



Investigation of the corporate governance index moderating impact on the negative correlation between surplus free cash flow and earning prediction

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ABSTRACT

Agency problems have made it difficult to find a way to ensure the quality of financial reporting to have accurate earning forecast. This issue has been taken into special consideration after recent financial scandals, and regulatory authorities in various countries of the world have taken various measures to deal with that. Corporate governance reform is one of the measures that is taken into account in this regard. By reducing the agency problems, the corporate governance mechanisms can reduce the earning opportunities and thereby increase the quality of earnings. On the other hand, increased sophistication of economic activities and variety of decisions have made it possible for managers to manipulate balance sheet items to superficially improve their performance and receive rewards. Surplus free cash flow is one of the factors that can influence the opportunistic behaviors of managers. The present study investigates the effect of surplus free cash flow and corporate governance indices on the earning predictability in companies listed in Tehran Stock Exchange. To this end, a total of 126 companies listed in Tehran stock exchange were investigated within a period of time ranging from 1389 to 1393. The results of this study showed that corporate governance has a positive impact on earnings predictability, and corporate governance has a significant positive impact on the relationship between surplus free cash flow and earning predictability, but the surplus free cash flow has a negative effect on the earnings predictability.

Keyword:

surplus Free Cash Flow,
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