World Applied Sciences Journal 27 (7): 850-855, 2013
ISSN 1818-4952

DOI: 10.5829/idosi.wasj.2013.27.07.88

The Effect of Ownership Structure and Cash Flows on Determining the Profit Distribution Policy of Participating Corporates in Tehran Stock Exchange with a Focus on Institutional and Non-Institutional

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Abstract: The purpose of this research was to study the influential factors on the policies of corporates' profit distribution for the benefit of the owners, investors and managers. Thus, explaining how ownership structure, cash flow and other influential factors, affect the profit distribution policy is of particular importance. The main aim of the research was to investigate the effect of ownership structure and cash flows on the policy of profit distribution of participating with a focus on institutional and non-institutional investors. The statistical populations of the study included the admitted corporates in the Tehran stock exchange since the early 2006 until the end of 2009. The research was applied type ones and Multiple Regression analysis was applied to analyze the results. The results of the study showed that there is not a meaningful relationship between the independent variables of ownership structure, operating cash flow and cash flows sensitivity and the dependent variable of profit distribution.

Key words: Ownership structure · Cash flows · Institutional and non-institutional investment · Profit distribution policy

INTRODUCTION

A part of significant developments in accounting occurred by the benefit of big corporates formation and ownership separation from the corporates' managements. In the past, the owners were also the commercial unit mangers and there was no conflict of interest between the management and the ownership, in such a way that the owners themselves controlled all the corporate's operations and would induce the increase in the corporate's value [1, 2]. The advancements in the technology and the following formation of big stock corporates and also the increasing need to investment, led to the creation of big invest markets and consequently the ownership was detached from the management [3-5]. Throughout long years, it was assumed that all the groups related to a stock corporate are acting toward a common purpose, but by the proposal of Agency Theory by Jensen and Meckling [6], it was discussed that the owners and managers are both trying to optimize their benefits [7, 8]. By the publication of Jensen and Meckling [6] studies, the traditional view that thought ownership distribution of corporate's stock does not affect the corporate's value, was challenged. These studies predicted that the corporate's value is a function of how to allot the stocks among the internal individuals like managers and external individuals like corporate investors [9]. The agency relationship is a contract, based on which, a party (owners) select a person or a group as their intendant or agent and they assign him/her in charge of certain services. Signing a contract requires submitting the authority to the agent and the aim of both parties is to optimize their desires. However, it is possible that the investors' profits and private profits of managers conflict with one another, which is called the agency problem. In agency relationships, the goal of the owners is maximizing their fortune, so for this end, they monitor the agents work and assess his/her performance. In this case,

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the question may be that "does the difference in ownership structures of corporates, affect the corporates' value? "This means that if the owners form the corporate in different groups such as state, main investors, financial institutions, banks and other companies, what will be the effect of their performance on the corporate's value and which one of these different forms of ownership, has more influence on the corporate' value? By answering such questions, one can take more appropriate actions in order to improve the corporates' value and also the decision-makers and the investors would consider the hierarchy of the corporate owners, to achieve the desired value for economic units.

Problem Statement: Considering the fact that so far, there are not complete experimental results concerning the particular characteristics of a corporate on a profit distribution behavior and also taking into consideration that the existing studies in this field are done in developed countries and there are very limited documents about the emerging third-world economies, we hope that by this study, a step (although trivial) in the direction of country's economic progress is taken and the study be of help. Also, in many of the previous studies, the profit distribution determiners were investigated and the cash aspects also the effect of institutional and non-institutional investors were neglected. There is this hope that by the present study, the effect of these aspects is clear and it is anticipated that the results of these studies, give us an idea about the procedures and dynamics of the profit distribution policy and its determinants. In case of the role and importance of ownership structure, cash flows and ownership concentration in profit distribution policy, considering the issue and investigating its particular aspects of can lead to a better prediction of future corporate results and can help us to optimally determine the financial and operating procedures and routes. And if the investors have more knowledge of the influential factors in profit distribution and get conscious of their relationship with the other financial factors, more reasonable decisions will be made. Identification and explaining the determinant factors of profit distribution policy are the main concerns of economic institutions beneficiaries. Knowing these factors, apart from the clear image it gives of the corporate's power of cash distribution, can make the future seem possible. There is always the conflict of profits among the managers, main shareholders and also the thousands of thousands small shareholders in case of profit distribution. The aim of the investors is mainly achieving cash profits and they are eager to get back the revenue of their stock in the form of cash profit. On the other hand, the main shareholders are also inclined to have the profit preserved in the corporate and spent for the development to increase the corporate stock's price. However, this relationship is not always like this and it has been observed in some cases that the main shareholders of a corporate were eager to pay more profit, as well. Thus, the present research wants to answer the following question:

"What is the relationship between the owner structure and the operating cash flows and its sensitivity and corporate's profit distribution policy with a focus on the institutional and non-institutional investors?"

Literature Review: The relationship between the type of the ownership and its concentration or dispersion and also the effect of each on the efficiency and value of corporates, always has been among the hot issues in the literature of the field. First of all, Berle and Means [10], in series of studies, found an inverse relation between the dispersion of shareholders and institutions performance. Although, the results of their research were challenged by Demsetz [11], the aforementioned research became the prelude of the multitudinous debates and studies done by the researches in different countries with different economic bases.

The studies done on the effects of the ownership structure and particularly control and concentrated ownership on the corporates' performance and value can be summed up in three classes: in the first class are the studies mainly focusing on the existence of an important positive linear relationship between control ownership and performance. Chen [12] investigated the relationship between the ownership structure and corporate value (Tobin's q) in China. The results showed that the there was a positive and strong relationship between concentrated ownership and corporate value. They realized that the institution's profitability has an important positive relationship with the stock ration of the legal department (institutional investors). This issue shows the institutional investors' necessary motivation and power for supervising and controlling the management, which demonstrates the significant role they can play in the corporate administration.

The second class of studies is those that claim there is no important relationship between the ownership structure and the corporates' value and performance. Demsetz and Lehn [13] investigated the concentrated ownership effects on the institutions' performance. They divided the concentrated ownership into various

groups; however they did not find any important relationship between ownership and shareholders' revenue in any of the groups. They maintained that the corporate's ownership structure is internally determined and can be changed in case of optimizing its value.

The third class of experimental studies believes that there is a non-linear relationship between some forms of ownership structure like management ownership and the corporates' performance and value. Morck, Shleifer and Vishny [14], did partial linear regression analysis, which had the Tobin's q as the dependent variable (the criterion for assessing the corporate value) and the independent variable was the stock ration of the corporate management. They found that when the stock ration of the management is between 0 and 5%, there is a positive relationship between the ownership ration and corporate value and when the ration is between 5% and 25%, the relationship becomes negative and again in case of higher that 25% ration, the relationship is positive. In profit rate regression analysis (as another dependent variable), they found a positive relationship just between the ownership and profit rate.

McConnell and Servaes [15] investigated the relationship between Tobin's q and management ownership and control ownership in two different periodical samples, one for 1976 and the other for 1986 by using a sample with more than 1000 institutions. In contrast with Morck, they used the management ownership ration and its square, instead of using a constant ration for the management ownership. The results showed that the relationship between Q and management ownership is initially positive and gradually by increasing the ownership ration, Q decreases. In other words, they (in contrast with Morck and his colleagues), found a bell-shaped relationship between q and management ownership ration. This means that the relationship between q and management ownership is ascending as far as the ownership ration is approximately 40 to 50 percent and after that, it descends; Whereas, the relationship between q and control ownership is positive and of no importance.

Noorvash and Ebrahimi [16], in a study, investigated the relationship between the shareholders' formation and the performance information symmetry and the efficiency of accounting criteria. The results showed that incorporates with higher institutional ownership, the price of the stock, encompasses the information of coming profits. Ghalibaf-e-Asl and Ranjbar [17], in a research called "investigating the effect of ownership type on the corporates' performance (the experience of privatization in Iran)" wanted to evaluate the effect of privatization on the performance of the submitted corporates on the private and public section and they found no meaningful difference before and after the privatization and the results showed that different public and private ownerships in the period after the submission has no effect on the corporates' performance. Namazi and Kermani [7], investigated the effect of ownership structure on the corporate's performance by using a 66-corporate sample, all admitted in the Tehran Stock Exchange. The results obtained by using a combinational regression analysis showed that there is a positive relationship between corporate ownership and performance, whereas, the relationship between institutional ownership (state ownership) and management ownership were reported to be negative. In this study, criteria like return on assets (ROA), return on equity (ROQ), Tobin's q and book value of equity were used in performance evaluation. HassasYeganeh and his colleagues [9], in a study called "investigating the relationship between institutional investors (investment companies, banks and insurance corporations) and corporate value" found a relationship. In this study, done by means of periodical multiple regression analysis method, the market value and book value of the shareholders' rights ration was used as the index for evaluating the value.

MATERIALS AND METHODS

This research in case of methodology and the way the data are obtained is a descriptive and correlation type research. A descriptive research includes a set of methods, the purpose of which is to describe the conditions or the phenomena at hand. In case of the place of the study, the present study is of library type (in library type study, the researcher refers to the existent resources to gather the information and after the investigation, the conclusion is reported). In case of the existent resources, is of document mining type (in these types of studies, the researcher goes to the evidences and documents). In case of the number of the researcher, it is an individual work (just one person selects a subject and continues up to the end). Also in case of purpose and aim, it is an implicational research. In case of the research environment, it is a quasi-experimental study (in these studies, historical information is used). In case of study type, it is a periodical correlation one. Correlation study is when the researcher investigates the relationship among the variables and in periodical study, the aim of the study is to understand and recognize the changes in period of time.

The methodology of the present study is based on following steps:

- First of all, among the active corporates in stock market, those without the following qualifications are overruled
  - Their financial year should end on 19 January
  - During the period, the corporate should not be detrimental
  - It should not be a state corporate, meaning possessed by government
- After selecting the corporates according to said qualifications, the financial data for the presented models administration should be gathered by referring to related resources
- Then the combinational required indexes such as coefficient of variation, ownership structure, cash flows etc. Should be calculated according to the presented models.

Statistical Population, Sample Volume and Sampling Method: The statistical population of the study includes all the admitted corporates in Tehran Stock Exchange covering all the pharmaceutical and chemical industries, non-metal mineral industries, beverage and food industries, machinery industries and automobile equipment and industries, participating in the Tehran Stock Exchange between the years 2006 and 2009. The number of these corporates reaches 124 corporates and the sampling method is systematic random.

Data Analysis: The data gathered from Tehran Stock Exchange, first was saved in information bank format and then by using EXCELL and SPSS, it was possible to analyze the data and conclude in line with the research hypotheses. The data analysis was done by using multiple regression analysis and other multiple variable tests.

For testing the hypotheses two models were used, both including two regressions. Model 1 measures the MNG investors and the effect of ownership structure by using two variables, in which non-institutional shares were involved. Model 1 was used to investigate the effect of institutional IND structure and ownership on profit payment and Model 2 was used to investigate the effect of ownership structure on the distributed profit increase.

$$DP_{oit} = \propto_0 + \beta_1(MNG)_{it} + \beta_2(IND)_{it} + \beta_3(size)_{it} + \beta_4(LVRG)_{it} + \beta_5(PRRFT)_{it} + \varepsilon$$

$$DIVINT_{it} = \alpha_0 + \beta_1(MNG)_{it} + \beta_2(IND)_{it} + \beta_3(size)_{it} + \beta_4(LVRG)_{it} + \beta_5(PRRFT)_{it} + \varepsilon$$

Model 2 shows the cash flows characteristics by using two variables of OCF (operating cash flows) and CFS (cash flows sensitivity). The following regression equation shows the effect of cash flows characteristics on distributed profit payment and increase in order.

$$DP_{oit} = \propto_0 + \beta_1(OCF)_{it} + \beta_2(CFS)_{it} + \beta_3(size)_{it} + \beta_4(LVRG)_{it} + \beta_5(PRRFT)_{it} + \varepsilon$$

$$DIVINT_{it} = \alpha_0 + \beta_1(OCF)_{it} + \beta_2(CFS)_{it} + \beta_3(size)_{it} + \beta_4(LVRG)_{it} + \beta_5(PRRFT)_{it} + \varepsilon$$

Model 3 is a combinational model, showing the effect of ownership structure and cash flows on the distributed profit and payment increase.

$$DP_{oit} = \propto_0 + \beta_1(MNG)_{it} + \beta_2(INI)_{it} + \beta_3(OCF)_{it} + \beta_4(CFS)_{it} + \beta_5(size)_{it} + \beta_6(LVRG)_{it} + \beta_7(PRRFT)_{it} + \varepsilon$$

$$DIVINT_{it} = \alpha_0 + \beta_1(MNG)_{it} + \beta_2(INI)_{it} + \beta_3(OCF)_{it} + \beta_4(CFS)_{it} + \beta_5(size)_{it} + \beta_6(LVRG)_{it} + \beta_7(PRRFT)_{it} + \varepsilon$$

In this section, data analysis will be presented. The issues being investigated are as follows:

- The effect of ownership structure and cash flows and its sensitivity on determining the corporate's profit distribution policy with a focus on institutional and non-institutional investors
- Defining the variables of institutional investors, non-institutional investors, size, financial leverage, profit, operating cash flow, cash flow sensitivity, profit distribution policy

In order to investigate the relationship between the ownership structure and cash flows on determining the corporate's profit distribution policy with a focus on institutional and non-institutional investors, correlation test and regression analysis were used.

RESULTS

Before going into the hypotheses testing, we should ensure if the variables are normal by the use of Kolmogorov-Smirnov test. The results showed that all variables were normal (P > 0.05).

Hypothesis Testing

Testing Hypothesis 1: There is a meaningful relationship between the ownership structure and corporate profit distribution policy.

The P-value of the regression model was 0.799 which is not significant. So the null hypothesis that is the meaninglessness of the whole regression is supported. Therefore, the existence of any linear relationship between dependent and independent variables of the model is rejected. Also, according to the results of regression, there are not any significant relationship between dependent variable and independent variables (P > 0.05). Thus, ownership structure has no meaningful effect on profit distribution policy.

Testing Hypothesis 2: There is a meaningful relationship between the operating cash flows and corporate profit distribution policy.

The P-value of the regression model was 0.636 which is not significant. So the null hypothesis that is the meaninglessness of the whole regression is supported. Therefore, the existence of any linear relationship between dependent and independent variables of the model is rejected. Also, according to the results of regression, there are not any significant relationship between dependent variable and independent variables (P > 0.05). Thus, operating cash flows have no meaningful effect on profit distribution policy.

Testing Hypothesis 3: There is a meaningful relationship between the cash flow sensitivity and corporate profit distribution policy.

The P-value of the regression model was 0.710 which is not significant. So the null hypothesis that is the meaninglessness of the whole regression is supported. Therefore, the existence of any linear relationship between dependent and independent variables of the model is rejected. Also, according to the results of regression, there are not any significant relationship between dependent variable and independent variables (P > 0.05). Thus, cash flow sensitivity has no meaningful effect on profit distribution policy.

DISCUSSION AND CONCLUSION

The purpose of this research was to investigate the effect of ownership structure and cash flows on determining the profit distribution policy of participating corporates in Tehran Stock Exchange with a focus on institutional and non-institutional investors. The results showed that there are not any significant relationships between ownership structure, operating cash flows and cash flow sensitivity with profit distribution policy.

According to the results, shareholders in selecting their investments should pay attention to the corporate shareholders formation. If their aim is a short-term investment and they want to receive cash profits, they should invest in corporates with institutional and concentrated formation of shareholders. Also, considering the investigated issue in the research, it is suggested that this investigation be continued with the investigation of the effect of each of the shareholders' formation components on the profit payment separately. On the basis of this study's results, these suggestions are made for further studies:

- Investigating the effect of ownership structure and cash flows on determining the policy of corporates profit distribution in developing countries with panel data models with a focus on institutional and non-institutional investors.
- Investigating the effect of ownership structure and cash flows on determining the policy of corporates profit distribution in Islamic countries with panel data models with a focus on institutional and non-institutional investors.

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