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Political Connections, Technology-based Venture Capital, and Earnings Management at Initial Public Offering Companies

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Abstract
The present study primarily aims to investigate the relationship between political connections, technology-based venture capital, and earnings management at initial public offering (IPO) companies. The statistical population consisted of companies listed on the Tehran Stock Exchange during 2013-2018. A total of 99 companies were selected as samples by using the systematic removal sampling method. This study is applied research in terms of objectives and descriptive- retrospective research in terms of data collection. Multivariate regression models were employed to examine the hypotheses, while the partial least square (PLS) method and EViews V.8 were utilized to specify the models. Furthermore, the impacts of the company size, sales growth, financial leverage, auditing type, and ownership centralization were controlled in the regression models. Overall, the examination of the empirical model hypotheses suggested significant statistical relationships of political connections with discretionary accrual-based earnings management and real earnings management at IPO companies. Furthermore, a significant, positive relationship was found between technology-based venture capital and real earnings management at IPO companies. However, no statistical relationship was observed between technology-based venture capital and real earnings management at IPO companies.

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Introduction

Venture capital is a fund provided to rapidly-growing startups along with management assistance. From an institutional perspective, venture capital can be an individual or an institution and acts as a financial intermediary that utilizes its expertise to finance and support companies that cannot partially or fully provide their required funds through the capital market (Tee et al., 2018). The venture capital definition determines that the acceptance of risk should yield greater earnings; otherwise, bank interest rates or other reliable capitals can be considered (Lau et al., 2018). Venture capital can occur in different growth phases of companies. These phases may be divided into the initial, growth, and expansion categories. Venture capital is a large investment that maximizes the risk and prolongs capital outflow. In the initial stages, there are typically entrepreneurs with interesting ideas and innovations that mostly have no suitable organizing in the form of a company. The capacity evaluation of such plans is very difficult and requires particular skills with a minimum expected capital return period of seven years. Moreover, investing in stabilized companies has easier evaluation and smaller returns. Overall, the impacts of investment on technology development and entrepreneurship enhancement enlarge when investments are primarily oriented toward the beginning of a spectrum, that is, investing in the initial growth phases of new, innovative companies (i.e., startups) (Mohammadzadeh, 2015). However, political connections seem to influence venture capital. It can be said that politically-connected companies enjoy numerous political benefits due to systematic and desirable connections with companies and politicians. Companies with more political connections with governmental contracts and financial aid are in a greater position to receive trade loans and obtain competitive advantages in the market. In the economic fluctuations in Asia and the world in the late 1990s, Iranian politically-connected companies experiencing significant financial shortages received higher governmental support than those with no political connections. This has been emphasized in several economic works. Since politically-connected companies have been proved to pay lower taxes, they should enjoy lower costs of operations (Jaffar and Abdul-Shukur, 2018). From a political economy perspective, major shareholders and politically-connected managers can influence the financial performance of their companies. This potentially affects accounting information (Nikoomaram et al., 2013). Governmental influence on economic units is a consequence of political economies. Companies with higher connections with the government pay lower taxes, possess larger market shares, receive easier bank loans, enjoy governmental help in initial public offers (IPOs), and enjoy advantages more easily at lower costs. Therefore, political support from the government may create value for the company and provide a larger number of growth opportunities. The Iranian government is involved in different industries, and many industries are under the control of the government. Such controls are observed in the financial and operational policies of such industries (Heydari et al., 2015). In connection-based economic systems, political connections are an essential resource for connected companies. Politically-connected companies more easily obtain capital resources and other advantages through their connections. Thus, they have a lower reliance on high-quality financial reporting (Chaney et al., 2012; Anning-Sejati, 2009). The aforementioned benefits are in favor of politically-connected companies and enable them to obtain better financial positions as compared to companies with no political connections. Nevertheless, previous studies

reported contradictory findings. In Singapore, politically-connected companies are considered to be better operators and have equal efficiency as organizations. These studies measured politically-connected companies based on governmental ownership. In Malaysia, there is a high risk of financial reporting falsification, particularly in economic crises. Hence, higher auditing wages are demanded (Jaffar and Abdul-Shukur, 2016). In developed countries, evidence was documented that French politically-connected companies have lower earnings than those with no political connections. In particular, in the election years and politically-conflicting districts, political connections have been found to help dependent politicians extract political interests at the expense of the other company beneficiaries. In contrast, Fisman (2001) documented evidence that politically-connected companies have higher financial performance than non-connected ones. These inconsistent findings provided the present study with the opportunity to develop previous studies with an approach to the role of corporate governance mechanisms and ownership structures on the financial performance of politically-connected companies. The term "relationship capitalism" is used to describe close relationships of the government or politicians with companies (Bal et al., 2003). Public offers are another important factor for a more detailed study of earnings management dimensions.

IPOs are performed by companies whose management and ownership are less known to the market. Concerning such companies, fewer pieces of information are publically available to the external investors at the time of IPOs as compared to companies that have been listed on the stock exchange. In contrast, IPOs have more pieces of internal information on companies. Thus, there is information asymmetry between IPO companies and external potential investors at the time of an IPO. External investors do not easily trust the disclosure of companies at the time of IPOs. The IPO companies may be motived to manipulate the reported profits at IPOs to increase earnings or obtain a desirable ownership structure after the IPO (San, 2007).

Additionally, the review of theoretical earnings management foundations in IPOs suggests the researchers have attempted to realize the impacts of IPO earnings management on the ownership structures of companies. A large number of empirical studies on accounting and financial reporting have focused on whether earnings management, including the total assets, before IPOs has a significant contribution to institutional ownership after the IPO (Shafipour and Jalali-Aliabadi, 2015).

Therefore, it is necessary to consider earnings management and its factors (such as perspectives, missions, and policies) as well as political connections and technology-based venture capital. The present study mainly attempts to investigate the relationships between political connections, technology-based venture capital, and earnings management at IPO companies.

Theoretical foundations and literature review

Empirical evidence has recently shown that corporate strategies are strongly influenced by political decision-making (Ashlifar and Vishni, 1994). The literature has reported that companies with political connections and dependencies have substantial governance and representational problems (Johansson and Mayton, 2006; Gool, 2006). Such problems arise from two factors. It was found that the government or senior political authorities can apply pressure on banks, particularly public sector banks, to more easily finance more preferred companies with political connections (Gomez and Jomo, 1999; Johansson and Mayton, 2003). The quick rendering of

loans to politically-connected companies has become a competitive advantage to them (Hatson et al., 2014). Politically-connected companies are supported and somewhat guaranteed in the event of financial disruptions (Dochin and Sosiyara). Fasio et al. (2006) provided evidence that politically-connected companies have a greater guarantee than non-connected ones. Such companies receive political support from legal, superior agencies. You (2011) reported that fraud was recognized to be 38% lower at politically-connected companies than non-connected ones. In China, it was suggested that senior managers apply opportunistic earnings management in light of support from political representatives (Chen et al., 2008; Piotroski et al., 2015).

Kim and Zhang (2016) argued that governmental officials did not tend to identify fraud at companies with political connections and aggressive tax plans due to fear of the job future. Aggressive tax plans increase organizational structure complexity and reduce financial reporting transparency. Also, political support wastes the attempts of minor investors to defend their rights of legal resources in the judicial system (Sadeghi et al., 2019).

Such representational problems are greater in countries with poor legal support of minor investors. Earning reporting quality at politically-connected companies is lower than that at non-connected companies (Chaney et al., 2011). Chaney et al. (2011) found evidence that companies with political connections could disclose lower-quality accounting information since the capital market would not penalize them for the lack of disclosure quality, Hence, analyzer predictions are of lower precision at politically-connected companies (Chen et al., 2010).

For the two above-mentioned reasons, senior managers or control shareholders at politically-connected companies tend to deploy and maintain an ambiguous financial reporting structure. Such a structure allows for exploitation and opportunistic activities in the forms of self-serving, third-party transactions, and tunneling (Laporta et al., 2000; Habib et al., 2018). Ambiguous financial reporting is a technique for concealing exploitation and disrupting effective monitoring. In addition, politically-connected companies have higher risks since such companies have been reported to be of inefficient performance and over-leveraged (Goedhami & Pitman, 2006; Kim and Zhang, 2016).

Additionally, earnings management occurs when managers make use of financial reporting and transaction structures to deviate the financial reports from their judgment so that some shareholders would be misled from the economic performance of the company or changes in the outcomes based on the reported accounting quantities (Hyaly and Vahln, 1999). Company managers employ accrual-based earnings management and real earnings management to manipulate the earnings. In the former case, the managers manipulate the accruals and arrange the accounting quantities in favor of their interests (Vatanparast and Farhadi, 2019). The manager accelerates income identification and delays cost identification to show higher performance in the current period, performing earnings management. In the latter case, on the other hand, the manager makes operational decisions and manipulates actual activities to apply earnings management and obtain their desirable earnings (Saeedi et al., 2013).

IPOs refer to selling the shares of a company to investors in the stock exchange. It should be noted that companies that undergo IPOs are not recently-established corporations and mostly have a minimum of three years of history. The term “initial” refers to the offering of the company shares for the first time to external investors in the stock exchange. IPOs can be among the

most important events in the lifecycle of a company and can have numerous benefits. A major objective of companies that perform IPOs is to more easily and affordably obtain the required capital for its business expansion (Lejonquist, 2005).

The present work seeks to find whether there are relationships between political connections, technology-based venture capital, and earnings management at IPO companies.

Hypotheses

Hypothesis 1: There is a significant relationship between political connections and discretionary accrual-based earnings management at IPO companies.

Hypothesis 2: There is a significant relationship between political connections and real earnings management at IPO companies.

Hypothesis 3: There is a significant relationship between technology-based venture capital and discretionary accrual-based earnings management at IPO companies.

Hypothesis 4: There is a significant relationship between technology-based venture capital and real earnings management at IPO companies

Methodology

The present study is applied research in terms of objectives and a descriptive-nonexperimental work in terms of analysis. It is aimed at answering a real question in a research process while maintaining the independent variables unchanged. Hence, this work is a descriptive-retrospective study in terms of data collection.

Statistical population and samples

The statistical population consisted of companies listed on the Tehran Stock Exchange during 2013-2018. Table 1 describes the screening sampling method.

Empirical model and hypotheses

Since the present study sought to evaluate the relationships between political connections, technology-based venture capital, and earnings management at IPO companies, a conceptual model was designed based on the proposed hypotheses, as shown in Fig. 1.

The present study adopted the regression model of Wang et al. (2017) to explore the relationships between political connections, technology-based venture capital, and discretionary accrual-based and real earnings management at companies listed on the Tehran Stock Exchange. Eqs. (1-4) represent the regression models employed in order to link political connections and technology-based venture capital to earnings management:

Table 1. Screening sampling

Companies listed on the Tehran Stock Exchange in 2018		636
Companies listed on the stock exchange before 2013 or removed from the stock exchange after 2018	167	
Companies with a blackout period of three months in 2013-2018	152	
Companies on the stock exchange during 2013-2018		317
Companies that were members of financial and service organizations, insurance companies, banks, and holdings	114	
Companies whose financial year did not end on the last year of the Persian calendar (March 23)	106	
Companies whose information was partially available or unavailable	18	
Companies whose information were fully available		99

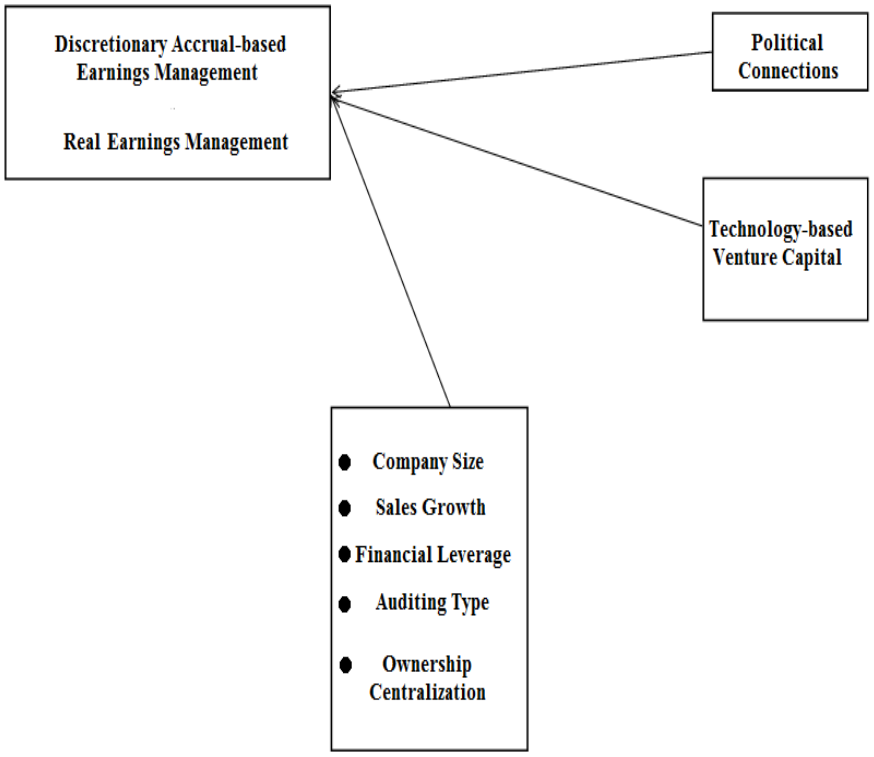

Fig. 1. Conceptual model
Source: (Wang et al., 2017)

$$AEM_{it} = \beta_0 + \beta_1 PC_{it} + \beta_2 SIZE_{it} + \beta_2 GROW_{it} + \beta_4 LEV_{it} + \beta_5 BIG_{it} + \beta_6 OWN_{it} + \varepsilon_{it} \quad (1)$$

$$REM_{it} = \beta_0 + \beta_1 PC_{it} + \beta_2 SIZE_{it} + \beta_2 GROW_{it} + \beta_4 LEV_{it} + \beta_5 BIG_{it} + \beta_6 OWN_{it} + \varepsilon_{it} \quad (2)$$

$$AEM_{it} = \beta_0 + \beta_1 VC_{it} + \beta_2 SIZE_{it} + \beta_2 GROW_{it} + \beta_4 LEV_{it} + \beta_5 BIG_{it} + \beta_6 OWN_{it} + \varepsilon_{it} \quad (3)$$

$$AEM_{it} = \beta_0 + \beta_1 VC_{it} + \beta_2 SIZE_{it} + \beta_2 GROW_{it} + \beta_4 LEV_{it} + \beta_5 BIG_{it} + \beta_6 OWN_{it} + \varepsilon_{it} \quad (4)$$

Where β_i denotes the significance coefficient.

Data collection and analysis

To collect data for the calculation of the variables, the Rahavard Novin Database was employed. The datasets that were not fully available on the database were collected from the library archive of the Iran Stock Exchange Organization website (www.codal.ir). The theoretical foundations and research theory were extracted from Persian and English papers and books. Also, hypothesis tests and data analysis were carried out in Microsoft Excel and EViews V.8. Library data collection was applied.

Findings

Descriptive statistics of the variables

Table 2 shows the descriptive statistics of the variables measured by company data during 2013-2018, including the mean, standard deviation, minimum, and maximum values.

Stationary (unit root) test

Table 3 provides the SPSS results. Since the significance levels of all variables in the unit root test are below 0.05, all the variables are stationary. As a result, the means and variances of the variables remained unchanged over time. Also, the covariance was fixed. Thus, these variables

would not lead to pseudo regression results in the model.

Correlation coefficient

The correlation coefficient is employed to identify and measure relationships and their directions and to relate two interval variables, two ratio variables, or an interval and a ratio variable. It corresponds to Spearman's correlation coefficient. Table 4 represents the Pearson correlation results. As can be seen, there are significant correlations. Also, significant correlations can be observed for some pairs of variables, but they are not strong. In other words, there is no content problem in the investigation of the relationship between the variables; a strong correlation between explanatory variables would induce empathy and lead to incorrect relationships.

Table 2. Descriptive statistics of the variables

Variable	Symbol	Mean	Median	Max.	Min.	Standard Deviation
Discretionary accrual-based earnings management	AEM	0.10249	0.08812	0.42719	0.00069	0.08998
Real earnings management	REM	0.01448	0.00203	0.87493	-0.6999	0.27933
Political connections	PC	0.43434	0.00000	1.00000	0.00000	0.49819
Venture capital	VC	0.76843	0.80094	0.98506	0.42878	0.14724
Company size	SIZE	14.7501	14.5493	19.7739	11.4068	1.47958
Sales growth	GROW	0.34802	0.30951	1.70374	-0.8256	0.41516
Financial leverage	LEV	0.52898	0.54392	0.87248	0.01386	0.18830
Auditing type	BIG	0.23232	0.00000	1.00000	0.00000	0.42446
Ownership centralization	OWN	0.47195	0.49450	0.92670	0.06920	0.20812

Table 3. Stationary test results of the variables

Variable	Symbol	Test value	Sig.
Discretionary accrual-based earnings management	AEM	-8.9817	0.0000
Real earnings management	REM	-8.6960	0.0000
Political connections	PC	-7.0061	0.0000
Venture capital	VC	-9.0101	0.0000
Company size	SIZE	-10.753	0.0000
Sales growth	GROW	-12.985	0.0000
Financial leverage	LEV	-8.9103	0.0000
Auditing type	BIG	-19.711	0.0000
Ownership centralization	OWN	-9.9343	0.0000

Table 4. Correlation results

Variable	AEM	REM	PC	VC	SIZE	GROW	LEV	BIG	OWN
AEM	1								
REM	-0.19379	1							
	0.0546	-							
PC	0.134592	0.053423	1						
	0.1841	0.5995	-						
VC	-0.06483	-0.06301	-0.14066	1					
	0.5238	0.5355	0.1649	-					
SIZE	0.317323	-0.02338	0.111681	-0.10932	1				
	0.0014	0.8183	0.2711	0.2814	-				
GROW	-0.00194	-0.05231	0.029315	0.186667	0.02101	1			
	0.9848	0.6071	0.7733	0.0643	0.8365	-			
LEV	-0.44127	0.160463	0.086273	-0.07441	-0.05807	-0.13216	1		
	0	0.1126	0.3958	0.4642	0.568	0.1922	-		
BIG	0.147437	-0.00992	0.048742	-0.20368	0.209885	-0.03803	0.138766	1	
	0.1453	0.9224	0.6319	0.0432	0.0371	0.7086	0.1707	-	
OWN	0.079655	-0.02112	0.02698	-0.1127	0.092076	-0.09863	0.252308	0.094314	1
	0.4332	0.8356	0.7909	0.2667	0.3647	0.3314	0.0118	0.3531	-

According to the significance levels and correlation coefficients, there are significant correlations between some variables. Also, a few pairs of variables have significant but non-strong correlations. Therefore, there is no content problem for the study of the relationships between the variables.

Testing the hypotheses

Autocorrelation and heteroscedasticity of the residuals

Tests were performed to identify the significance of cross-level effects before regression model estimation. Table 5 reports the results. Since the Durbin–Watson statistic is 1.5-2.5, it can be said that there is no autocorrelation between the model error components. Also, the null hypothesis of homoscedasticity is verified as the significance level is above 5%. Thus, the model has no heteroscedasticity. Furthermore, to investigate the goodness and significance of the model, the adjusted coefficient of determination (adjusted R-squared) and F-value are applied, respectively. The independence and heteroscedasticity (Breusch–Pagan test) of the model were measured. Finally, to ensure the absence of collinearity between the independent and control variables, the variance inflation factor (VIF) is employed.

Estimation results of Model 1

The adjusted R^2 was obtained to be 0.348 for Model 1. This implies that the model has good fitness and explanatory power. The F-value was calculated to be 8.289 at a probability of 0.000. Since the probability is smaller than 0.05, the significance of the model is verified. Finally, the VIF was found to be lower than 10. As a result, no collinearity exists between the variables. Table 6 shows the estimation results of Model 1.

According to Table 6, the significance of independent variable PC is below 5%, suggesting a relationship between political connections and discretionary accrual-based earnings management at IPO companies. Also, the β-value was found to be positive. This demonstrates the relationship to be positive (H1). The results of the control variables indicate that the company size, auditing type, and ownership centralization are directly related to discretionary accrual-based earnings management. Furthermore, financial leverage and discretionary accrual-based earnings management are inversely related. It should be noted that no relationship was found between sales growth and discretionary accrual-based earnings management.

Estimation results of Model 2

The adjusted R^2 was derived to be 0.329 for Model 2. This suggests that Model 2 has good fitness and explanatory power. The F-value was calculated to be 8.536 at a probability of 0.000. Since the probability is below 0.05, the model is verified to be significant. Finally, the VIF was observed to be acceptably lower than 10. Hence, it can be said that no collinearity existed between the variables. Table 7 represents the estimation results of Model 2.

Table 5. Durbin-Watson and Breusch–Pagan results

Test	Model	Statistic	Sig.
Durbin-Watson	1	2.211521	0.0000
Breusch–Pagan test	1	3.859551	0.6957
Durbin-Watson	2	2.211520	0.0000
Breusch–Pagan test	2	3.859550	0.6957
Durbin-Watson	3	2.196470	-
Breusch–Pagan test	3	6.116410	0.4103
Durbin-Watson	4	1.751790	-
Breusch–Pagan test	4	10.27540	0.1135

Table 6. Estimation results of Model 1

Variable	Symbol	β-value	Student-t-value	Sig.	VIF
Constant	C	0.24348	5.73435	0.0000	-
Political connections	PC	0.02588	4.60512	0.0000	1.02339
Company size	SIZE	0.01382	7.10978	0.0000	1.07921
Sales growth	GROW	-0.01230	-1.81510	0.0699	1.02504
Financial leverage	LEV	-0.39010	-28.3390	0.0000	1.11920
Auditing type	BIG	0.03092	4.57533	0.0000	1.07398
Ownership centralization	OWN	0.07095	5.11459	0.0000	1.08804
Adjusted R^2			0.34859		
F-value			8.28985		
Sig.			0.0000		

Table 7. Estimation results of Model 2

Variable	Symbol	β-value	Student-t-value	Sig.	VIF
Constant	C	0.13582	31.6796	0.0000	-
Political connections	PC	0.02492	2.53943	0.0154	1.02339
Company size	SIZE	-0.02900	-1.01050	0.3126	1.07921
Sales growth	GROW	0.28632	4.33795	0.0000	1.02504
Financial leverage	LEV	-0.44970	-3.64630	0.0003	1.11920
Auditing type	BIG	-0.09960	-1.69200	0.0911	1.07398
Ownership centralization	OWN	-0.05100	-3.48500	0.0005	1.08804
Adjusted R^2			0.32923		
F-value			8.53613		
Sig.			0.0000		

As can be seen in Table 7, the significance of independent variable PC is below 5%. This suggests a relationship between political connections and real earnings management at IPO companies. Also, the β value was found to be positive for PC, implying a direct relationship (H2). The results of the control variables show that the company size and auditing type are not related to real earnings management. However, there is a significant, positive relationship between sales growth and real earnings management. Furthermore, financial leverage, auditing type, and ownership centralization have significant, negative relationships with real earning managements at IPO companies.

Estimation results of Model 3

The adjusted R^2 was found to be 0.327 for Model 3. This demonstrates good fitness and explanatory power for the model. The F-value was derived to be 7.592 at a probability of 0.000. Since the probability is below 0.05, the significance of the model is verified. Also, as a VIF below 10 is acceptable, there is no collinearity between the variables. Table 8 shows the estimation results of Model 3.

According to Table 8, the significance of independent variable VC is lower than 5%. This implies a relationship between technology-based venture capital and discretionary accrual-based earnings management at IPO companies. Also, the β value was observed to be positive, suggesting a direct relationship (H3). The results of the control variables indicate that the company size, auditing type, and ownership centralization have significant, positive relationships with discretionary accrual-based earnings management. Also, there is no significant relationship between sales growth and discretionary accrual-based earnings management at IPO companies.

Estimation results of Model 4

The adjusted R^2 was calculated to be 0.327 for Model 4. This indicates that the model has good fitness and explanatory power. The F-value was derived to be 8.563 at a

probability of 0.000. Since the probability is lower than 0.05, the significance of the model is verified. Finally, there is no collinearity between the variables as VIF is below 10. Table 9 reports the estimation results of Model 4.

Table 8. Estimation results of Model 3

Variable	Symbol	β-value	Student-t-value	Sig.	VIF
Constant	C	0.23692	5.52035	0.0000	-
Political connections	PC	0.05432	2.10322	0.0355	1.09201
Company size	SIZE	0.01473	7.49532	0.0000	1.07135
Sales growth	GROW	-0.01030	-1.48340	0.1384	1.05605
Financial leverage	LEV	-0.49380	-16.1580	0.0000	1.10964
Auditing type	BIG	0.03063	4.39907	0.0000	1.10676
Ownership centralization	OWN	0.07005	4.96277	0.0005	0.09323
Adjusted R^2			0.32755		
F-value			7.59238		
Sig.			0.0000		

Table 8. Estimation results of Model 4

Variable	Symbol	β-value	Student-t-value	Sig.	VIF
Constant	C	0.19062	4.68163	0.0000	-
Political connections	PC	0.13128	1.57586	0.1155	1.09201
Company size	SIZE	-0.16580	-2.97540	0.0029	1.07135
Sales growth	GROW	-0.01960	-0.67450	0.5002	1.05605
Financial leverage	LEV	0.29194	4.44585	0.0000	1.10964
Auditing type	BIG	-0.02970	-1.02030	0.3079	1.10676
Ownership centralization	OWN	-0.28700	-4.74420	0.0005	0.09323
Adjusted R^2			0.32748		
F-value			8.56316		
Sig.			0.0000		

As can be seen in Table 9, the significance of independent variable VC is higher than 5%. This indicates that there is no relationship between technology-based venture capital and real earnings management at IPO companies. Hence, H4 is rejected. The results of the control variables revealed that the company size and ownership centralization have significant, negative relationships with real earnings management. Also, no relationship was found between sales growth and real earnings management at IPO companies.

Discussion and conclusion

The present study sought to investigate the relationships between political connections, technology-based venture capital, and earnings management at IPO companies. The statistical population consisted of companies listed on the Tehran Stock Exchange during 2013-2018. Hypotheses were proposed and tested. This section discusses the results, concludes the work, and makes suggestions. Hypothesis 1 proposed a relationship between political connections and discretionary accrual-based earnings management at IPO companies. Model 1 revealed that the significance of independent variable PC was below 5%. Thus, political connections and discretionary accrual-based earnings management at IPO companies were demonstrated to be related. The β coefficient was found to be positive for PC, suggesting that the relationship was direct. Concerning these findings, it should be mentioned that political managers appointed by the government mostly have insufficient accounting and financial experience and expertise. This may reduce the monitoring of managers. This is exploited by senior managers to manipulate company earnings to gain personal benefits.

These findings are in agreement with Arzhang et al. (2019), Sadigh et al. (2019), and Wang et al. (2017). However, they are inconsistent with Kamyabi and Shokrian (2016). Hypothesis 2 suggested a relationship between political connections and real earnings management at IPO companies. Model 2 demonstrated that the significance level of independent variable PC was below 5%. Thus, political connections and real earnings management were found to be related. Furthermore, the β coefficient was obtained to be positive for independent variable PC, suggesting a direct relationship. It should be mentioned that political managers at companies tend to demonstrate their selection to be right. This enhances real earnings management at companies. These findings are consistent with Shayani et al. (2019), Kamyabi and Shokrian (2016), Sadigh et al. (2019), and Wang et al. (2017). Hypothesis 3 proposed a relationship between technology-based venture capital and discretionary accrual-based earnings management at IPO companies. Model 3 indicated that the significance level of independent variable VC was lower than 5%. Thus, technology-based venture capital and discretionary accrual-based earnings management were found to be related. Furthermore, the β coefficient was derived to be positive for independent variable VC, implying a direct relationship. It is worth noting that companies with technology-based venture capital are likely to take higher risks. This may impact the future situation of the company in the views of both investors (concerning the return of capital) and creditors (for external financing). Therefore, managers tend to manipulate discretionary accruals in order to improve the situation of the company. This enhances discretionary accrual-based earnings management. These findings are in agreement with Wang et al. (2017). Hypothesis 4 suggested a relationship between technology-based venture capital and real earnings management at IPO companies. Model 4 showed that the significance level of independent variable VC was above 5%. As a result, no relationship was found between technology-based venture capital and real earnings management at IPO companies, and H4 was rejected. It should be noted that the financial, political, and economic structures of the Tehran Stock Exchange are substantially different from those of other countries. This may influence the decisions of managers. Also, the unfamiliarity of managers with real earnings management indexes and emerging companies on the Tehran Stock Exchange could be other explanations. These findings are inconsistent with Wang et al. (2017). The present work makes suggestions, including:

Concerning H1, it is suggested that the Tehran Stock Exchange Organization apply greater monitoring of earnings management at companies. Company ranking based on qualitative financial reporting indexes could reduce earnings management by company managers.

Concerning H2, it is suggested that company managers avoid real earnings management to fulfill accounting obligations and provide detailed and correct financial reports.

Concerning H3, it is suggested that external auditors, who are the core of financial reports, more accurately examine and explore auditing problems and statement manipulation at companies.

Concerning H4, it is suggested that analyzers, investors, and financial statement users at IPO companies exclude the contribution of technology-based venture capital to real earnings management at IPO companies.

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