361	2.07	0.039
<i>ROA</i>	0.04621	0.01412	3.28	0.001
<i>AGE</i>	-0.03188	0.01499	-2.13	0.035
<i>GROWTHSALES</i>	0.13751	0.00451	30.48	0.000
<i>MTB</i>	0.00165	0.00085	1.94	0.053
<i>LOSS</i>	-0.00172	0.00093	-1.85	0.063
Constant	0.23223	0.10901	2.13	0.034
Number of obs.	738			
Adj. R - squared	0.8404			

5. Conclusion

The hypothesis testing results show a positive and significant relationship between the amount of shareholders' participation in annual meetings and financial restatement. By increasing the amount of shareholders' participation in annual meetings, financial restatement goes up. The present study is concerned about the relationship between the amount of shareholders' participation in annual meetings and financial restatement severity. The study results show a negative and significant relationship between the amount of shareholders' participation in annual meetings and financial restatement severity, which means the amount of shareholders' participation in annual meetings would reduce financial restatement severity in firms. Moreover, the results of hypothesis testing show that there is a negative and significant relationship between the amount of shareholders participation in annual meetings and accrual-based earnings management, which means the amount of shareholders participation in annual meetings would lead to the increase of motivation and competence of managers in accrual-based earnings management. On the other hand, this paper analyzed the amount of shareholders' participation in annual meetings and real earnings management. This paper's results indicate a negative and significant relationship between the amount of shareholders' participation in annual meetings and real earnings management, which means the higher the amount of shareholders participation in annual meetings, the less the real earnings management. This finding is in line with Demirkan (2007), who declares a negative and significant relationship between shareholders' participation in annual meetings and earnings management and financial restatement.

In contrast, Pergola (2006) state that there is no significant relationship between firm governance and the amount of shareholders participation in annual meetings and financial restatement and earnings management because voting in firm meetings and attending these sessions are among the most effective ways of investment that would lead to the decline of earnings management at the firm level.

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