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PRIVATE BENEFITS OF CONTROL AND EARNINGS MANAGEMENT: THE CASE OF FRENCH LISTED COMPANIES

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ABSTRACT

This study aims to determine the effect of earnings management on private benefits of control, and to study the indirect relationship between the control mechanisms and the private benefits through earnings management. Most French companies are family owned and very concentrated. Private benefits of control are particularly high. They can be extracted by the owners of blocs and managers through the related party transaction and excessive executive compensation. If controlling shareholders manage the results to transfer maximum wealth of the company, the existence of internal governance mechanisms such as the director's board and the audit committee appear as limiting factors to the effect of earnings management on private benefits of control. Drawing on a French sample, of 44 listed firms, during the period 2001-2011, the empirical results show that earnings management is positively associated with private benefits of control and the board of directors. Our work also offers insight to policy makers regarding the power of control mechanisms. The audit committee and director's board can moderate the relationship between earnings management and private benefits of control.

Keywords: *private benefits of control-related party transactions-earnings management-director's Board-Audit Committee-excessive executive compensation.*

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I. Introduction

In modern finance, the private benefits of control are of growing interest and in the heart of the financial literature at the empirical and theoretical level. Several questions arise about the influence of the controlling shareholders of the private benefits and the means used to extract them.

Several studies have been carried out to show that private benefits of control result from the opaque portion of the informational environment. Insiders enjoy from access to internal information which allows them to create channels to obtain profits (Le Maux 2003). These benefits tend to increase in countries with weak investor protection and when large shareholders possess voting rights greatly exceeding their rights to cash flows (Grossman and Hart, 1980, La Porta et al, 2000; Holderness, 2003).

Inspired by the agency theory, the principal is controlling shareholder and the agent, who is, the smaller holder of capital. In this relationship principal / agent, the second is supposed to take decisions in the interest of the first, seeks to provide various benefits at the expense of minority interests and benefits from their privileged position within the firm benefiting. Controlling shareholder receives additional revenue who can be divided into two categories: pecuniary as Excess salaries, perks and larges bonuses and non-pecuniary as the prestige and social status, the ability to employ family members and to appoint them on the board (Demsetz and Lehn, 1985; Ehrhardt and Nowak, 2003), the independence from superiors and even personal relationships (Holderness, 2003; Weifeng et al., 2008).

Private benefits of control are presented as materialization from unfair treatment of shareholders (Le Maux 2003). They can be divided into the benefits of the ownership and other related to the control. This decomposition enables us to designate beneficiaries who are the holders of blocks and managers (Le Maux (2004), Djeballi et al (2012)), they can affect a number of important corporate decisions, such as investment, the growth, debt and executive compensation (Cronqvist and Fahlenbrach (2009)). Therefore, earnings management responds well to the definition of private benefits (Le Maux 2003). Defined as a deliberate intervention (Schipper (1989)), it allows for controlling shareholder to exploit their internal positions and to benefit from information asymmetry to increase performance or reduce losses, resulting into personal gain. A significant number of studies investigated the determinants of private benefits, but the analysis of the earnings management as an explanatory factor has not been analyzed until now. For this reason we are trying to fill this gap and to explain the effect of earnings management on private benefits of control.

Klein (2002) and Xie et al. (2003) found that earnings management is hampered in firms that have audit committees and independent advice. Kao and Chen (2004) stated that when the board is small, it is easier to them to monitor the management of the company. Given the important role played by internal governance mechanisms in reducing management practices results, it seemed to us interesting to examine the impact of the independence and the size of board and the existence of the committee audit on private benefits via their effects on earnings management.

France provides a typical example of a civil law country. La Porta et al. (1999) stipulated that the French legal environment is not effective in protecting the rights of minority shareholders. Thus, the level of expropriation is particularly significant (Johnson et al 2000) and private benefits are much higher than in other developed countries, often exceeding 28% of corporate values (Nenova (2003)).

Our study is made in the period 2001-2011 to benefit from several reforms. The NRE law on 15 May 2001 and the Breton Act of 26 July 2005 reinforce transparency by requiring the inclusion in the annual report a description of the fixed, variable and exceptional components of compensation and benefits. More recently, a European law, passed on 17 December 2008, requires the presence of an audit committee in listed companies and financial firms. Through the establishment of the Audit Committee, the Directive aims to increase the guarantees for the quality of financial information, thereby strengthening public confidence in the honest and complete character of this information.

Therefore, our research distinguishes itself from other previous studies by the following points. Indeed, the effect of earnings management on private benefits of control enjoyed by the controlling shareholders have not been developed in general and in particular the French context: for this reason we investigate our research in France. We will use two proxies for private benefits of control which are excessive executive compensation and the amount of related party transactions**.** Then we will study the indirect relationship between some internal governance mechanisms and private benefits through earnings management. The objective is to test whether the mechanisms of corporate governance could limit the private benefits of control through the reduction of earnings management.

The rest of the paper is organized as follows. Section II is devoted to the study the effect of earnings management on private benefits and the analysis of the role of board size and independence and the existence of the audit committee in reducing the effect of earnings management on private benefits of control committee. In Section III, we will present our research methodology, our data sources and the variables used. The results and their interpretation will be presented in Section IV.

II. Literature Review

II.2. Private benefits of control and results management

The theoretical work on the private benefits of control saw the day with Berle and Means (1932) and Jensen and Meckling (1976) in the agency problems between managers and shareholders. These shareholders are classified into two groups:
1) the controlling shareholders actively involved in the management of the company and benefit from the gains that they will not share with all other shareholders in proportion to their holdings. They receive privileged information resulting from the separation of ownership and control and legitimized by their voting. They will consume the resources of the company, be at the expense of the interests of other shareholders without being sanctioned by the Board of Directors, and

2) Outside Shareholders also suppliers of capital and holders of shares of the company, not involved in the management of the firm, as passive shareholders.

From this distinction, controlling shareholders enjoy access to management processes and control; they are able to implement a management policy that can lead to maximize their financial gains and reputation. Le Maux (2003) stipulated that all configurations of earnings management affect the transparency of the stock market and distort the process for investors. Controlling shareholders are using debt policy to maximize their private benefits.

The relationship between earnings management and private benefits of control is justified by the relationship between ownership concentration and earnings management, Leuz (2006). Outside the US, ownership of listed companies is concentrated in the hands of dominant shareholders, mostly families, financial institutions or the state (La Porta et al. (1998)). These shareholders have the superiority of their voting rights compared to cash flow in conjunction with a lack of activism of the minority and market for corporate control. This encourages insiders to develop a robust autonomy over important decisions. In other cases, companies are also managed by members or representatives of the controlling entity. These cases offer more opportunity to insiders to expropriate external shareholders through financial decisions and operating decisions (Lins (2003), Leuz, Lins and Warnock (2009)).

Earnings management can be defined as a deliberate action taken by management in order to mislead investors about the performance of the company. Controlling shareholders can falsify the actual performance of firms in some years in order to mislead expectations minority in order to conceal the private benefits (Leuz et al. (2003), Bhattacharaya et al. (2003)). They can also inflate the result to make it a good performance, or reduce the reported result to the level expected by analysts, maximize their personal gain (Schipper (1989)).

Due to some flexibility provided by the accounting standards, controlling shareholders can become involved in earnings management activities to adjust its financial disclosure. Such modulation is to take accounting decisions generally oriented towards the achievement of specific goals for increasing private benefits of control. Leuz, Nanda and Wysocki [2003) found that firms controlled by insiders and who operate in countries with low investor protection firms are associated with higher earnings management and private benefits of control than their counterparts not controlled by insiders. This is explained by the made that the insiders can maintain their ability to consume private benefits by keeping the opaque disclosure.

Hwang and Hu (2009) showed that managers have more important private benefits of control than owners. Their findings are that private benefits increase slowly when the ownership of shareholders increases. In contrast, the benefits increase rapidly relative to the increase in control. These results therefore show that private benefits have originated in the management of the company more than the holding of the company (Hwang and Hu, 2009).

We can therefore conclude that the controlling shareholders have incentives to exploit private benefits at the expense of minority interests. Benefiting from their proximity to the company, controlling shareholders can obtain private information to assess the performance of their investments and to avoid releasing them to public to prevent competition with minority and continue to expropriate their wealth.

Thus, we find that controlling shareholders can manage results of an opportunistic way to receive higher benefits, shared or private control benefits. Our first hypothesis is therefore as follows:

Hypothesis 1: There is a positive relationship between earnings management and the amount of private benefits of control.

II.2: Earnings management, private benefits of control and internal governance mechanisms

Earnings management, the separation between ownership and control of the firm and dissociation of functions between managers and shareholders hamper the smooth running of the company. Hence we can say that all these elements create the need for corporate governance mechanisms for bringing efficiency and maximizing the value of the company. Theoretically, if the company has good governance it will attract new investors and improve its value and reputation.

In this section, we examine three internal control mechanisms to reduce the effect of earnings management on private benefits of control that are: board size, board independence and the presence of the audit committee.

II.2.1.Indépendance Board

The independent directors are those who have no relationship of any kind with the company or its group, except for their membership on the board. Baysinger and Butler (1985) specified that boards dominated by independent are the most efficient. In 2000, Godard and Schatt have also shown that the behavior of different boards of directors according to the percentage of independent directors that composed (replacement of leadership, response to the public offers, etc.).

Peasnell et al. (2000, 2005), Klein (2002) and Jeanjean (2002) found, for different contexts respectively British, American and French that companies whose boards include a high percentage of outside directors have a low tendency to engage in the practice of earnings management. Richardson (2006) stated that the independent directors are able to identify potential cases of over-investment and have more ability to prevent abuse of the leaders in the use of available funds.

Belanes et al. (2011) found for a sample of French firms for a period stretching from 2002 to 2006 that the presence of independent directors to reduce the level of private benefits of control. The conclusion is that the presence of the board with a high percentage of independent directors or a small percentage of family directors for family businesses is an effective governance mechanism in reducing information asymmetry and limited chances of expropriation of minority shareholders by controlling shareholders (Dahya et al, 2008. Lo et al, 2010). The independence of directors may force the diversion of resources by the holders of units and the private benefits are so limited.

In general, the independent directors are more likely to limit earnings management and minimize the discretion of the controlling shareholders. Then, we will test the following hypothesis: **Hypothesis 2.1:** The impact of earnings management on private benefits of control may be limited by the presence of independent directors on the board.

II.2.2.Size of the board

The theory did not find a consensus on the optimal size of the board. A large board has several advantages. Indeed, the existence of several members helps to collect more information about the factors affecting the value of the firm (technology, regulation, product market, mergers and acquisitions ...). The board that has a wide size is supposed to be richer in experiences and skills, so it will be able to control and to supervise opportunistic behavior of managers and holders of blocks (Chen 2007).

However, these benefits can be destroyed by the difficulty of coordinating individual contributions by conflict in decision-making, by the difficulty of maintaining good relations between members and by the high cost of communication (Jensen, 1993).

Kao and Chen (2004) confirmed the idea that more the size of the board is wide more the extent earnings management is high. Their explanation is that the role of the board in the control is less active when its size is large because it will be more difficult to supervise its members when to the practice of earnings management. In 2009, Nekhili and al found that the size of the board affects positively and significantly the level of free cash flow. The lack of a harmony between the ideas of the board increases the flexibility of the leader and thus exacerbating the problem of expropriation.

This divergence of results leads to the conclusion that there is no consensus on the impact of the size of the Board of Directors on its ability to monitor against opportunistic behavior by managers. Some plead in favor of a larger size. Others, on the contrary, show a reduced number of directors strengthens the control of the board, reduces the practice of earnings management and therefore the appropriation of winnings by controlling shareholders. In this sense, we will test the following hypothesis:

Hypothesis 2.2: The impact of earnings management on private benefits of control may be limited by the small size of the board.

II.2.3. audit committee

Pincus et al. (1989) have shown that the existence of the audit committee can be seen as an indicator of better quality monitoring and having a significant effect on the reduction of accounting manipulations. The contribution of this committee can reduce agency problems and perform preventive actions against opportunistic actions of leaders. Defond and Jiambalvo (1991) have shown that companies that have accounting errors are less likely to have audit committees.

For a sample of French firms, Charles Piot (2002) showed that the presence of an audit committee can significantly reduce earnings management. Piot and Janin (2007) find that the presence of an audit committee within the board, and only the presence, has a reducing effect on management practices in results. Cormier et al. (2009) found in a sample of Canadian company that 'the audit committee will be more effective in its role of providing quality financial statements if its size exceeds the three.'

In this context, the Audit Committee is responsible for: monitoring the process of preparation of financial information, to monitor the effectiveness of internal control systems and monitoring managing risks and reduces the level of asymmetric information, the practices of earnings management and reduces extraction by controlling shareholders. Thus, we formulate our last hypothesis as follows:

Hypothesis 2.3: The impact of earnings management on private benefits of control may be hampered by the existence of an audit committee.

II. Methodology

III.1.Data sources and sample

Our sample is composed of 44 companies belonging to the SBF250 index (Société des Bourses Françaises), on eleven consecutive years from 2001 to 2011, representing all sectors of the French economy. However, various adjustments were necessary to exclude companies, commercial or industrial, who have experienced a significant change in scope, banks and insurance companies, with a particular accounting system. Data on the composition of the board of directors and shareholders have been obtained manually from the reference documents available on the AMF (Autorités des Marchés Financiers) website (www.amf-france.org); otherwise we consult the annual reports.

III. 2. Model specification

In this paper, to test our hypotheses, we used two models. The first explains the relationship between private benefits of control and earnings management, inspired from Dahya (2008). The second is used to verify the effectiveness of the three internal control mechanisms, inspired by that of Lin et al (2010). Both models are as follows:

$$\boldsymbol{PBCit = \beta 0 + \beta 1 Disc.accit + \beta 2 Tangit + \beta 3 ROAit + \beta 4 debtit + \beta 5 Growthit + \varepsilon it}$$

Model 1

$$\boldsymbol{PBCit = \beta 0 + \beta 1 Disc.accit + \beta 2 Disc.accit * sizebordit + \beta 3 Disc.accit * indebordit + \beta 4 Disc.accit * auditit + \beta 5 debtit + \beta 6 ROAit + \beta 7 tangit + \beta 8 Growthit + \varepsilon it}$$

Model 2

Where: Disc.Acc: our measure of earnings management for firm i in year t, PBC: private benefits of control, Tang: tangible assets, ROA: return on assets, Debt: leverage, Growth: growthopportunities, Disc.Acc*sizebord: The interaction term between earnings management and the size of the board;Disc.Acc*indebord: The interaction term between earnings management and independence of the board; Disc.Acc*audit: The interaction term between earnings management and the existence of audit committee;

Regarding Hypothesis 1, we expect the coefficient of the variable measuring the earnings management in the model (1) to be positive explaining that controlling shareholders manage business performance and enhance their behavior opportunist who takes the form of private benefits of control. Assumptions 2.1, 2.2 and 2.3 will be tested using the model (2). As previously mentioned in Section 2.3, we expect the sign of the coefficient β 2 to be positive and those coefficients β 3 and β 4 of the model (2) to be negative, implying that a smaller board, a high percentage independent members and the presence of the audit committee can be effective in moderating the relationship between earnings management and private benefits of control

III. 3. Measurement of variables

In the following subsection, we will list the different variables used to test our hypotheses.

III. 3. 1. Measures of private benefits of control

To measure the extent of private benefits of control, we used the amount of related party transactions and excessive executive compensation. We deliberately chose these two heterogeneous measures to capture maximum illegitimate transfers and not to compare or combine all the results. These two measures of private benefits have the advantage of being observable through the annual reports of companies, due to a legal obligation.

The majority of works on private benefits of control have used indirect measures: the legal system (Johnson et al, 2000, La Porta et al, 2000; Djankov et al, 2008...) and the diversion of the property via versus control (Lease et al, 1983; Zingales, 1994). Few studies have estimated the private benefits of control using more direct measures: the value of the voting rights (Nenova 2003 Masulis et al, 2009.), Control premiums (Barclay and Holderness 1989, Dyck and Zingales, 2004), wages (Ehrhardt and Nowak, 2003), excessive executive compensation (Belanes and al (2011) and Djeballi al (2012)) and related party transactions (Dahya et al (2008), and Belanes al (2011) and Djeballi al (2012)).

a. Related party transactions

The Maux (2004) and Dahya et al 2008) used the amount of related party transactions as a direct measure of private benefits. In fact, it appears that through Related party transactions, not only the leaders, associates with a significant proportion of the voting rights may also impose on the society of which they are shareholders prejudicial convention.

b. Excessive executive compensation

Excessive compensation goes directly to the leader, which is possibly the controlling shareholder of the company, the company and expropriate minority via high compared to its industry compensation. We will follow the approach to Belanes et al (2011) and Djeballi et al (2012) to estimate the private benefits of control by excessive salary that reflects the excess wages due to expropriation. To determine the amount of overpaid, we calculate the average earnings by sector and excessive compensation which is the difference between total compensation and the amount already calculated. We will differ from previous study by deflating the two measures by the size of the firm to highlight that made the French leaders are paid according to the size of the company.

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III. 3. 2. Measures variables of interest

Discretionary accruals: earnings management measurement results

We adopt the definition of discretionary accruals of Kothari and al. (2005) to measure earnings management. So Kothari and al. (2005) add the variable ROA to Jones model (1991). We used this model, because it showed its robustness to detect earnings management, especially in performance firms and we found that on average the Tunisian firms are successful. However, this model proved to be more adaptable to the Tunisian context:

$$\frac{\mathrm{Taccit}}{ATit-1}=\mathrm{W0}+\mathrm{W1}\frac{1}{\mathrm{ATt}-1}+\mathrm{W2}\frac{\Delta\mathrm{REVit}}{\Delta\mathrm{ATit}-1}+\mathrm{W3}\frac{\Delta\mathrm{PPEit}}{\Delta\mathrm{ATit}-1}+\mathrm{W4ROAit}-1+\varepsilon\mathrm{it}$$

(model 3)

where:

$TAcc_{j,\,t}$: Total accruals[44] for firm j in year t;

$AT_{j,\,t-1}$: Total assets for firm j in year t-1;

$\Delta\ REV_{j,\,t}$: Revenues for firm j in year t with less revenues for year t-1;

$PPE_{j,\,t}$: Net property, plant and equipment for firm j in year t;

$ROA_{j,t}$: Return on assets for firm j in year t;

$\varepsilon_{j,\,t}$: A residual term that captures discretionary accruals.

Thus, the parameters obtained for the estimation of regression (3) are used in determination of non discretionary accruals (AND) scaled by lagged total asset:

$$\mathrm{ANDit}=\widehat{\mathrm{W}}0+\widehat{\mathrm{W}}1\frac{1}{\mathrm{ATt}-1}+\widehat{\mathrm{W}}2\frac{\Delta\mathrm{REVit}}{\Delta\mathrm{ATit}-1}+\widehat{\mathrm{W}}3\frac{\Delta\mathrm{PPEit}}{\Delta\mathrm{ATit}-1}+\widehat{\mathrm{W}}4\mathrm{ROAit}-1+\varepsilon\mathrm{it}$$

(model 4)

Therefore, discretionary accruals ($AD_{j,\,t}$) are determined by the difference between $TAcc_{i,\,t}$ / $AT_{i,t-1}$ and $AND_{i,t}$.

Disc.Acc*sizebord: interaction variable between earnings management and board size: the size of the board of directors "board" is measured by the number of directors who sit on. **Disc.Acc*indebord**: interaction variable between earnings management and board independence. We then measure the independence of directors "Indebord" by the ratio between the number of independent directors and the total number of directors on the board. A high percentage of independent directors (Dahya et al (2008), Belanes et al (2011) Djeballi (2012)) reduce the transfer of wealth made by controlling shareholders.

[44]Estimation of total accruals:
$TAccj,\,t = \Delta CAj,\,t - \Delta cashj,\,t - \Delta CLj,\,t - \Delta DEPNj,t$
where:
$\Delta CA_{j,\,t}$: firm j's change in current assets;
$\Delta cash_{j,\,t}$: firm j's change in cash;
$\Delta CL_{j,\,t}$: firm j's change in current liabilities;
$\Delta DEPN_{j,t}$: firm j's depreciation and amortization expense;

Disc.Acc*audit: interaction variable between earnings management and the existence of the audit committee. Audit: This is a dichotomous variable that takes 1 if the member is in the board, 0 otherwise: the existence of the audit committee reduces information asymmetry level and reduces extraction by controlling shareholders.

III. 3. 3. Measures of control variables

Tangible assets: rated "Tang" is defined as the ratio between fixed assets and total assets. For holders of the blocks, it is more difficult to divert resources from the company when the assets are observable such as tangible assets (Barclay and Holderness (1989), le Maux (2004), He et al (2008) and Djebali (2012)). Debt: rated "Debt" and measured by total debt to total assets. This is an internal control mechanism. Under the assumption of free cash flow, debt reduces the agency costs related to cash flow available for internal and therefore, private benefits of controls used by controlling shareholders (Jensen, 1986, le Maux , 2004; Weifeng et al (2008).

Growth opportunities: noted "growth": measured by Tobin's Q that is defined as the ratio between the total market value of the company with the accounting value of the debt by the sum of the book value of equity and the value accounting debts. We expect that the controlling shareholders will not encourage increasing their wealth in private benefits when growth opportunities are high (He et al (2008)).

Performance: noted "ROA": we chose the return on assets ratio as an indicator of the wealth produced, which is the ratio of operating income to total assets (ROA). We assume that higher richness allows the controlling shareholder of appropriate resources to benefit the firm thus a higher level of private benefits (Belanes et al (2011) Djeballi (2012)).

Table 1: summary table of variables used:

Variables	rating	measures
private benefits of control PBC	Related party transactions	The amount of related party transactions divided by total assets
	Excessive managerial compensation	Excessive managerial compensation divided by total assets manager
Earnings management	Disc.Acc	Variable measured by discretionary accruals
Tangible assets	Tang	fixed assets/ total assets
Growthopportunities	growth	(Market value of equity + book value of debt) / (book value of equity + book value of debt)
Leverage	debt	total debt to total assets
Return On Assets	ROA	ratio of profit before interest and tax to total assets
Interaction variables	Disc.Acc*sizebord	interaction variable between earnings management and the size of the board with board size = Number of members of the board of directors or supervisory
	Disc.Acc*indebord	interaction variable between earnings management and the percentage of independent board, with the percentage of independent board = the number of independent directors / board size
	Disc.Acc*audit	interaction variable between earnings management and the existence of the audit committee with the existence of the audit committee is a binary variable that takes 1 if there is an audit committee, 0 otherwise

III. 4. Descriptive statistics and univariate analysis

The following table provides the descriptive statistics (mean, standard deviation, minimum and maximum) of each variable used in our analysis.

Table 2: Descriptive statistics of dependent and independent variables

Variable	mean	standard deviation,	minimum	maximum
PBC1	1125	256	-1238,11	12656
PBC2	19.416763	125	0	150644
Disc.Acc	0,027239712	0,68	-1,48	1,97
Tang	0,21	0,20	0,00	0.95
Debt	0,57	0,21	0,03	1,00
growth	1,44	1,46	0,22	25,91
Roa	0,06	0,22	-0,34	0,63
sizebord	11,75	3,92	3,00	24,00
Audit	2,28	1,9487420	0	7
indebord	0,49	0,22	0,00	1,00

Where: PBC1: private benefits of control estimated by Excessive managerial compensation, PBC2: private benefits of control estimated by Related party transactions, Disc.Acc: our measure of earnings management, Tang: tangible assets, ROA: return on assets, Debt: leverage, Growth: growth opportunities.

Table 2 recapitulates the descriptive statistics of the estimates of variables measuring the amount of private benefits of control by these two measures, earnings management, the variables of interactions and control variables.

Excessive executive compensation has an average value of 1125. It varies between -1238.11 and 12656 as the minimum and maximum value respectively. Thus, apart from the industry, our sample is characterized by leaders who possess compensation higher than their sectors. Regarding the second variable, the average value of the related party transactions is 19,416 with a minimum of 0 and a maximum of 150644. Regarding the variable measuring earnings management, the results show that on average, firms manage their results on the rise. The total debt may reach a maximum of 100% of total assets, with an average debt ratio of 57% of total assets. Tangible assets are on average 21% with a minimum of 0 and a maximum of 95%. The rate of return on assets is an average of 6%. It varies between 34% and 63%. Boards of directors are made in French average of 12 directors (and range from 3 to 24 directors), and considered a fairly large (average of 10 members). Nearly half of the directors that make up these boards are independent: they represent on average 49% of the directors on the board. The Audit Committee exists in 63.84% of our sample. The average size equalizes the required number of three (average 2.28). The audit committee has to extreme values 0 and 7.

Table 2: Pairwise Correlations

	PBC1	PBC2	Disc.Acc	Debt	Tang	Growth	ROA
PBC1	1.0000						
PBC2	0.0644	1.0000					
Disc.Acc	0.0030	0.0299	1.0000				
Debt	-0.1817	-0.0810	0.0168	1.0000			
Tang	-0.1290	-0.0754	-0.0256	0.2002	1.0000		
Growth	0.4789	0.0941	0.0639	-0.1821	-0.0760	1.0000	
ROA	0.6313	0.0401	-0.0010	-0.2100	-0.0550	0.5550	1.0000
Where: PBC1: private benefits of control estimated by Excessive managerial compensation, PBC2: private benefits of control estimated by Related party transactions ,Disc.Acc: our measure of earnings management, Tang: tangible assets, ROA: return on assets, Debt: leverage, Growth: growth opportunities.							

The test results show a negative correlation relationship between the two measures of private benefits of control and firm leverage. These results indicate that the firm leverage decreases with the level of private benefits of control. This study supports the idea that the debt will reduce the funds available to the controlling shareholders. However, the correlation between private benefits of control and performance is positive stipulating that most successful companies are those whose controlling shareholders benefit most from these resources. The negative correlation between leverage and profitability show that the most profitable firms use less debt. With regard to earnings management and private benefits of control, the correlation is positive. This means that the controlling shareholders manage the results to increase the level of private benefits of control.

IV. Regression results and interpretations

After the realization of econometric tests: Pearson's correlation matrix and vif's test , test for the presence of individual effects, Hausman test and heteroscedasticity test, it would be wise to present the results of our models.

IV.1.The effect of earnings management on private benefits of control

Based on the agency theory, the theory of rents (Bebchuk (1999)) and some empirical work (Le Maux (2003), Dyck and Zingales, 2004 ....), we identified the factors that explain the benefits of private control including: earnings management, debt, growth opportunities, the performance of the company and tangible assets.

Table 4: Impact of earnings management on private benefits of control

	PBC1			PBC2		
	coefficient	**Z**	**Value P>|Z|**	**Coefficients**	Z	**Value P>|Z|**
Disc.Acc	.0000277	3.02	0.003	.0000513	5.41	0.000
Debt	-.0001541	-2.19	0.029	.0004183	1.44	0.151
tang	-.0001746	-4.95	0.000	-.0006791	-4.45	0.000
Growth	-.0000643	3.72	0.000	-.0002944	4.71	0.000
ROA	.0009758	5.30	0.000	.0001708	1.99	0.046
Intercept	.0000985	3.70	0.000	.000293	2.39	0.017
Adj. R_2	**49.76%**			**27.42 %**		

Where: PBC1: private benefits of control estimated by Excessive managerial compensation, PBC2: private benefits of control estimated by Related party transactions, Disc.Acc: our measure of earnings management, Tang: tangible assets, ROA: return on assets, Debt: leverage, Growth: growth opportunities.

The Table 4 shows that the effect of earnings management is consistent with the univariate analysis and states that controlling shareholders manage the results to increase their salaries and to divert the wealth of the company and minority shareholders. Thus, following the agency theory, managers will use the means at their disposal, such as access to information and management mechanisms to manage results and maximize their private benefits at the expense of outside shareholders. Earnings management by controlling shareholders aims to increase and to exploit the situation of information asymmetry characterizing the relationship between them and the partners of the firm. This implies then that power holders will adopt logical retention behavior information by making it more difficult to understand by the other shareholders, in order to appropriate of the wealth of the firm and thus increase their private benefits of control. This result is consistent with that of Le Maux (2003) who has proven that all policies for managing results, such as the use of the accounting leverage, modify transparency and skews the perception of investors through the investment process.

In fact, the majority of French companies are family businesses where the manager himself is the majority shareholder. With the accumulation of stains, controlling shareholders will have the opportunity to manage their firm in order to benefit from private benefits by hidden ways, related party transactions, or observable way, such as Excessive managerial compensation.

The positive relationship between private benefits of control and management practices results from our two measures of the dependent variable and can be explained, also, by the French legal environment. The French legal environment is characterized by weak protection of external stimulating the ability of insiders to draw any private benefits of control. It is a fertile ground for management practices results. Indeed, our results are in line with those found by Leuz et al. (2003) supporting the idea that, in countries where the legal environment ensures better protection for investors, management results are relatively small, although it is most common in countries where investor protection is weak. Thus, we can conclude that the institutional characteristic of civil law countries such as France encourages controlling shareholders to manage the results and turn in their favor the wealth of the company. Thus, with an effective legal system, minority shareholders use their legal power to limit opportunistic behavior by controlling shareholders.

The estimation results also indicate the significance of tangible assets for the two measures of private benefits of control. The presence of tangible assets affects negatively private benefits of control. Controlling shareholders find that it is more difficult to divert the assets of the firm when they are readily observable. These results confirm those of Dyck and Zingales (2004), Hwang and Hu (2009), Belanes et al (2011) and Djebali et al (2012) who found that the tangibles are negatively related to private benefits of control.

Regarding the leverage ratio, it has a negative and significant coefficient for excessive executive compensation and a positive and significant coefficient for related party transactions highlighting the influence of the firm leverage varies the identity of the beneficiary of private profits. The negative effect of debt on excessive executive compensation is explained by the fact that controlling shareholders choose debt financing because using loans does not change the ownership structure of the company. This option is particularly relevant to family not wishing the coming of new owners and the loss of control. For related party transactions, the positive relationship can be explained by the fact that: that through leverage, shareholders will try to transfer the maximum of resources to other firms under their control, including through regulated agreements. So, the debt has no longer the disciplinary role of governance, on the contrary, it increases the private benefits of controlling shareholders. These results confirm those of Djebali et al (2012) whose main contribution is that the relationship between the impacts of debt policy on the private benefits of control depends on the identity of beneficiaries.

About growth opportunities, the coefficient of this variable is significant and positive for both proxy variables for private benefits of control, showing that the controlling shareholders trying to capture and extract the richness of the company when growth opportunities are low. Finally, regarding the return on assets for our two measures of private benefits of control, the coefficient of the variable is significant and positive confirming our expectations. High profitability allows the controlling shareholders to appropriate the resources to benefit the company in many forms such as excessive salaries or related party transactions. This result corroborates those of Le Maux (2004) and Djebali et al (2012).

IV.2. the effect of the factors limiting the effect of earnings management on private benefits of control

The empirical results have confirmed the positive effect of earnings management in private benefits of control. We integrate the three control mechanisms in interaction with variable earnings management. This is explained by the fact that internal control mechanisms such as the presence of a large percentage of independent members on the Board of Directors, the existence of the audit committee and the small size of the board reduce management practices of the results and therefore the level of private benefits will be reduced.

Table 5: Effect of factors limiting the impact of earnings management on private benefits of control

	PBC1			PBC2		
	coefficient	**Z**	**Valeur P>|Z|**	**coefficient**	**Z**	**Valeur P>|Z|**
Disc.Acc	-.0000597	-2.03	0.042	-.0001015	-2.15	0.332
Disc.Acc*audit	-.0000221	4.77	0.210	-.0000118	1.24	0.611
Disc.Acc*sizebord	-5.56e-06	2.43	0.015	.0000156	2.69	0.007
Disc.Acc*indebord	-.0000692	1.94	0.052	-.0000474	1.08	0.000
Debt	-.0001138	-1.90	0.058	-.0002664	-0.88	0.380
tang	-.0001361	-4.26	0.000	-.0005732	-4.02	0.000
Growth	.0000457	2.92	0.004	.0002302	3.72	0.000
ROA	.0009397	5.51	0.000	.0002352	2.55	0.011
Intercept	.0001299	5.34	0.000	.0003068	2.63	0.009
Adj. R2	**61.32 %**			**32.12 %**		

Where: PBC1: private benefits of control estimated by Excessive managerial compensation, PBC2: private benefits of control estimated by Related party transactions,Disc.Acc: our measure of earnings management, Disc.Acc*sizebord: The interaction term between earnings management and the size of the board; Disc.Acc*indebord: The interaction term between earnings management and independence of the board; Disc.Acc*audit: The interaction term between earnings management and the existence of audit committee;Tang: tangible assets, ROA: return on assets, Debt: leverage, Growth: growth opportunities.

In regression (2), we find that the percentage of independent directors reduce the impact of earnings management on private benefits of control. The coefficient of this variable is negative and significant for both measures of private benefits of control. A high percentage of independent directors can reduce bad management practices and results and the level of expropriation is lower. It constitutes an effective mechanism of governance in reducing the asymmetry information and curbing wealth expropriation (Dahya et al., 2008; Lo et al., 2010). This finding supports the idea that the independent directors are considered as good controllers, acting in the best interest of the company Belanes et al (2011).

Regarding the impact of the audit committee on private benefits of control, the coefficient is negative and insignificant for both measures of the dependent variable. The negative sign allows us to conclude that the presence of the audit committee helps to reduce the private benefits of control through the reduction of earnings management. This result confirms that of Defond and Jiambalvo (1991) showing that those companies with accounting errors are less likely to have audit committees. The Audit Committee examines the majority of accounting policy choice, and as an intermediary and coordinator of internal and external auditors, it must protect the independence of the latter against the managers. However, the relationship is not statistically significant due to the made that our study was made over the period 2001-2011 and presence of the audit committee has become a requirement in French companies only from December 17, 2008. Thus, the period post requirement for the establishment of the Audit Committee in France and which coincides with the period of our study period is not sufficient to implement of the role and the position of the Audit Committee, which is summarized in the minimization of earnings management carried out by managers and the increase of the guarantees of full and frank information.

The size of the board for our study has a negative sign for excessive executive compensation and a positive sign for the regulated agreements. Regarding our first measure, a wide board size reduces the effect of earnings management on private benefits of control. Our result is consistent with that of Chen 2007. It states that a wide board size can form a combination of resources, skills, diverse experiences and check against abusive actions of the leader.

However, for the second measurement, the small size of the board reduces the private benefits of control. A board with reduced size is fertile ground for achieving harmony between the views of the board members. It restricts the flexibility of the leader and overcomes the risk of expropriation.

The increase in board size can paralyze decision-making and constitute an obstacle to the achievement of a consensus on important decisions. This encourages controlling shareholders to benefit from these disagreements and divert resources from the firm at the expense to firm value and public benefits that appropriated all shareholders (Kao and Chen (2004)).

We can therefore conclude that the Board of Directors by its unitary form or not, presence or absence of committees, size, composition (nature of the directors: internal management, external affiliates or independent external), roles (discipline, search for resources, strategic advice), the behavior (intensity of the activity, set between the president and directors) appears as a special mechanism to help reduce earnings management and restrict the threat of diversion of wealth, and finally reach the business goals.

IV.3. Robustness tests

In this section we check the robustness of our results by performing a sensitivity analysis. We test whether the presence of companies with a dispersed ownership modify the effect of earnings management on private benefits of control. These tests are performed for both measures of private benefits, namely related party transactions and excessive executive compensation.

We need to relaunch the regressions after excluding companies with dispersed ownership. We ask the following question: Are our results robust to the exclusion of widely held firms? For incentives for expropriation, the owner must maintain control of at least 30% of control rights, average value of the voting rights held by the controlling shareholders for our sample of French firms. We re-estimate the regressions after removing companies with a dispersed ownership. The results remain the same for both measures (Table 6). It should be noted here that 67% of our sample firms are companies whose ownership is concentrated in the hands of controlling shareholders holding more than one-third of control rights.

V. Conclusion

In this study, we aimed to focus on the effect of earnings management on private benefits of control. We insisted that private benefits of control are shared by the owners of blocks and managers. They can take several forms such as excessive salaries, transactions between related parties. Using a sample of 44 French companies during the period 2001-2011, our results stipulate that the earnings management affects positively and significantly the two measures of private benefits of control: related party agreements and excessive executive compensation. This result is consistent with the agency theory which states that internal, in our case the controlling shareholders, accessing management mechanisms and private information will exploit their efforts to manage the results and increase the private benefits

We also enhanced the literature on governance by studying the impact of three internal governance mechanisms on the relationship between the accumulation of wealth by controlling shareholders and management practices results in the French context that is a fertile ground for rent of control. We used three mechanisms that are independent of the board, its size and the existence of the audit committee. Two mechanisms are effective to reduce the private benefits of control through the reduction of management results: the size of the board and the percentage of independent directors, while the role of the audit committee is not proven in French context.

This research could lead to several developments. One possibility would be to narrow it work by cutting companies according to level of ownership concentration. Another avenue would be to introduce other governance mechanisms external types and determine the impact of their interactions with the internal mechanisms on the private benefits of control.

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