DISCOVERING THE LINK BETWEEN PROFIT MANAGEMENT AND SHARED PROFIT

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Abstract

Present paper is an attempt for collecting evidences for managing profit and its contribution to change in shared profit. Dependent variable of this research is the ratio of profit of company equity, discretionary accruals and representative of profit management for computation of which model of Decho et.al based on annual step-wise regression is used. For testing research hypotheses, historical data corresponding to 2009-13 for 97 companies listed in Tehran Stock Market and regression analysis is used. Results reveal that more discretionary accruals lead to lower shared profits. In fact, managers of these companies decide to pay for or increase shared profits when they feel that their profit is not considerably affected by manipulation of accounting method and decrease of shared profit in future is improbable.

Keywords: profit, profit management, shared profit, policy of profit sharing

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Introduction

In today world, it seems that stock market reacts to all phenomena one of which is the variable of profit. Initiation of paying profits conveys this message to investors that the company's performance is satisfactory, while removal of profit can illustrate that company is facing problems.

Interest of cash equities and cash return of equities is of great significance for some of the companies' beneficiaries owing to subjectivity and being tangible. In reality, potential and actual utilizers of financial information intend to be aware of potential of creating cash and its distribution amongstockholders; since this information not only provides a clear picture of the current state of the company, but also enables the evaluation of future of the company which is undoubtedly of great importance in the process of decision making. Importance of this issue for company managers is both for using information obtained from the process of company management as well as their performance assessment by market. Therefore, a part of the power and concentration of managers is devoted to the issue of "profit sharing policy". However, more important is finding roots of taking a certain profit sharing policy by companies. This issue can be useful for important economic decisions of various groups of beneficiaries specifically investors, since reasons and determining factors extracted from this root finding not only helps explaining the behavior of companies in the part, but also it is a tool for predicting movement and future route of them in this context (JahanKhani and Ghorbani, 2005).

Hypotheticalfoundation

Profit

Profit is the excess of revenues over costs for a certain accounting period which represents the net increase in salaries of stockholders and is the result of continuous profiting activities of commercial unit as well as secondary operations, casual events and other operations, events and conditions contributing to commercial unit which are recognized and measured according to accepted principles of accounting.

Profit management

It is the purposeful intervention in the process of financial reporting outside organization for the sake of attaining desired benefits. In fact, profit management occurs when managers apply their personal assessments in financial reporting and manipulate the structure of transactions for changing financial reporting.

Shared interest

It is a part of profit shared among stockholders and another part is deposited.

Policy of sharing profits

In general, the relationship between shared interest and interest of equities illustrate the policy of each company for sharing profits. The method taken by companies according to which they distribute profits among stockholders, cash profit and or following either a constant, increasing or decreasing trend convers the policy of interest sharing by company.

Literature review

Variable	Year	Author	Findings
Drivers of interest sharing	2011	Talaneh and Mortezaei	If the cost efficiency is high in current year, tendency to share interest is low
Factors contributing to policy of sharing interest	2006	JahanKhani and Ghorbani	Size, investment opportunities, financial structures, financial risk and leverage of companies are other issues which contribute to explanation of policy
Profit, interest sharing and policy	2004	Mehrani	Profit and interest sharing of previous year are not good important factors in decision making and investment policies are independent of interest sharing policies
Ownership concentration, company performance and policy of interest sharing	2011	Mashyekh and Abdullahi	Performance improvement can lead to increase of shared interest. Meanwhile, no significant relationship was observed between ownership concentration and ratio of shared interest
Policies of interest sharing and profit quality	2011	Hey et.al	Companies paying interest have less accrual and consequently, higher profit quality
Profits divided by accounting manipulations	2011	Caskey and Hutton	Companies paying profits are less probable to lean toward accounting manipulations

Research hypothesis

Profit organization has a significant relationship with shared attention.

Research variable

Independent variable

Independent variable of this research is discretionary accruals, computed as follows:

$$\text{Discretionary Accrual} = \frac{\text{Shared Cash Interest}}{\text{Revenue of Regular Acvitities}}$$

Dependent variables

Dependent variable of this work is the ratio of interest payment to revenue of company. in this work, ratio of shared profits to revenue of regular activities is used for measuring dependent variable.

Control variable

According to literature, in this research, some of the variables are used for controlling their effects on the relationship between management of profits and shared profits.

ROE: is the return of interest of stockholders which is computed by dividing net profit by official value of stockholders equities.

Investigation methodology

Statistical populations and sample

Topic domain: this research studies all subjectsconsistent to policies of sharing profits and profit management as well as the effects of profit manipulation on shared profit.

Three-dimensional domain: includes all companies listed in Tehran Stock Market.

Temporal domain: refers to 2009-13 for above-mentioned companies.

Data collection method

To choice sample, eliminatory sampling is used. From all available companies, those which lack the following characteristics will be removed and others will be chosen as sample:

1. To standardize statistical sample in study period, they have been dynamic in Stock Market before 2009.
2. Withrespect to ability increase, their financial period ends by March 20.
3. In intended financial years, thy have no action or change in financial year.
4. Their data is available.
5. Some of the recorded companies such as banks and financial institutions whose financial disclosures and structures of leadership principles differ will be eliminated from sample.

Table 1: Descriptive statistics of research variables

Variables	No.	Min.	Max.	Mean	Standard deviation
Ratio of profit payment	**485**	**-1.704**	**1.821**	**0.294**	**0.285**
Accruals	**485**	**-0.674**	**0.853**	**0.020**	**0.215**
Return of equity of stockholders	**485**	**-0.902**	**0.922**	**0.296**	**3.889**
Self-financing rate	**485**	**-11.399**	**9.795**	**-1.533**	**34.751**

Data analysis

To examine data, regression analysis is used. In this work, to calculate independent variable of accruals, annual stepwise multivariate linear regression and for analysis hypothesis, multivariate linear regression using combined data are used. Regression method includes normal least squares method.

Descriptive analysis

One of the statistical methods is descriptive statistics whose purpose is to collect, summarize and organization of data.

As can be seen, average of profit payment is 0.294 which shows the average payment to stockholders in study period. Changes range is from -1.704 to 1.821 and standard deviation is 0.285. Results reveal that fluctuations in payment of profit are higher compared to accruals.

Research hypothesis test

Research hypothesis is as follows:

Profit management has a significant relationship with shared profit which can be stated in the form of statistical hypotheses as follows:

H_0: there is no significant relationship between profit management and shared profit.

H_1: there is a significant relationship between profit management and shared profit.

This hypothesis intends to investigate the significance of the effect of profit management on shared profit. To test this hypothesis, regression analysis is used.

Regression analysis

As stated earlier, to study and understand the role of profit management in paid profit and to test research hypothesis, following linear regression model is used and for estimation of its parameters, method of least squares with combined data are used:

$$DPO_{it} = \beta_0 + \beta_1 DACC_{it} + \beta_2 ROE_{it} + \beta_4 SFR_{it} + \varepsilon_{it}$$

DPO_{it} is the dependent variable corresponding to ratio of shared profit to revenue of normal activities.

$DACC_{it}$ is discretionary accruals which are a representative for accruals used by managers for achieving objectives of financial reporting.

ROE_{it} is the return of equity of stockholders which is an important ratio for profitability.

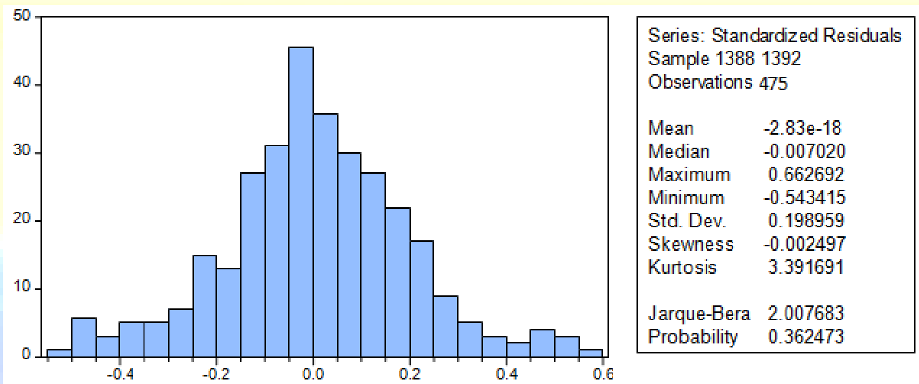
$LnAsset_{it}$ is the natural logarithm of overall assets as representative of company size. It is expected that bigger company will have more shared profit.

SFR_{it} is the rate of company self-finance which represents profit deposition as one of the financing resources.

Data analysis

First of all, to be able to use regression analysis and obtain reliable results, we must assure that whether our data are normal. To test normality of data, Jark-Bra Test is used. This is one of the most important tests which are used for normality of regression components. JB statistic follows Chi-Square distribution asymptotically. If model residuals are significantly skewed, extended or wide, null hypothesis about normality of data will be rejected.

According to abnormality of data, since fundamental hypothesis of using regression is normality of data, deviated values will be discarded from the model and finally 475 companies will remain on which data regression analysis is performed.



In this test, if the probability computed by software is more than α=5%, H_0 hypothesis is accepted. Probability corresponding to JB test is as much as 0.362 which is higher than 5%. Therefore, hypothesis of data normality is accepted with 95% confidence.

Chao test

First of all, to recognize that whether tabulated data must be used, Chao test isused. Results of this test are summarized in table 1-2.

Table 2

P-value	F-test
0.0827	8.253987

As can be seen, P-value and level of significance of the test is 0.05. Therefore, according to what stated in earlier chapter, intercept and slope are constant by time and position and using pooled instead of panel regression is confirmed. Hence, there is no need to Haussmann test.

Analysis of effects of regression model

Results of hypothesis test are summarized in tables 3 and 4.

Table 3

R^2	DW test	Sum of error squares	F-test	p-value
0.04	1.623	52.041	2.582	0.015

Table 4

Variable	Beta	Standard error	t-test	p-value	VIF
Intercept	**-0.259**	**0.296**	**-0.875**	**0.381**	
Accruals	**-0.200**	**0.059**	**-3.412**	**0.001**	**2.221**
Return of equity of stockholders	**0.004**	**0.003**	**1.106**	**0.269**	**2.715**
Self-financing rate	**-0.021**	**0.010**	**-2.056**	**0.043**	**1.029**

Value of F-test and its significance level illustrate model significance in 95% confidence level. Coefficient of fitted model reveals that about 4% of changes in shared profit in studied sample of research are explained by independent variables.

Now, according to p-values of each of the independent and control variables, we investigate the significance of each of the variables.

Coefficient of accruals is -0.200 and its level of significance is 0.001 which is less than 5%. This means that if accruals change one unit, shared profits change by 0.2. Therefore, coefficient of discretionary accruals is negative and significant. That is, increase in accumulations leads to reduction of shared profit. Therefore, research hypothesis is accepted in 95% confidence level.

As a result, it can be decided that managers of these companies decide to pay for or increase shared profits when they feel that their profit is not considerably affected by operation of accounting method and decrease of shared profit in future is improbable. On the other hand, management proclaims shared profit when there is an increase in profit. However, in this case, when there are considerable speculation opportunities, it is expected that management maintains and deposits a high level of profit. Otherwise, profits are not sufficient and company will try to deliver external finances while for the sake of saving and avoiding usage of a more expensive resource, management is forced to avoid profit sharing policies.

Coefficient of reoccurrence of equity of stockholders is as much as 0.004 and its significance level is 0.269 which is more than 5%. Hence, coefficient of return of equity is not significant and cannot have aimportant effect on the level of shared profits. So, it can be inferred that other factors such as operating profits of stock market can touch the profitability of profit sharing and act measures not based on profit can better explain the relationship between company act and shared profit.

Coefficient of self-finance variable is -0.021 and its significance level is as much as 0.043 which is less than 5% and it means that this coefficient is significant and can have a significant effect on shared profit. Therefore, it can be concluded that more reliance of companies upon accumulated profit will bring about less tendency toward paying cash profit and in case of facing profitable projects;they use non-shared profit as finance.

According to regression analysis results and obtained coefficients, following model is fitted:

$$DPO_{it} = -0.259 - 0.200\ DACC_{it} + 0.004\ ROE_{it} - 0.021\ SFR_{it} + \varepsilon_{it}$$

Conclusion

Profit operationdriven managers to variations their view about choice making about the value of shared income and asset and indications to undesired trend of investment and development of companies. It seems that in some cases, there is not only no profit sharing, but also they were forced to finance their debts through profits. This change in policies induces the sense of insecurity in stockholders and results in dissatisfaction of them as well as negative effects on the price of equities. Consequently, for the sake of avoiding usage a more expensive resource along with investment opportunities, they avoid profit sharing policies.Results are in agreement with that of Aurangzeb and Delaware (2012).

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