



EFFECT OF CORPORATION STRATEGY ON MARKET REACTION TO EARNING IN THE ACCEPTED CORPORATIONS OF TEHRAN STOCK EXCHANGE

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ABSTRACT

Leadership strategic characteristics are margin expenditure of low sale with high sale mass, economic expense to criterion ration and main investments in factories and physical properties. While differentiation strategy is followed by high sale margin which is gained by goods quality and realized branding through investment in unobvious properties such as; investment in research part, development and advertisements, the strategic characteristics have twofold effects on investor reaction to published information about corporations. This research investigates the effect of corporation strategy on market reaction to profit in the accepted corporations of Tehran Stock Exchange (TSE). Research statistic population includes 856 accepted corporations in TSE from 2012 to 2016, while 142 corporations have been chosen by systematic deletion as the research statistic sample. The research is “application oriented” in term of its aim, its data are “quantitative”, the research performance time is “sectional”, its performance logic is “deductive”, and its performance method is “descriptive, measuring and casualty”. Paneling data method is used to analyze the research data based-on the research data kind. The findings indicate that corporation strategy has a positive meaningful effect on market reaction to earning, strategy of cost leadership has a positive meaningful effect on market reaction to profit, and differentiation strategy of product has a positive meaningful effect on market reaction to profit. These findings show that corporations that follow strategy of expenditure leadership their profit publications will be explained more generally and more changes will own in average believes of stock price. In the otherwise, profit announcements of corporations that follow strategy of differentiation will be explained by inhomogeneous and lower changes will own in average believes of stock price. The research helps knowledge level gradation about sectional changes of market reaction to profit announcement. Moreover, in this research price reaction convergence and transaction mass reaction to profit announcement have been indicated in the form of anticipation situation.

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1. INTRODUCTION

Most of today organizations in the world are moving toward being bigger and increasing their business activity environment because one of the reason for this activity is answering to multi needs of customers. Managers try to be faithful to their organizations by considering the multi needs of customers. Most organization have done strategy because of the mentioned reason and other professional reasons such as; making come true of essential facilities and distribution system of final product in organization, (Macher, 2007). It is believed that competition can cause decrease of stagnant and depression in market and corporations in spite of competitive situations can continue their activities by high efficiency, so competition can be a motivation for the mentioned innovation and introduction that can cause economic development and mobility of society, (Nikel, 1996). Many definitions have been exhibited for competitiveness but one complete definition of competitiveness is, “organization ability in being in business, conserving organization capitals, returning assets and guaranteeing of jobs in future that their results are market share increase, profitability, growth of added value and staying in competition stage for long time”, (Acimva, 2000). Capital owners, creditors, government and other users of corporations` financial reports need credit, relative and qualified financial information to make decision about buying, selling, conserving stock, giving loan, evaluating managers` performances and other economic decisions. Totally, while investors invest in an economic unit, at first, they should have enough information (such as; financial information) about that unit, then they should trust the information. Creditors can't give the investors their financial sources without being aware of financial status and performance of a unit. So, it is expected that exhibited of information divulgence quality by corporations can be effective for decisions and evaluations of users, (Acimva, 2000). Accounting aim is providing financial information for users to help improvement of decision process. While the aims of accounting done researches and studies are evaluating information usefulness for investors and other users, (Noroosh, 2009). Financial statements are very important sources that investors need in their relative decisions of investment. There is a statistical meaningful relationship between accounting information and price or stock return. Information accounting can describe the reasons of changes of prices based on the capital market information with a suitable method that based on it the prices reflect all the existent information, (Ghalibaf, 2000). Value determination of a corporation and recognition of effective factors on it in the capital markets are the challenging topics for financial investors and analyst. They are always looking for recognition of effective factors on corporation value because they want to determine the corporation real value through controlling of the mentioned factors. Based on the mentioned factors the importance of corporation value determination and the effective factors on it will be clarified, (Valipoor, 2009:93). So, future value estimation of corporation has been one of the investors` obsessions and they have used different financial instruments such as; sale income, impure profit, operational profit, profit before tax and pure profit which are profit statement members and corporation losses. So, information content study of the variables are undeniable necessities in the anticipation of corporation values. So, based on the mentioned factors the research aim in that what is the effect of corporation strategy on market reaction to profit in the accepted corporations in Tehran Stock Exchange?

2. RESEARCH BACKGROUND

Ghaemi & Taghizadeh (2015), in their research investigated the effect of information risk and transaction expenditures on reaction of stock market to profit news. 2050 season-corporation from 2004 to 2012 had been analyzed. Zhang et al. (2013) models had been used to test the research hypotheses which included affirmative factor analysis to determine information risk variables and linear regression analysis of multi variables to test research variables. The research hypothesis tests indicated that higher information risk can cause the first reactions of more investors to announcement of seasonal profits but they would not effect on the next reactions and transaction expenditures would not have any effects on the reaction of stock market.

Khodamipoor et al. (2014), in their research investigated the effect of last duration profit anticipation error on market reaction to the management of profit anticipation and different kinds of profit management. In the research financial statements of 86 accepted corporation of Tehran Stock Exchange from 2005 to 2011 have been analyzed. To access the research aims, corporations had been grouped based on previous year anticipation and present year and news content of the present year anticipation. Then the research hypotheses had been tested by considering data mixture structure and suitable statistical tests. The research conclusions indicated that market reaction to profit anticipation with good (bad) news content, while the anticipation of last duration is more pessimistic (optimistic), was more positive (negative) than the status of last duration anticipation which was more pessimistic (optimistic). The research conclusions represented that pessimistic anticipation in the last duration could be known as the factor for profit increase management in the present duration.

Kafashpoor et al. (2014), in their research investigated the effect of differentiation competitiveness strategies and leadership expenditure on performance by considering the roles of pioneer marketing intermediate and reactional marketing, (case study: big production corporations and average of industrial parts in Mashhad City). This research method was descriptive-measuring and applicational oriented. Questionnaire was used to gather data and its validity and its stability were affirmed by use of content validity, structure and Cronbach Alfa. This research statistic population included all the average production corporations and big industrial parts of Mashhad City. The sampling design was probable and simple accidental. AMOS Software was used to analyze data of 104 questionnaire. The research findings indicated that differentiation strategy and expenditure leadership had direct meaningful relationship with performance, the mentioned strategies indirectly had positive meaningful with performance by reactional marketing and pioneer marketing and pioneer marketing and reactional marketing had direct meaningful relationship with performance.

Tahmasebi et al. (2014), in their research investigated optimized management strategy of expenditure leadership by exhibition of management model in pervasive keeping and repairing of introduction and suggestions. In this research one management system had been introduced and suggested for pervasive keeping and repairing. This system had been described in three different parts such as; management, operations and internet equipment management. Moreover, the process of internet accommodating had been introduced as an important sub collection of studied pervasive internet. This research findings indicated that the suggested system had owned considerable more differentiation funds than other common systems, for example; this system was very close to the

management system of pervasive quality and all the organization employees incorporated in it. This suggested system had more benefit in term of particular emphasis on verification, accommodating improvement, continuous improvement of internet. So, management strategy in pervasive internet included not only relative hardware services but also it included other important factors such as; quality, customer satisfaction and financial value.

Vazifehdooost (2012), in his research investigated the effect of Porter competitiveness implementation in answering to the need of central marketing of petrochemical company customers. This research was applicational oriented, and descriptive-measuring. The research statistic population included all the active managers in petrochemical part that included 70 individual who were working in petro et alon product production. Questionnaire and interview with a group of experts and specialists were used to access information and data. Koromogrov Simonov test was used to investigate normality of data distribution while T-Stevedent and Friedman tests were used to test the research hypotheses. This research findings indicated that each of the Porter strategies had positive effect in answering to the need of central marketing of polio etalon production customers and leadership strategy effect in expenditure had higher priority.

Fadaeinezhad (2012), in a research investigated market reaction to seasonal profit announcements in Tehran Stock Exchange. In this research, 3 month profit announcements from beginning of 2004 to the end of 2010 were chosen as the main research data. This research innovation was using of three equal methods, aggregation, transaction and transaction for filling return in the days when stock had not been truncated. This research conclusions represented that profit announcements included relative information for stock market. While the real profit of three months was more than corporation anticipation (good news), meaningful positive unusual return would be observed in 5 days after profit announcement. The continuous of this unusual return during several days after profit announcement indicated that adjusted speed of prices in this small stock exchange is low. In the profit announcements that real profit was less than anticipation (bad news), unusual return would not be observed. Tehran Stock Exchange might have discovery ability of bad news better than good news. Moreover, negative relationship between information content and information indicators which had received before transparency would be correlated with results of big markets.

Ahmad (2016) investigated relationship between profit quality (as a representative of asymmetry) with market reaction to news of capital increase, he concluded that profit quality had meaningful reversed relationship with market reaction. His research affirmed relationship of “negative reaction intensity to market” to the news of news stock publication with different levels of information asymmetry during announcement of this news.

Cormier (2014) investigated “the effect of corporation government quality on profit management in the accepted corporations of Tehran Stock exchange”. The previous researches represented that managers might use profit management methods to encounter with profit optional anticipation. In the research, the researcher extracted profit management limitation in the Canadian Corporations and then he studied which corporations with better corporation government had less tendency to use profit management to access considered profit anticipations. Moreover, the researcher investigated and evaluated the effect of profit anticipation and corporation government on anticipation of future cash flow. The research findings represented corporations with corporation government mechanisms had

less intent to the optional anticipation of profit.

Farrell et al. (2014) investigated “stock redemption on corporation profit management in the situations encountered with limitation in financial securement through liability”. In this research, many observations had been introduced about use of stock redemption as a mechanism for stock redemption in the situation with securement limitation of financial sources, (by use of another mechanism of profit management). This research indicated that stock redemption had been one of the common mechanisms in profit increase of each share. Moreover, in the limited situations, access to financial securement sources needed more motivation to use stock redemption as profit management.

Laksmna & Yang (2014) investigated “relationship between product profitability and profit management”. Changes among institutes in less ration competitive industries are more common than corporations with higher competition. So, this research investigated why corporations in less competitive industries had more intention to income management. The research results represented that more competitive corporations had more intention to profit management than less competitive corporations.

2.1 THEORETICAL BASES

2.1.1 CONCEPTUAL DEFINITIONS

2.1.1.1 STRATEGY OF EXPENDITURE (COST) LEADERSHIP

The aim of expenditure leadership strategy is that the corporation will be a less expenditure producer in an industry. This strategy will be realized by business experience, investment in loans of mass production, use of economy (frugality) and proper supervision on total expenditures of operations (through programs such as; size decrease and quality management), (Ahmad, 2016).

2.1.1.2 STRATEGY OF PRODUCTION DIFFERENTIATION (DIVISION)

This strategy needs goods development or unique services based on customer `s faithfulness to commercial brand. A corporation can exhibit higher quality, better operation or unique characteristics that each of them can justify the higher prices. In the strategy of production differentiation, corporations intend to invest in the research base and development, so their creativity and innovation will increase. Moreover, in the strategy of production differentiation, corporations will be encountered by higher lack of sureness, it means that more emphasis on innovation and creativity in production can cause corporations to encounter with risking activities and risk on a production which has not been produced yet, (Ahmad, 2016).

2.1.1.3 MARKET REACTION TO EARNING (PROFIT)

One of the experimental researches of financial accounting is recognition and description about different reactions of market to profit information. This research topic is called profit reaction coefficient. Profit reaction coefficient measures market sudden return to the reaction of the members of sudden profit. Profit reaction coefficient measure market non-expectable return to the reaction of the members of reported sudden profit by a corporation published stock papers. In the otherwise, profit reaction coefficient measures market sensitivity to profit announcement by coefficient of regression slope between unusual returns and sudden profits, (Moradi& et.al. 2009).

2.1.1.4 CENTRAL MARKET

Central marketing is acceptance of marketing as a business philosophy that is leader of organization competitive strategies. Central market discusses that production should reflect market demands and change based on the consumers. Central market is factor that improves operations of corporations as a holistic prospective that determines organization abilities in anticipation, reaction and changing to the investment of situational changes. Central market can cause corporations to concentrate on continuous collection of relative information with customers' needs, aims and abilities of competitors and use of the information in creation of better value for the customers.

2.2 OPERATIONAL DEFINITIONS

2.2.1 CORPORATION STRATEGIES

Corporation strategies include strategy of leadership expenditure and strategy of production differentiation.

2.2.1.1 STRATEGY OF EXPENDITURE LEADERSHIP

This strategy is gained by total sale on total properties (assets), (Ahmad, 2016).

2.2.1.2 STRATEGY OF PRODUCTION DIFFERENTIATION

This strategy is gained by research and development gathered ratio on total sale, (Ahmad, 2016).

2.3 MARKET REACTION TO PROFIT

The research dependent variable is market reaction to profit and cumulative daily abnormal return has been used to measure it. Daily abnormal return is calculated based on market adjusted model. In this model, it is proposed that market return represented expected stock of corporations in each time duration and share risk has been considered as market risk. So, minus of i share real return and market return in t duration indicates abnormal return. The findings of the research done by Ghaemi&Maesoomi (2015), indicated that effective duration of profit announcement event of each anticipated share on stock price is nearly 4 days (by considering announcement day). So, in the research accumulation of abnormal return of each share during one day before anticipated profit announcement day until 4 days after its announcement, (one day before announcement day, announcement day, 4 days after announcement day, totally 6 days), has been used as a measurement criterion for market reaction. Accumulated daily abnormal return is calculated based on the following equation as:

$$CAR_i = \sum_{i=-1}^4 AR_{i,t} \quad (1)$$

CAR_i : cumulative daily abnormal return for i corporation from one day before profit announcement of each anticipated share to 4 days after this event.

Daily abnormal return of one share ($AR_{i,t}$) is the different of stock real return with its expected return of that share in the investigating day, based on market adjusted model, that is calculated based on the following equation as:

$$AR_{i,t} = R_{i,t} - R_{m,t} \quad (2),$$

where

$AR_{i,t}$ = abnormal return of i corporation in t day

$R_{i,t}$ = real return of i corporation in t day based on following equation:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \quad (3)$$

In the above equation, $P_{i,t}$ and $P_{i,t-1}$ are stock prices of i corporation in t day and t-1 day.

$R_{m,t}$ = market return in t day that is calculated as follow based on Mehrani, Nonahalfar, Ghaemi and Vatanparast views:

$$R_{m,t} = \frac{TEDPIX_t - TEDPIX_{t-1}}{TEDPIX_{t-1}} \quad (4)$$

$TEDPIX_t$: indicator of total price and stock cash profit in t day

$TEDPIX_{t-1}$: indicator of total price and stock cash profit in t-1 day, (Ahmad, 2016)

3. RESEARCH METHODOLOGY

In this study the estimated method model is based on combined data. This method is combined of time serial data (2010-2014) and sectional data (142 accepted corporations in Tehran Stock Exchange). All calculated numbers for each model variables are based on million Rial. The used software program in the research is Eviews 8. In the estimated models that will introduced next all dependent variables with a pause are in the right part of the model that have been known as descriptive variable to solve self-correlation problem (existences of relationships between sentences are error sentences) and have been situated as violation factor of regression classical hypotheses. Moreover, in this research EGLS has been used to measure models for problem solution of variance inequality, (variance inequality of error sentences). The research methodology is as follow in term of performance aim, performance method, performance way, data kind, relationships between variables and performance time:

- Research methodology in term of performance aim: the research is “application oriented” in term of the research performance aim.
- Research methodology in term of data kind: the research is “quantitative” in term of data kind.
- Research methodology in term of performance time: the research is “sectional” in term of performance time.
- Research methodology in term of performance logic: the research is “deductive” in term of performance logic.
- Research methodology in term of performance way: the research methodology is “descriptive, measuring and correlative” in term of performance way.

4. RESEARCH STATISTICAL SAMPLE AND POPULATION

Accepted corporations in Tehran stock Exchange have been 856 corporations since the end of 2016.

4.1 HYPOTHESES

Total six hypotheses are considered.

- 1- The corporations that have had outgoing during time duration.
- 2- Corporations that have entered stock exchange during the research time duration.
- 3- Corporations that have had changes in their financial years during the research time duration.
- 4- Corporations that have been financial investors and intimidators, (because of lack of relationship with the research topic).
- 5- Corporations that have had transaction pauses more than six months in the research time duration.
- 6- Corporations that their financial years will not end on February, (because of monotonous of financial years based on their activations)

Based on the mentioned factors from 1 to 6, 142 year-corporation has been calculated for the test of the research statistical hypotheses.

4.2 SUB- HYPOTHESES

Cost leadership strategy has a positive meaningful effect on market reaction to earnings. Product differentiation strategy has a positive meaningful effect on market reaction to earnings.

Table1: Research variable codes and their relative regression models of each divided hypotheses

Model variables	Codes of the model variables
Cost leadership strategy	CLS
Product differentiation strategy	PDS
Market reaction to earnings	MRE
Research regression models	
$MRE_{it} = \alpha_{it} + \beta_1 CLS_{it} + \beta_2 PDS_{it}$	

4.2.1 RECEIVED CONCLUSIONS OF F-LIMER AND HUASMAN TESTS

F-Limer test has been used to test paneling and pooling of the research data. If amount of P-Value of F-Limer test is more than 5 percent, data will be pooling. If amount of P-Value of F-Limer test is less than 5 percent, data will be paneling. If paneling method is used based on F-Limer Test, husman test will be chosen for paneling data (constant effect pattern or random effect pattern).

Table 2: Conclusions of F-Limer Test

Research models	F Statistic	P.value	Test result	Method
Research regression model	1.314	0.016	H0 is rejected	Paneling

Based on the received conclusions of Table 2, meaningfulness level of F statistic for the research regression model is less than 5 percent that shows comparative use of paneling data method than pooling data method in 95 percent assurance level. Moreover, statistic of Hausman Test has been calculated to specify constancy or random of sectional unit differences.

Table 3: Conclusions of Hausman Test

Research models	Chi-square	P.Value	Test result	Method
Research regression model	9.529	0.008	H0 is rejected	Constant effects

Received conclusions of Hausman Test indicates that constant effect method is more preferable

than random effect method.

4.2.2 TEST CONCLUSION OF THE RESEARCH HYPOTHESES

Test result of research hypotheses is given in Table 4.

Table 4: Test conclusion of the research hypotheses

Variables	Symbol	Coefficients	Standard deviation	t statistic	Meaningfulness
Cost leadership strategy	(CLS)	0.105319	0.026629	3.955111	0.0001
Product differentiation strategy	(PDS)	0.125034	0.039672	3.151697	0.0017
Constant member	C	0.146183	0.033858	4.317563	0.0000
Determination coefficient	Adjusted determination coefficient	Watson-Durbin Statistic	Statistical probability of F	Probability of Jark-Bera	
0.26	0.08	2.410	0.000	0.000	
$MRE_{it} = \alpha_{it} + \beta_1 CLS_{it} + \beta_2 PDS_{it}$ $MRE_{it} = 0.146 + 0.105 CLS_{it} + 0.125 PDS_{it}$					

4.2.3 FIRST HYPOTHESIS: COST LEADERSHIP STRATEGY HAS POSITIVE MEANINGFUL EFFECT ON MARKET REACTION TO EARNING

Zero Hypothesis: Cost leadership strategy doesn't have positive meaningful effect on market reaction to earning

First Hypothesis: Cost leadership strategy has positive meaningful effect on market reaction to earning

The important factor that should consider in Table 4 is F Statistic of meaningfulness level because this statistic indicates total credit level of the model. In this model, F statistic of meaningfulness level is 0.000 and this amount is less than accepted meaningfulness level of 5 percent, so this model is totally meaningful. Moreover, adjusted determination coefficient is 0.08 and this amount can be 8 percent changes of dependent variable of the changes in the other variables of this model. Based on Table 4, amount of Watson-Durbin statistic is 2.410 that shows lack of self-correlation among error sentences. In the otherwise, an error member of one observation will not be effected by other observable error member. Statistical probability of Jarque-Berais 0.000 which is less than 0.05 and it represents that error sentences have not been distribute normally.

Based on Table 4, if coefficient of CLS is positive and meaningful, it will indicate that cost leadership strategy has positive meaningful effect on market reaction to earning. As indicated in the Table 4, coefficient of CLS is 0.105, t statistic is 3.955 and positive and meaningfulness level is 0.000 that shows cost leadership strategy has positive meaningful effect on market reaction to earning, so H0 of the research first hypothesis will be rejected.

Second Hypothesis: Product differentiation strategy has positive meaningful effect on market reaction to earning.

Zero Hypothesis: Product differentiation strategy doesn't positive meaningful effect on market

reaction to earning.

Main Hypothesis: Product differentiation strategy has positive meaningful effect on market reaction to earning.

Based on Table 4, if coefficient of PDS is positive and meaningful, it will indicate that cost leadership strategy has positive meaningful effect on market reaction to earning. As indicated in the Table 4, coefficient of PDS is 0.125, t statistic is 3.151 and positive and meaningfulness level is 0.001 that shows product differentiation strategy has positive meaningful effect on market reaction to earning, so H0 of the research first hypothesis will be rejected.

4.3 Kao Integration Test

Integration can be used as an estimation method for sampling long term balancing coefficients and its variables have unity root which are non-static. However, statistical condition of time serial variables can be secure by minus, this function will cause valuable information about variable levels be lost. Integration method will be possible to estimate time serial variables without fear of their falseness. Several tests have been introduced for integration test with total different prospective such as; Pedroni Test (2004) and Kao Test (1999). Kao and Pedroni Tests are based on regression remainders and they are look like integration test of Angel-Grangers in time serial data. Seven statistics of Pedroni for panel integration test are:

First group: test statistics of internal dimension: panel statistic, panel statistics of Phillips-Prawn, t panel statistic of Phillips-Prawn kind, panel statistic of Dickey-Fuller adjusted kind.

Second group: test statistics of among dimension: statistics of Phillips-Prawn grouping, t statistic of Phillips-Prawn grouping and grouping statistic.

Kao (1999) introduced adjusted integration test of Dickey-Fuller based on integration vectors that should be homogenous in each section.

Table 5: Test conclusions of Kao Integration

Long-term relationship of the research variables	Kao integration test	
	p-value	Test statistic
Long-term relationship of the research dependent and independent variables (research regression model) $MRE_{it} = \alpha_{it} + \beta_1 CLS_{it} + \beta_2 PDS_{it}$	0.000	-13.861

Panel-Data integration test at first was use by Pedroni in 1995. In this test, H0 in the paneling integration test analyses will be the existence of economic long-term relationship. The main idea in the integration analysis is that while most of economic time serials are non-stationary (includes random processes) but linear mixture of the variables may bestationary (without any random processes).

Based on the results of Kao integration test in Table 5, existences of relationships between variables (dependent and independent) will be accepted in 95 percent assurance level. While statistic amount of the test is more than crisis amount and probability level is less than 0.05, zero hypotheses based on lack of integration will be rejected and its contrast hypothesis (integration and existence of long-term relationship) will be accepted. These results indicate that there powerful

long-term relationships between the research variables.

Integration test is done by Kao method because of paneling data use in the study. Kao test follows Pedroni method but it clarifies section special pass cross origin and homogenous coefficients on regression in the first level.

5. CONCLUSION

Following the results of the first hypothesis, if CLS coefficient is positive and significant, it shows that leadership strategies have positive and significant effect on market reaction as recognized, CLS coefficient is equals to 0/105 and shows leadership strategy of cost as market reaction on interest has effect positive and significant. As for result obtained from second hypothesis, PDS is positive and we conclude that strategy of product discrimination is positive and significant on market reaction.

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