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Earnings Quality and Government Influence: A Review of Political Economy Theory

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Abstract

This study explores the impact of justice shares, a state-sponsored ownership transfer aimed at income redistribution, on the earnings quality of firms listed on the Tehran Stock Exchange (TSE) from 2013 to 2022. Drawing on a political economy perspective, it investigates how populist state ownership and political influence affect financial reporting in weak governance environments. Using a panel dataset of 1,150 firm-year observations, the analysis employs multivariate fixed-effects regression models to assess the relationship between justice share ownership and earnings quality. To ensure robustness, two alternative proxies, income smoothness and Earnings Predictability (EP), are used along with the primary earnings quality metric. The theoretical framework draws from recent studies on real versus accrual-based earnings management and the trade-offs firms make under political insulation. The results reveal a significant negative association between justice share ownership and earnings quality, suggesting that politically motivated ownership structures incentivize earnings management. These findings align with recent evidence from China and other emerging markets showing that government-controlled firms often prioritize social or political objectives over transparency. In contrast to studies from Vietnam and Indonesia that highlight governance-enhancing effects of certain ownership forms, our results underscore the destabilizing role of populist state interventions in financial reporting. This study contributes to the growing literature on political economy and accounting by empirically testing the consequences of state-led populism on corporate earnings quality. It introduces the concept of publicness as a lens to interpret how hybrid state-market control, exemplified by Iran's Justice Shares program, can compromise financial accountability. In contrast to emerging-market studies suggesting that board diversity or Institutional Ownership (INSOWN) can mitigate earnings manipulation, our study shows that politically embedded ownership models are resistant to such corrective mechanisms. It is one of the first studies to empirically investigate the intersection of earnings quality, state ownership, and political influence in the context of a Middle Eastern emerging economy.

Keywords: Earnings quality, Political economy, State ownership, Populism, Justice shares, Government intervention.

1 | Introduction

Political economy explores the interplay between political institutions and economic outcomes [1]. In this context, government intervention in corporate activity, whether through regulation, ownership, or informal

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influence, can significantly shape firm behavior, especially in emerging markets. Prior research has shown that politically connected firms often benefit from preferential treatment, including tax breaks, easier access to capital, and favorable IPO conditions [2], [3] While such connections may compensate for market imperfections, they also risk distorting market mechanisms and compromising firm-level transparency and accountability [4], [5].

Recent studies from emerging economies have further complicated this narrative. In Vietnam, for instance, Tran and Dang [6] find that state ownership can reduce earnings management, suggesting that the effect of government control depends heavily on institutional design and incentive alignment. In contrast, Ruggiero et al. [7], studying Italian State-Owned Enterprises (SOEs), argue that "publicness", a condition marked by state ownership, goal ambiguity, and political interference, consistently weakens financial accountability. These different findings highlight the need for contextual analysis when evaluating the role of the state in financial reporting.

In developing economies such as Iran, where state presence remains dominant in key industries despite ongoing privatization efforts, political influence over firm operations remains pronounced [8], [9]. A noteworthy example of such influence is the "Justice Shares" program, a populist initiative launched in 2006 to redistribute shares of large SOEs to low-income citizens. Although intended to promote economic inclusion, this policy introduced a new layer of state involvement by requiring firms to align with governmental social objectives. The consequences for firm transparency and governance remain underexplored, particularly within the broader MENA context [10].

Under the Justice Shares scheme, firms were expected to generate sufficient profits to subsidize the state's installment repayment plan for share recipients, often leading to pressure on executives to overstate earnings or prioritize government mandates over market signals [11]. This type of political interference can compromise earnings quality by incentivizing short-term income smoothing or accrual manipulation. Kustono et al. [12], examining Indonesian firms, show that income smoothing may not always signal opportunism, it can reflect efficient communication in well-governed environments. However, in politically influenced firms lacking independent oversight, such practices are more likely to erode financial transparency.

Moreover, the ability of governance mechanisms to moderate the effects of earnings management appears limited under state-populist regimes. Islam et al. [13] show that poor earnings quality undermines financial flexibility in Chinese firms, particularly where governance systems are weak. Similarly, Han et al. [14] find that foreign ownership enhances earnings quality through transparency, though its impact is diminished in SOEs due to entrenched political influence. These insights suggest that populist ownership models, like Iran's Justice Shares, operate in a governance vacuum that amplifies the negative effects of political control on earnings quality. This is consistent with Rezaee and Safarzadeh [15], who demonstrate that governance effectiveness in emerging markets must be interpreted through behavioral lenses that account for bounded rationality and institutional norms.

This study investigates whether the Justice Shares program undermines the earnings quality of publicly listed firms in Iran. By analyzing firms listed on the Tehran Stock Exchange (TSE) between 2013 and 2022, this paper contributes to ongoing debates about the impact of political influence on financial transparency in emerging markets. In contrast to earlier studies that focused on performance outcomes, this research centers on how populist economic policies affect accounting choices and earnings management behavior. In doing so, we build on recent studies demonstrating that government control impairs financial statement comparability [16] and that political disentanglement improves earnings quality [17]. The remainder of the paper is structured as follows: Section 2 provides historical background and develops the study's hypothesis. Section 3 outlines the research methodology and variables. Section 4 presents the empirical models. Section 5 discusses the results and robustness checks. Section 6 concludes with implications and recommendations.

2 | Background and Hypotheses Development

2.1 | Background

Following the 1979 Islamic Revolution, the new regime emphasized economic justice and promised to reduce inequality through wealth redistribution. In practice, this translated into widespread nationalization of banks, insurance firms, and large industrial enterprises. But the outbreak of the Iran-Iraq War soon after shifted priorities and delayed these redistributive efforts. Over the next few decades, reconstruction programs and intermittent privatization initiatives failed to meaningfully reduce inequality or improve efficiency. Instead, many sectors remained under state control, reinforcing a political economy defined by centralized ownership and weak market discipline [18].

In this context, the Justice Shares program, launched in 2006 by President Mahmoud Ahmadinejad, represented a populist effort to simultaneously privatize and redistribute wealth. Under this initiative, partial ownership of large SOEs in sectors such as energy, telecommunications, banking, and steel was transferred to nearly half of the Iranian population. Shares, nominally valued at 10 million Rials (around $1,000), were distributed through a deferred-payment model supported by expected dividend flows [11]. Promoted as a strategy to broaden economic inclusion and empower disadvantaged households, Justice Shares became one of the region's most ambitious state-led ownership transfer schemes.

But rather than expanding private ownership in any meaningful sense, the program introduced a complex layer of state-influenced ownership that exacerbated governance and accountability concerns. Beneficiary shareholders were largely excluded from exercising their rights, including voting and dividend collection, due to structural opacity and centralized control. At the same time, managers of Justice Share firms faced dual obligations: to pursue commercial goals while aligning with state-mandated objectives such as politically determined employment, subsidized pricing, or populist fiscal targets. This duality created pressures for income inflation and undermined the credibility of financial reporting, a dynamic that was consistent with Gong and Choi's [19] findings on SOEs in China. Similarly, Gerged et al. [20] show that in Jordanian firms, governance structures moderate the link between disclosure and earnings management, but such mechanisms are often weak or absent in MENA contexts.

This finding is in line with what other studies have shown about the impact of political involvement on earnings quality. For example, Ruggiero et al. [7] discuss the idea of publicness, which refers to a situation where state ownership, political interference, and unclear organizational goals all come together. In their study on Italian state-owned firms, they find that these conditions often lead to more earnings manipulation, mainly because accountability is weakened and market performance becomes a secondary concern. A similar logic applies to Iran's Justice Shares structure, which embeds political objectives into firm operations and opens the door for managers to adjust earnings in ways that serve those goals [16].

At the same time, comparative studies suggest that the consequences of state ownership are not uniformly negative. For instance, Tran and Dang [6] find that in Vietnam, state ownership can actually reduce earnings management, when paired with institutional oversight mechanisms. Similarly, Kustono et al. [12] argue that income smoothing, often viewed as a sign of manipulation, may enhance earnings quality when used to communicate long-term profitability in well-governed environments. These studies highlight the critical role of governance structures in determining whether state influence is stabilizing or distorting [19].

In systems where oversight is external and robust, ownership forms such as foreign institutional investment can mitigate managerial opportunism. Han et al. [14] studying Chinese firms, find that foreign ownership significantly curbs earnings management through enhanced transparency and monitoring, but this effect weakens in SOEs due to entrenched government control. Iran's Justice Shares structure shares this weakness: while framed as citizen ownership, it lacks true market discipline or external governance enforcement [15], [17].

The impact of low earnings quality goes far beyond a lack of transparency. Islam et al. [13] show that when financial reports can't be trusted, firms lose flexibility in how they fund operations, both internally and externally. For companies in emerging markets, this often means tighter liquidity, limited ability to plan long term, and slower responses during crises. These challenges are even more serious for firms operating under hybrid or populist ownership structures, where the boundaries between commercial decision-making and political pressure are often blurred.

The Justice Shares program is a clear example of how politically motivated state ownership can deepen this problem. Unlike models of state capitalism that tie control to performance or technocratic oversight, the Justice Shares structure offers little in the way of checks and balances. This paper takes a closer look at whether, and to what extent, this kind of ownership affects earnings quality in Iran, offering new insight into how political agendas shape corporate governance and financial reporting in emerging markets.

2.2 | Hypotheses Development

Earnings quality reflects the extent to which reported earnings truthfully represent a firm's economic performance. High-quality earnings are typically persistent, predictive of future outcomes, and minimally distorted by managerial discretion or opportunistic accruals [21], [22]. However, political intervention, whether through direct ownership, coercive regulation, or populist mandates, can reshape managerial incentives in ways that undermine the integrity of financial reporting [16], [23], [24].

A substantial body of research has documented that state-owned or politically connected firms are more susceptible to earnings manipulation. These firms are often tasked with advancing socio-political goals such as maintaining employment, achieving politically driven profitability benchmarks, or fulfilling redistributive obligations [25], [26]. To meet these aims, managers may overstate profits or defer losses, reducing the informativeness and reliability of reported earnings [27–29]. Hope et al. [17] provide compelling evidence that removing politically connected directors can improve earnings quality, further supporting the notion that political entrenchment undermines financial transparency.

A good example of this dynamic is Iran's Justice Shares program. While the program was supposed to promote social equity by giving shares to low-income citizens, in practice, it kept control in the hands of the state and gave almost no real decision-making power to the new shareholders. As Mehrani et al. [30] show, only active institutional investors enhance earnings quality, while passive or politically motivated ownership arrangements tend to weaken it. In the case of Justice Shares, the state's indirect presence continues to shape firm behavior, despite the appearance of privatization.

Recent international evidence reinforces this concern. Han et al. [14] find that foreign ownership in Chinese firms reduces earnings management through better external monitoring, but this disciplinary effect vanishes in SOEs, where political ties insulate managers. Similarly, Islam et al. [13] demonstrate that poor earnings quality impairs financial flexibility, a problem that hits hardest in firms where governance is weak, especially those shaped by populist policies or where investors don't have real protections. The nature of earnings management can also be context-dependent. For example, Kustono et al. [12] show that income smoothing in Indonesia can signal efficient communication under well-governed settings. However, in politically motivated ownership structures like Justice Shares, where transparency is not an institutional priority, income smoothing is more likely to reflect opportunistic behavior aimed at fulfilling political expectations.

Conceptually, Ruggiero et al. [7] introduce the notion of publicness, a condition where state ownership, political control, and goal ambiguity converge to dilute accountability and increase managerial discretion. Justice Share firms in Iran embody this condition: their financial reporting tends to follow political goals more than business logic, for example, paying out dividends mainly to show the program is working, rather than based on actual firm performance. This is particularly concerning in a MENA context, where governance gaps and state entanglement in business are widespread [10]. Taken together, these theoretical and empirical insights suggest that politically motivated ownership structures, particularly those shaped by populist redistribution, can compromise earnings quality by embedding political objectives into corporate reporting.

These dynamics are especially salient in environments lacking institutional checks, independent oversight, or market discipline [15], [20]. We therefore hypothesize:

H_1: Ceteris paribus, the existence of justice shares in a firm's ownership structure decreases earnings quality.

3 | Research Method

3.1 | Data Selection

The data were obtained from the Tehran Stock Exchange (TSE) and accounting research databases, and the process of determining the final observations is presented in *Table 1*.

Table 1. Determine the number of observations.

Row	Observations	Description
1	4260	Samples selected prior to 2013 were listed on the TSE.
2	(905)	In terms of increasing the comparability of its financial period, it will be due in March.
3	(870)	During the years studied, there has been no change in activity or change in the fiscal year.
4	(700)	The interruption of more than three months has not occurred in their transactions, and the equity of these companies is not negative
5	(635)	The number of companies working on holding, investing, investing funds, etc.
	(3110)	
	1150	Number of final firm-year observations

After deleting, our final sample consists of 1,150 firm-year observations from 2013 to 2022.

3.2 | Dependent Variable

The dependent variable in this research is the earnings quality. This variable is calculated based on the residual values of the Kothari et al. [31] model. In order to calculate the residual values, the data of the firms were collected during the period of research; calculations were made on the basis of the industry-year analysis. We use the standard deviation of the regression residuals with reference to the research of [32–36]. Therefore, the standard deviation (σ) of five firm-year residuals is used to measure a firm's earnings quality. Kothari model's is as follows:

$$\frac{TA_{it}}{A_{i,t-1}} = a_0 + a_1\left[\frac{1}{A_{i,t-1}}\right] + a_2\left[\frac{\Delta REV_{i,t}}{A_{i,t-1}} - \frac{\Delta REC_{i,t}}{A_{i,t-1}}\right] + a_3\left[\frac{PPE_{i,t}}{A_{i,t-1}}\right] + a_4\left(\frac{EAR_{i,t}}{A_{i,t-1}}\right) + \varepsilon_{i,t}$$

A_{it-1} = total assets at the beginning of year t; ΔREV_{it} = changes from total revenue company's i in year t; ΔREC_{it} = changes in receivables accounts from a company i in year t; PPE_{it} = represents the gross amount of plant, property, and equipment of the company i in year t; EAR_{it} = operating earnings of the company i in year t. TA_{it} denotes total accruals, which is the difference between net income and Cash Flow of Operating (CFO). In this model, the residual values are ε_{it}.

3.3 | Independent Variable

Independent variable in this research is justice shares (DJustice). This variable equals a dummy variable represented by 0 and 1. If there are justice share stockholders in the firm ownership structure, they are equal to 1 and otherwise 0.

3.4 | Control Variables

3.4.1 | Firm size

Studies have shown that, most probably, large firms use accounting procedures to reduce earnings by comparison with small firms [37], [38]. The size and largeness of the firm are indicators of political attention and consideration. Accordingly, the larger the size of the firms, the managers of those companies tend to reduce the company's earnings due to the company's focus on the political focus so as to reduce the political attention and costs related to it [39]. In a political process statement, the companies that are politically sensitive are choosing to reduce earnings; therefore, larger firms tend to be less likely to manipulate earnings [40]. Consequently, it can be said that the size of the firm has an inverse relationship with earning management [41], [42], and this will increase earning quality. Overall, it is expected that there will be a relationship of positive between firms' size and earning quality [43], [27].

3.4.2 | Leverage

The relationship between debt financing and the quality of earnings can be positive and negative [44]. In large firms, managers are motivated to collect wealth for their shareholders and debt holders [45], and major shareholders, because of the high level of supervisory costs and fewer benefits, reduce the monitoring of managers' activities, while holders of debt securities are required to monitor the management's actions. So, companies try to provide high-quality information to lenders [46]. Thus, managers' opponents do not have the presentation information accurate and high quality about their performance, and by reducing the asymmetry of information [47], lenders will provide a high level of loans to companies at lower costs. Therefore, there is a positive relationship between debt financing and the quality of earnings.

On the other hand, debt financing can have a relationship of negative with the quality of earnings due to the conflict of agency between lenders and managers. Based on the hypothesis of debt of positive theory, the high ratio of debt to capital in firms would be likely to lead executives to use accounting procedures to increase earnings [37]. Hence, holders of debt securities will use debt contracts to reduce management ownership [48]. A debt contract from lenders will protect by limiting borrowers' activities (by providing guarantees, termination of contracts, raising interest rates, etc.) [48], [49] showed that high leverage to lead increases the management of earnings, thereby reducing the quality of earnings. There is a negative relationship between debt financing and earnings quality. Overall, there is a positive relationship between financial leverage and earnings quality [51] or a negative relationship [52].

3.4.3 | Growth opportunities and firm performance

The value of a firm is a profitability function of its investment [53]. Fairfield et al. [54] argue that firms with high growth opportunities often show sustained growth patterns. They say that ROA has a high positive correlation with CFO proportion accruals. Chan et al. [55] declare that there is a positive relationship between the quality of their earnings and their future performance; Huang et al. [56] also claim that the performance of firms decreases with a decrease in the quality of their earnings. Generally, it's expected that there is a positive relationship between growth opportunities and the profitability of firms with the quality of earnings [27], [57].

3.4.4 | Costs of the agency

There is a general belief that managers may manage earnings for their benefit, which earning management may not be useful to shareholders and other stakeholders. In this regard, agency theory has been used as a tool to separate opportunistic earning management from efficient earning management. If earning management is done by managers for opportunistic goals, then firms with more agency costs will show high earning management. In contrast, the level of earnings management has a positive relationship with the severity of the agency conflict. In other words, firms with higher earning quality have lower agency costs, and this relationship is inverse; that is, there is a negative relationship between the cost of agency and the quality

of earnings [58–60]. Ang et al. [61] have reported the ratio of operating expenses to net sales as a criterion for measuring the costs of the agency, and the lower this ratio, the lower the cost of the agency.

3.4.5 | Economic conditions

Economic conditions, as an important factor, will affect the financial results of companies. Also, it is assumed that under good economic conditions, managers are less motivated to "manage earnings." In other words, decreased economic growth will reduce the quality of earnings [62]. Results of previous studies show that in the years that there was a high growth rate in GDP, the quality of earnings was high. In other words, earnings reflect the economic good performance of companies and also, is strongly related to the financial situation. Generally, it's expected that there is a positive relationship between the GDP index and the quality of earnings.

4 | Empirical Methodology

4.1 | Regression Models

The *Eq. (1)* has been used to test the research hypothesis:

$$EQ_{it} = \beta_0 + \beta_1 DJUSTICE_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 STDROA_{it} + \beta_5 GROWTH_{it} + \beta_6 EX/S_{it} + \beta_7 LNGDP_{it} + \varepsilon_{it} \quad (1)$$

where,

EQ = Indicator of the earning quality of the firms resulting from the data error of Kothari et al. [31] model. The standard deviation (σ) of five firm-specific residuals is used to measure a firm's earnings quality. Djustice equals one if the firms are subject to justice shares on firm ownership structure; otherwise, it will be 0. The firm size (SIZE) is the natural logarithm of the total book value of the firm's assets [63]. Leverage (LEV) is derived from the ratio of total debt to the total assets of the firms [29]. Assets returns (STDROA) are derived from the standard deviation of the net profit divided by the total assets of the firms in the previous five years [27]. Assets Growth (Growth) is total assets growth [27] to examine growth opportunities; firms that are with above-median number 1, otherwise 0. EX/S is by dividing operating costs by net sales [61]. LnGDP is the natural logarithm of the gross domestic product [27]. The definition of variables is given in *Table 2*.

Table 2. Definition of variables.

Variable Symbol	Description
EQ	The residuals from the industry-year regression Kothari et al. [31] model is used to proxy for discretionary accruals. We the standard deviation (σ) of five firm-specific residuals is used to measure a firm's earnings quality.
SMOOTH	To calculate the income smoothing, σ (Earnings from operations) / σ (Cash flows from operations) is obtained.
EP	$E_{i,t} = \beta_0 + \beta_1 E_{i,t-1} + \varepsilon_{i,t}$ The standard deviation of the error values is indicates a quality of earnings.
DJustice	DJustice is a dummy variable that equals 1 if a firm year Justice Share's ownership and 0 otherwise.
SIZE	The natural logarithm of total assets.
LEV	The ratio of long-term debts to total assets.
STDROA	The standard deviation of the ratio of net income to total assets over five years.

Table 2. Continued.

Variable Symbol	Description
GROWTH	Assets Growth is total asset growth. Firms that are with above-median number 1, otherwise 0.
EX/S	The Costs of the Agency to calculate the operating cost dividing net sales.
LnGDP	is the natural logarithm of the Gross Domestic Products (GDP)
INSOWN	INSOWN is the percentage of shares outstanding owned by institutions that hold at least 5% of equity shares.
OWNCON	OWNCON is defined as shareholders who hold at least 5% of the firm shares.

5 | Empirical Results and Analysis

5.1 | Descriptive Statistics and Correlation Analysis

First, the results of the descriptive statistics and the correlation between the data related to the hypothesis are summarized in *Table 3*:

Table 3. Descriptive statistics.

	Mean	Median	Max	Min	Std. Dev.
EQ	0.092716	0.087400	0.248695	0.012775	0.042405
StdROA	0.091556	0.067885	0.637344	0.005337	0.083346
Size	13.68718	13.63368	18.87824	8.899731	1.521226
EX/S	0.072305	0.057525	0.406055	0.000114	0.058148
LEV	0.611542	0.608021	3.721954	0.090164	0.241467
LnGDP	15.75993	15.65114	16.10246	15.58269	0.206142
INSOWN	59.1504	64.8350	89.5500	5.0000	26.9496
OWNCON	42.6710	45.1800	99.2500	5.0000	22.7336
Smooth	0.098212	0.094650	0.229614	0.010001	0.044480
EP	0.091915	0.087054	0.234438	0.010747	0.041810
DJustice	Observations	Growth	Observations		

It should be noted that the number of firms tested is 115 firms in the 10 years. As a result, the number of observations was 1150 years. Meanwhile, 36 firms are between justice shares on firm ownership structure, and 79 firms are between other firms. Also, about 456 observations have had asset growth during the research period. The results show that the firm's profitability is 9 percent. 61% of the assets of the firms have been provided from the place of debt. 7.2% of the corporate sales are spent on their operating costs. 59% of the firms have Institutional Ownership (INSOWN), and 42% have Ownership Concentration (OWNCON).

Table 4. Pearson correlations matrix.

	Correlations							
	EQ	DJustice	Ex/s	Growth	Lev	LnGDP	Size	StdROA
EQ	1							
DJustice	0.049 0.096	1						
Ex/s	0.095** 0.001	-0.010 0.724	1					

Table 4. Continued.

	Correlations							
	EQ	**DJustice**	**Ex/s**	**Growth**	**Lev**	**LnGDP**	**Size**	**StdROA**
Growth	-0.082**	0.108**	-0.007	1				
	0.005	0.000	0.811					
Lev	0.066*	0.008	-0.226**	0.025	1			
	0.026	0.792	0.000	0.391				
LnGDP	0.035	0.011	0.030	0.028	0.007	1		
	0.230	0.708	0.311	0.337	0.814			
Size	-0.042	-0.048	0.096**	0.041	0.069*	-0.225**	1	
	0.155	0.104	0.001	0.166	0.019	0.000		
StdROA	0.190**	-0.100**	0.118**	0.021	-0.134**	-0.011	-0.041	1
	0.000	0.001	0.000	0.467	0.000	0.700	0.166	

**Significant at the 1 percent level

*Significant at the 5 percent level

The results of the pearson correlation test in *Table 4* and at the significance level of 0.01 indicate that there is a correlation between the dependent variable of earnings quality and variables profitability (StdROA), firm growth, and Costs of the Agency (EX/S). Also, there is a significant correlation between the dependent variable of earning quality and financial leverage, with a significance level of 0.05.

5.2 | Multivariate Analysis

The test result of the research hypothesis is as follows:

Table 5. Fixed effects regression panel estimation results.

Variable	Pred. Sign	Coef.	t-Stat.
C		0.090	0.823
DJustice	-	-0.016	-3.261
EX/S	-	0.094	4.528
Growth	+	-0.008	-1.971
LEV	?	-0.004	-0.678
LnGDP	+	0.002	0.439
Size	+	-0.003	-1.515
StdROA	+	0.104	5.769
Model summary			
F-stat.	10.067	R^2	0.542
Prob (F-stat.)	0.000	Adj R^2	0.488

After examining regression assumptions and ensuring their establishment, the results of fitting the above regression equation are presented in *Table 5*. The F-statistics and p-value (10.067 and 0.000) also indicate the significance of the regression model. Also, the t-statistic equal to -3.261 is equivalent to the normal distribution; therefore, in the 95% confidence level, the H1 hypothesis based on the justice shares on firm ownership structure has a significant effect on earning quality. The results of the study comply with Chaney et al. [64], Narayanaswamy [65], Ben-Nasr et al. [27], and Liu [66] and opposed the result of He [67] since he believes that most of the firms owned by the government and its affiliated organizations controlled and supported, intervened and controlled by the government in the stock market. With this sense of security, the firms manage less earnings.

5.3 | Robustness Tests

5.3.1 | Sensitivity analysis

To re-evaluate the hypothesis results, two variables of the alternative are used as other criteria for quality of earning, such as 1) income smoothness, and 2) Earnings Predictability (EP). According to the income smoothing criterion, there is a quality of earning that is closer to the cash and has continuous capability. Therefore, it is believed that accruals reduce the quality of earnings. We used the smoothing of income in *Eq. (2)* for the re-test of the research hypothesis.

$$Smooth_{it} = \beta_0 + \beta_1 DJUSTICE_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 STDROA_{it} + \beta_5 GROWTH_{it} + \beta_6 EX/S_{it} + \beta_7 LNGDP_{it} + \varepsilon_{it} \quad (2)$$

To calculate the income Smoothing (Smooth) used from the ratio of the standard deviation of operational earnings scaled by assets to the standard deviation of cash flows of operation scaled by assets [16] higher ratio indicates lower earning quality and vice versa.

Furthermore, for a re-test of the research hypothesis, we used EP as another criterion for measuring earning quality in *Eq. (3)*.

$$EP_{it} = \beta_0 + \beta_1 DJUSTICE_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 STDROA_{it} + \beta_5 GROWTH_{it} + \beta_6 EX/S_{it} + \beta_7 LNGDP_{it} + \varepsilon_{it} \quad (3)$$

To calculate EP, we use *Eq. (4)*:

$$E_{i,t} = \beta_0 + \beta_1 E_{i,t-1} + \varepsilon_{i,t} \quad (4)$$

EP is the standard deviation of the error values over five years. Therefore, the high values of errors indicate the lower earnings quality. The results of the sensitivity analysis of these two variables are presented in *Table 6*.

Table 6. The results of robustness analysis of research hypothesis.

		Income Smoothness (Smooth)		Earnings Predictability (EP)	
Variable	**Pred. Sign**	**Coef.**	**t-Stat.**	**Coef.**	**t-Stat.**
C		0.058	0.522	-0.013	1.322
DJustice	-	-0.015	-2.973	0.091	-2.566
EX/S	-	0.087	4.102	-0.009	4.155
Growth	+	-0.006	-1.414	-0.006	-2.018
LEV	?	-0.003	-0.557	-0.0008	-0.948
LnGDP	+	0.003	0.594	-0.003	-0.143
Size	+	-0.002	-0.918	0.169	-1.745
StdROA	+	0.084	4.581	0.153	8.899
		R^2	0.509	R^2	0.538
		Adj R^2	0.451	Adj R^2	0.484
		F-stat.	8.819	F-stat.	9.912
		Prob (F-stat.)	0.000	Prob (F-stat.)	0.000

5.3.2 | Endogeneity

If there is an endogenous problem, estimating the calculated coefficients using Ordinary Least Squares (OLS) can be diverted, and estimates may be inappropriate. There may be a potential endogenous problem in our findings when INSOWN and OWNCON affect the ownership structure of firms that have Justice Shares. In this research, we tried to use the instrumental variables approach to reduce the endogeneity problem using a Two-Stage Least Square Regression (2SLS) regression as a test alternative. We select two instrumental variables. The first variable is INSOWN. INSOWN is the percentage of shares outstanding owned by institutions that hold at least 5% of equity securities [68]. The second instrumental variable is OWNCON, which is defined as shareholders who have at least 5% of the firm shares [69]. So, to address the concern of endogeneity, we used the Durbin-Wu-Hausman test for endogeneity. Based on the results of the Durbin-Wu-Hausman test ($p \leq 0.0555$), it can be stated that justice shares ownership is not an endogenous variable, and the results of Least Squares Regression (OLS) have more consistent results than 2SLS; therefore, the use of 2SLS is not justified.

6 | Conclusion

This study investigates the impact of politically embedded ownership, specifically Iran's Justice Shares program, on earnings quality. The results demonstrate a significant negative association between Justice Share ownership and earnings quality, suggesting that this populist ownership model, despite its redistributive framing, undermines financial reporting integrity. These findings echo the recent international evidence

showing that politically influenced firms, particularly in weak institutional contexts, are more prone to earnings manipulation and lower transparency [13], [16], [17]. Conceptually, this research advances the political economy literature by illustrating how hybrid state-market ownership structures, under the mask of citizen empowerment, sustain state control and distort managerial incentives. The Justice Shares initiative typifies what Ruggiero et al. [7] term "publicness," where goal ambiguity, political oversight, and weak accountability converge to compromise earnings quality. In that way, the program isn't just a failed attempt at privatization, it's a clear example of how populist policies can lead to weak oversight and poor governance outcomes.

In line with Han et al. [14], our findings emphasize that governance mechanisms like foreign or INSOWN may fail to constrain managerial discretion when political interests dominate firm objectives. Similarly, Kustono et al. [12] note that income smoothing can serve constructive purposes in well-governed firms, but in politically directed entities such as Justice Share firms, it more likely signals opportunism driven by state mandates rather than market logic. From a policy standpoint, these findings underscore the dangers of conflating ownership redistribution with privatization. While Justice Shares aimed to promote equity and broaden capital participation, they ultimately entrenched political interference without improving accountability. Future reform efforts in Iran and similar emerging economies should focus on restoring market discipline, strengthening external governance mechanisms, and reducing political entanglement in corporate affairs. This study adds to the debate on state ownership and earnings management by bringing in a Middle Eastern perspective that's often missing from the literature. While much of the existing work looks at SOEs in East Asia or Europe, this paper focuses on how politically motivated ownership programs, like Iran's Justice Shares, interact with weak institutions and contribute to lower earnings quality. By examining this unique case, we offer evidence that helps expand the discussion on how state control can distort reporting practices in emerging markets.

Author Contributions

Both authors contributed to all stages of the research, including design, analysis, and writing, and have approved the final version of the manuscript.

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Data Availability

The data used in this study are available to the authors and can be provided upon request.

Conflict of Interest

No potential conflict of interest was reported by the authors.

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