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BUSINESS STRATEGY, EARNINGS MANAGEMENT, AND IT MANAGEMENT

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ABSTRACT

One of the reasons for the high rate of failure of strategic planning in organizations is an overemphasis on one factor and the lack of full attention to other organizational factors. Meanwhile, an assessment of the readiness of the organization for the convergence of information technology and business strategy should be considered as the starting point and start of the activity of comprehensive IT plans. The purpose of this study is to examine business strategy and earning management in order to achieve IT management in companies admitted to Tehran Stock Exchange during the years 2012 to 2016. For this purpose, a sample of 68 firms was selected by systematic knockout. In this research, earnings management is based on the modified Jones model and, finally, the outcome of the study is to examine the effect of variables on the macroeconomic level with the aim of achieving strategic IT management. The result of the research suggests a reverse and significant relationship between business strategy and earnings management in order to achieve IT management.

1. INTRODUCTION

Given the wide-ranging development of information technology (IT) and its impact on different levels of organizations, the need for the use of strategic IT-applications has become more evident. These plans are designed and implemented in order to achieve a systematic approach to the field of investment and obtain better results in this area of design (Turban, 2005). Therefore, the strategic use of IT has become a key factor for organizations in gaining competitive advantage and also aligning IT strategies with organizational goals (Luftman, 2000).

One of the key factors is strategic planning. Today, strategic information planning is one of the most important components of the integration and alignment of business and IT strategies (Bai Rong, 2003). Strategic IT management should be aligned with comprehensive organization planning. In fact, the IT department and other units must work for the organization common goals (Luftman, 2000). What we have considered in this research, the achievement of strategic IT management refers to the proper use of IT to realize the goals and strategies of business organizations (Bruls, 2003, Tallon, 1999). Based on this, before spending a lot of money on the development and implementation of strategic IT programs, the organization must evaluate its capabilities for the alignment of IT and its business strategy in different organizational subdivisions. If there are any deficiencies to fix or improve them (Luftman, 1999). Considering that in our country the use of IT is a relatively new topic and sees many challenges ahead of us. One of the most important issues in this regard is the proper strategic planning of IT in line with the corporate business strategy in order to achieve strategic management by means of a positive and correct relationship between business strategy and IT efficiently and effectively (Niederman , 1991).

2. THEORETICAL FUNDAMENTALS AND RESEARCH BACKGROUND

Strategic alignment refers to the integration and coordination of IT applications and the organization's goals in line with its business strategy. In this area, not only IT programs should reflect the goals, mission, and business strategies, but business plans should also serve as a reference point for the IT program, its specific technology applications. The importance of the convergence of information technology and business strategies of the organization since the 1970s by individuals and organizations such as Mc Lind and Soden (1977) IBM (1981), Mils and Snow (1986), Dixon Willie (1989), Nidrman 1991), Henderson Van Catherine (1996), Louftman and Breyer (1999), were identified and analyzed. During these years, the issue of alignment has always been one of the most important concerns of senior business executives and IT organizations. Although this topic is now one of the main concerns of many of the managers of the organizations. Obviously, the importance of this category will increase in the eyes of organizations as the business strategies become more streamlined and the rapid growth of IT (Luftman 1995, 1996). In such a situation, maintenance of proper alignment and proper routing of the business strategy and IT of the organization will require efficient and complex management processes (Luftman 2000). The importance of strategic alignment simultaneously increases with the efforts of today's companies to increase the integrity of the business and IT strategies (Luftman 1995, 1996, 1999). Perhaps this is due to the fact that the hemorrhage coincides both the headings of effectiveness and effectiveness.

3. BUSINESS STRATEGY

One important factor in the success of organizations is their designing but not from traditional perspectives. Its strategy-based structure is a vital process. So, the organization structural basis clarifies the level of authority and responsibilities of each unit on the way of achieving missions and strategic goals and organizes the duties in various forms according to the chosen model. By this way, the powers and authorities of organizational units in relation to the cultural position, the organization posts and powers will be clarified by skills, abilities, and conditions (Atabaki, 2009). And clarifies strategic management the art of assessing decisions that enable the organization to achieve long-term goals that are in three levels of 1.writing strategies 2.Administering strategies, 3.Assessment of strategies that are administered in three levels: 1. Company level, 2.Strategic business level, 3.Duties level.

In this research, business strategy (STRT) is one of the research variables and for its assessment they use strategic grade. The strategic grade is made clear by the relation of research and development (R&D) to sales, the relation of R&D cost to the number of employees, the relation of employees to sales and the relation of market value to relative values. This index is clarified among 4 to 16 that before 10 is related to defensive companies and after 10 is for focused companies. This research, by calculation and assessing average of scores, the companies are divided into focused and defensive (Snow and Hambrick, 1980).

4. FOCUSED STRATEGIES (OFFENSIVE)

The features of this type of business strategy include:

Influence in market: raising share for present products or services through increasing attempts in marketing includes increasing number of sellers, increasing and strengthening public relations and advertisements, development of market: providing services and existing products to new geographic areas, development of product: raising sales through improving existing products and services or providing new types of that products or services. This strategy requires more costs for R&D.

4.1 DEFENSIVE STRATEGIES

The features of this type of business strategy include:

Cooperation: in administering this strategy, two or more companies form a joint venture or a consortium and use the most of the opportunities. Samples of these companies are R&D joint company, distribution of goods and etc. and for a company to be successful; each company should have some special features like advanced technology, distribution system, and research unit or production powers.

Decrease: the new grouping in assets and costs for reversing the decreasing mode and benefits. The goal of decrease is that organization fixes itself in a special mode.

Transferring: selling an independent unit or leaving a part of the organization to others is called transferring. This strategy is used mostly for providing capital. Sometimes it's a part of the strategy of renewing structure because the company tries sale those units which are useful or need more capital.

Dissolution: selling all assets to its actual value is called dissolution. This feature is a fail for the company but form feeling points of view is a very difficult strategy.

Mixture: most of the companies are willing to mix two or more strategies at the same time and if the amount of this activity exceeds more, the strategy of mixing will become more dangerous (Fred, R, David, 2007).

4.2 CONCEPT OF EARNING MANAGEMENT

Earning management occurs when it manages its own judgment in financial reporting and transaction structure. In such a way as to provide alternative reporting on company performance to mislead some stakeholders (Hallie and Wallen, 1998).

Bidleyman says earning management is an attempt by company management to try to reduce abnormal gains. Earnings management can be viewed from either a contractual perspective or financial reporting. From a contractual perspective, Earnings management can be considered as a low-cost way to protect companies against unexpected outcomes in the context of intangible and incomplete contracts. From the perspective of financial reporting, management may be able to influence the stock market value through Earnings management. For example, management may want to present an ever-increasing picture of profit, with the technique of smoothing profits over time. In the securities market, management is required to publish intra-organizational information. Therefore, Earnings management can be used as a tool for transferring in-organizational management information to investors. Both contractual and reporting styles can lead to interesting and perhaps surprising results, and that Earnings management can be somewhat good (Dichu, 2002).

In any case, some managers may misuse earnings management. Managers can use profits management in their favor and at the expense of other parties to the contract. Management is in the choice of accounting procedures among accepted procedures .So, it's natural to expect management to choose methods that maximize its benefits and utility. And that would increase the value of the company's stock market, and this is the management of profits. Accountants should have knowledge of earnings management since this knowledge will increase the understanding of accountants from the use of net profit for investors or any other beneficiary. And fosters better accounting reporting by accountants (McQuey, 2006).

4.3 IT MANAGEMENT

An interdisciplinary knowledge in which all technological resources are managed in accordance with the needs and priorities of modern technology. These resources may include tangible investments such as software, data, network, and data center facilities that are maintained by the staff from those resources .The responsibility for IT management in a company includes many basic functions of management, such as budget, human resources and organization, and control. IT management can be combined with related to technology, e.g. software design, network planning, technical support, change management, etc.

IT management is the process by which all IT resources are managed consistent with the priorities and needs. This management includes tangible resources such as networks, computers and data equipment, as well as intangible resources such as software and data .This is to use of technology to generate value through IT management with the alignment of business and technology strategies. While creating value for an organization involves a network of relationships between the internal and external environment, technology plays an important role in improving the entire chain of an organization. However, this increase (values) requires business and technology management along with innovative, team-intensive and energetic work.

Nurul Houqe et al. (2015), using a strategic typology of Miles and Snow (1978), studied this issue that whether the business strategy is in connection with benefits quality. They divided the reviewed companies in this research in two categories of defensive and offensive strategies. Results indicated that the companies with defensive strategy have higher levels of earnings management and the companies of offensive strategy have higher levels of accounting conservatism. Also, they found that the connection between business strategy and benefit quality changes in economic growth or its ascending periods. It means that in the economic growth period, the companies show lower levels of accounting conservatism.

Hasanpour (2014), via the strategic typology of Miles and Snow (1978), reviewed the business strategy and earnings management. They, the same as Miles and Snow (1978), divided companies into two groups of defensive and offensive. Results indicated that in the growth period of economy, the companies with defensive business strategy apply lower accounting conservatism.

Park & Jang (2013) examined a company's diversity strategy and performance strategy. The results showed that free cash flow increases the diversity of firms. Also, the results indicate that financial leverage is an effective way to reduce free cash flow and improve corporate performance, and this role is more significant in companies with a diversity strategy. The researchers found that financial leverage directly reduced the negative effects of dispersion on company performance and reduced the opportunities for managers to adopt inefficient diversification strategies.

Nurul Houqe (2013) examined the relationship between a defensive and aggressive strategy with earnings quality in macroeconomic conditions. They concluded that with high economic growth, exploratory companies have conservative accounting. Resilient companies also have more earning management. In a period of low economic growth, exploration companies are reporting conservative. While resilient firms are aggressively involved in earning management.

Rhys (2006) considered the type of strategy as the main factor for organizational performance in the public sector. They argue that the type and content of an organization's strategy consist of two dimensions: first, the type and type of strategy selection, which kind of strategy is. (Aggressive, defensive, etc.), and secondly, the strategy's actions are a relative emphasis on changes in the market, services, income, foreign relations, and internal characteristics. Their statistical results indicate that organizational strategy and performance with a defensive strategy have a positive relationship with a forward-looking or aggressive strategy. In this research, the organization achieves high levels of organizational performance in its path. If partly based on an innovative strategy that is constantly looking for the outside world to find new markets. Also, the results strongly suggest that the content of the strategy causes a difference in the performance of public organizations.

In recent years, a wide range of research and analysis has focused on the combination of information technology and business (Davidson, 1996. Leganza, 2003. Luftman, 1999, 2001). The organization has a role of partnership between IT and business management (Henderson 1999). Work and understanding of the competitive use of information technology that leads to a change in business strategies (Norton 1999). Innovation-driven information technology not only changes the range of organizations but also changes their infrastructure (Feluer, 2002: Kazman, 2002: Rosser, 1999). Although many of the above studies have been conducted in empirical studies only in one profession or industry and are not capable of generalization for other domains, they are the basis for identifying many of the factors affecting strategic alignment.

5. METHOD

The surveyed population consists of companies admitted to the Tehran Stock Exchange. The years covered by the research topic 2012 to 2016 and the hypotheses in relation to this statistical population will be studied and tested. Due to the systematic elimination of qualified companies, 68 companies are being analyzed for the subject matter of the research. This research is applied research in terms of the purpose. The study results can be applied in practice. Considering that this research uses past information to test hypotheses, it is a type of post-event research. Research theoretically is a kind of provocative research and inductive type of reasoning. On the other hand, this research is quasi-experimental research in the field of financial accounting research.

The library method is used to collect information, including books, journals, dissertations, articles, and the Internet. This method is used to conduct a preliminary study, a compilation of the chapter of the research literature and the theoretical framework of the research. Then we will look at the group of companies listed on the stock exchange to collect data about the research hypothesis. After extracting the required information through Tadbir Pardaz software, rahavard novin software and databases of the Stock Exchange and aggregating data in Excel columns and transferring it to Eviews 8 software, testing and analyzing the results for decision making from the research hypothesis.

In this research, we first classify the business strategy using the Mils and Snow model (1978). In the beginning, companies are divided into two groups of firms with an aggressive and defensive business strategy. With regard to the characteristics and characteristics of each category of business strategies, aggressive strategies representing earning management and defensive strategy represent conservatism in the company. Then, according to Jones's modified model (Dechow, 1995), we will calculate the earning management for companies with an aggressive business strategy to examine the existence of a meaningful relationship in the first hypothesis. Then, after the first hypothesis is meaningful, we examine the second hypothesis through the involvement of the interventional and control variables in the research, and we conclude the final conclusion in this regard. Whether there is a meaningful relationship between business strategy and earnings management and IT management. Also, in this research, the statistical society is selected among the companies active in the stock market. And with the help of Eviews software, we analyze the data. According to the stated issues, the main issue of the research is to achieve strategic IT management by examining the relationship between business strategy and earning management. Thus, the first hypothesis of the research and the statistical model of the research are as follows: There is a meaningful relationship between earnings management and the aggressive business strategy of the listed companies in Tehran Stock Exchange.

In this model; (Nurul Houqe, 2015) Business Strategy (STRT)

$$|DACCR_{it}| = \beta_0 + \beta_1\, Strt_{it} + \beta_2\, ln\_Assets_{it} + \beta_3\, F\_Lev_{it} + \beta_4 G\_Sales_{it} + \beta_5 M\_Risk_{it} + \varepsilon_{it} \quad (1).$$

5.1 CONCEPTUAL DEFINITION

Formulating a strategy that is often referred to as long-term strategic planning. It is the design of the mission, the goals and policies of the company, the formulation of strategy begin with the analysis of the position. Situation analysis is to find a strategy or strategic balance between opportunities (external) and strengths (internal) with respect to the threats (external) of the weaknesses (internal) in order to eliminate them.

Operational definition: To calculate it for each company, a hybrid strategy rating is used. Combined rank using the ratio of R&D to sales, the ratio of R&D to the number of employees, the ratio of employees to sales, and the ratio of market value to book value. The average of this indicator is that before the average number for defensive companies and after the average for the aggressive companies. In this study, using the above ratios and calculating the average of the numbers obtained, companies are divided into offensive and defensive categories (Snow and Hambrick, 1980). According to the stated content and the division of strategies into two categories of offensive and defensive, ultimately the final information is presented in Table 1.

Table 1: Business categorization into offensive and defensive

Variable	DACCR	Strt DF	Strt AT	Ln-Assets	F_Lev	G_Sales	CFO	LESS
Average	-2.06	0.79	0.21	13.1	0.684	0.128	0.196	0.08
maximum	0	1.00	1.00	18.19	8.61	2.03	1.58	2.14
minimum	76.4	0.00	0.00	10.56	15	-0.95	-1.12	0.00
SD	-48.9	0.017	0.019	1.42	0.376	0.29	4.62	0.87

According to the results obtained from the computational ratios of business strategies and according to the results of the table above, firms with a defensive business strategy of 79% and firms with an aggressive business strategy of 21%. That companies with a defensive business strategy have conservatism and companies with aggressive business strategy with earning management. In this research, the type of earnings management in accounting is considered by the business strategy evaluation, which is tested through the DACCR relationship.

In the next step, we will examine the business strategy through the relationship between earning management and relationship management (DACCR). The reason for accounting conservatism selection is based on Nurul Houqe (2015). In that research, in addition to classifying firms into aggressive and defensive, conservatism in accounting is synonymous with defensive business strategy and earning management as synonymous with aggressive business strategy. For this reason, because we get a greater percentage of the points we get, we measure the four ratios we measure in order to divide business strategies into an aggressive business strategy, which is also a row of managers with an eaning management thinking.

5.2 EARNING MANAGEMENT (DACCR)

Conceptual concept: Earning management means the process of carrying out the deliberate steps within the framework of accepted accounting principles, which enables managers to bring the reported profit to their optimal level (Nazemi Atabaki, 2009).

Operational Definition: To calculate earning management, the Jones model will be used.

$$TA_{it} / A_{i,t-1} = \beta_0(1 / A_{i.t-0})+\beta_1(\Delta REV_{it}/ A_{it-1})+\beta_2(PPE_{it}/ A_{it-1})+ \varepsilon_{it} \quad (2),$$

wherein:

TA: Accumulation of accruals in year *t* for *i*,

A_{it-1}: accruals accrued by the end of the previous year for *i*.

ΔREV: Change in annual income.

PPE_{it}: Property and equipment of the same year (fixed assets each year after deductions accumulated) in year *t* for *i*.

ε_{it}: model error in year *t* for company *i*,

B: Parameters of each company that is estimated by multivariable regression.

STRT: The business strategy achieved through 4 ratios.

Ln-Assets**:** The natural logarithm of the total assets of *i* in year *t*.

F_Lev**:** The ratio of total debt to total assets of the company *i* in year *t*.

***G_Sales*:** The sales growth rate of the company is achieved by selling this year to the previous year's sales breakdown by sales of the previous year.

M-Risk: a systematic risk measurement indicator that shows the relation between stock variability and market variability.

CFO: Operating cash flow for the company *i* in year *t* is obtained through the total assets.

LOSS: loss takes the value of 1 if firm *i* in year *t* reports negative income before extraordinary items and 0 otherwise.

Table 2: Model fitting.

Research model	$\|DACCR_{it}\| = \beta_0 + \beta_1 Strt_{it} + \beta_2 \ln\_Assets_{it} + \beta_3 F\_Lev_{it} + \beta_4 G\_Sales_{it} + \beta_5 M\_Risk_{it} + \varepsilon_{it}$			
Descriptive variables	Model variable	Statistical T	P-value	result
Offensive Strt	0.19	5.69	<0.01	Meaningful
Defensive Strt	0.13	4.32	<0.01	Meaningful
Ln Assets	0.089	2.44	<0.01	Meaningful
F Lev	0.11	5.63	<0.01	Meaningful
G Sales	0.12	4.89	<0.01	Meaningful
CFO	-0.076	-3.16	0.12	Meaningless
Loss	0.002	8.54	0.23	Meaningless
Values for F test	53.68	Test of Durbin-Watson		1.87
P-value	<0.01	Values for adjusted indexes		0.38
Model result	According to F values and P-value that is lower than 5 percent, the relationship is meaningful.			

Table 2, the result from regression indicates that the adjusted value index of research model is 0.38 and this could determine 38 percent of changes in the dependent variable by changes in the independent variable. Durbin-Watson result for this model is between 1.5 to 2.5. So, there is not any self-dependency among the errors of regression samples.

Meaningful level of F value for the research model is lower than the level of testing error (0.05-α) and thus H0 hypothesis is rejected and the resulted regressions are meaningful statistically, under linear relationship between variables. So, the results are not consistent with the claims of the second hypothesis. The statistical hypothesis related to the second hypothesis is as followings.

In the next, given that the number of companies with aggressive business strategy varies from 21 percent to 79 percent of companies with defensive business strategies. Also, according to the first model of research in Table 2, it finds that there is no meaningful relationship between companies with aggressive business strategy and earning management. We present a combination of business strategy and earning management and IT in a macroeconomic field for achieving strategic IT. In this way, the second hypothesis will be modeled as: There is a meaningful relationship between earnings management and business strategy in order to achieve IT management.

$$MIT\text{-}STRT = \beta_0 + \beta_1 STRTit + \beta_2 GDP - Dummy + \beta_3 STRT*GDP\text{-}Dummy + \beta_4 Industry\text{-}Dummy + \beta_5 SDCNICT + \beta_6 SDCICT + \varepsilon + it \quad (3).$$

Conceptual Definition: IT management refers to the activities of IT managers in organizations. More information management systems are focused on the business aspects with a strong entry into the business enterprise technology phase.

For this, the variables are named as followings:

M-STRT-IT: Strategic Management IT

GDP-DUMMY: national GDP during the research period.

STRT*GDP-DUMMY: the result of business strategy in GDP.

INDUSTRY-DUMMY: is the GDP of industry.

SNCNICT: the relation of non-communication investment in GDP

SDCICT: the relation of communication investment in GDP

Meanwhile, to calculate GDP, because of the lack of figures and the gross amount of binary variables or control variables are used. Namely, in the five years of research under investigation, in the years when the national native land is in favorable condition, it is equal to 1, and in the years when these conditions are in a recession, it will amount to 0.

Also, for the calculation of SCNICY and SDCICT, we'll score the companies according to 636 companies in testing among stock exchange companies and will be based on the results of this statistical society as well as remained companies of this society and according to the presented information in fiscal notes in order to formulate the statistical model of second hypothesis:

According to the results obtained from the first hypothesis and the meaninglessness of the relationship in the first hypothesis of the research, the second hypothesis of the study does not deal with the investigation of the relationship between the first hypothesis in its macroeconomic conditions.

6. CONCLUSION

In general, in this research, we first divided the strategies of the companies active in the stock into offensive and defensive categories. Then, we choose the most tend toward the dominant strategy because of the characteristics of the statistical community. And according to the type of division in Nurul Houqe's (2015) research, we measured the companies' willingness to manage them (conservatism in accounting and earning management) and its relationship with business strategy.

Finally, we measured this relationship with the variables involved with the information technology at the macroeconomic level. In order to get the kind of relationship between business strategy and earning management in order to achieve the final results of the survey, we examine the relationship between business strategy and earning management in terms of information technology management in Tehran Stock Exchange. The results of the first hypothesis of the research indicate that most companies that have an aggressive business strategy in the capital market are looking for new markets for new sales and looking for conditions that can expand the company. Therefore, the management of these companies, which are constantly growing in terms of their financial and sales processes, are less likely to seek the earning management.

Also, to investigate the relationship between the significance of the second and final hypothesis of the research, the study of the relationship between business strategy and earning management in terms of IT management in Tehran Stock Exchange, need to have a positive and significant relationship in the first hypothesis of the research in order to add macroeconomic variables In the relationship and study of the general topic of the research. Therefore, considering that the initial hypothesis of the research has no positive and significant relationship between the independent and dependent variable. Therefore, there is no longer any need to examine the governing relationship in the second hypothesis. And the results indicate a negative relationship and a lack of meaningful relationship between business strategy and management and earning and management of IT in order to achieve strategic IT management.

7. AVAILABILITY OF DATA AND MATERIAL

Data is used or generated from this study is available upon request to the corresponding author.

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