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The relationship between financing growth of outside the organization and representation price with profit sharing

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ABSTRACT

The aim of this research is to verify relationship between growth of financial support outside the organization and representation price with profit sharing in companies listed in Tehran Stock Exchange. There are two hypotheses in this research: 1) profit sharing is dependent variable and financing growth of outside of the organization is independent variable, 2) representation price is dependent variable and profit sharing is considered as independent variable. Presented study is an applied research in terms of goal. Also this research is a descriptive research in terms of correlation research based on the method of execution (nature). Library method is used to collecting information and data. This research's statistical society is all companies listed in Tehran Stocks Exchange. To test the hypothesis in this study, regression and correlation coefficient method is used. The results show that there is a direct and significant relationship between financing growth of outside the organization and the amount of profit distribution and also there is a direct and significant relationship between the amount of profit distribution and representation price.

1. Introduction

Modiliani and Miller (1958) discussed the importance of profit sharing for the first time. In their opinion, there is no relationship between the policy of companies' profit sharing and the stock market value in full capital market (Ming, 2007). In full capital market, company value is only depends on future cash flows which are from investments. This research surveys the relationship of financing growth of outside the organization, representation price and profit sharing in companies listed in Tehran Stock Exchange in 2010 to 2014.

1.1. Problem statement

Distribution of profits will improves data transfer and increases the conflict between benefits and representation by limiting management access to cash and will expose the company to monitoring and survey investments and components of the capital market when increasing investments outside the organization is. Also it's expected that financing growth of outside the organization will have a significant relationship with profit distribution (Park, 2001).

Tolerate price representation is one of the representative control solutions (manager) and troubleshooting representation (Conflict of benefits) in relevance to representation between manager and owner that these costs are divisible into two parts including monitoring costs (such as audit) and the cost of insurance and warranty (such as management bonuses) (Nikomaram et al., 2012).

Supply of required financial resources in order to perform activities of an organization is divisible to two general section including internal organizational resources (such as financing through retained earnings) and of outside the organization (such as the issue of securities, including common and preferred stock and bonds or term loan from bank system). However there are other methods for financing that does not insert any commitment about them these are called off balance sheet financing (such as sale accounts receivable and operating leases) (Arab Mazar Yazdi and Karani, 2011).

There are two vague points in the present study. The first ambiguity consists in if financing growth of outside of the organization has a significant relationship with profit distribution or not. And the second vagueness consists in if profit distribution has a positive relation with representation price. There are some efforts in this study to resolve them.

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To resolve the firs ambiguity it will be determined that if growth of financial supply of outside the organization cause to increase profit distribution and to resolve the second ambiguity it will be determined that if increase profit distribution cause to reduce the cost of representation (Robb and Robinson, 2014).

Due to issues expressed, generally this study's researcher seeks to answer the question that if there is a significant relationship between growth of financing of outside the organization and amount of profit distribution as well as amount of profit and representation price (Dechow, 2002).

1.2. Literature review

Manos et al (2012) surveyed the impact of business groups on profit sharing policy in the Indian companies. The results show that profit distribution percentage in companies belonging to business groups is less in comparison to independent companies. Besides, the companies to various business groups pay more profits than companies belonging to other business groups. A research is done as the effect of financial limitation on profit sharing policy of the US active companies in 1990- 2011 (Sarhangi and jalali Farahani, 2014). They examined the behavior of limited financial firms after increase of dividend. They found that limited financial firms will face to experience increase revenue and a decrease in the performance and returns in comparison with similar unlimited companies. Especially it has been seen in limited companies working in competitive industry. They also showed that an increasing growth in dividends paid results increase of risk of bankruptcy in limited companies. Johnson and Kaplan (1987) showed that dividend policy will decreases the contrast agents with reduction of free cash flow available for managers, because managers do not surely act in behalf of shareholders. If managers increase the amount of dividend, the amount of free cash flow will be decreased. Therefore, the problem of free cash flow will be decreased. In addition, the payment of dividends helps control the problem of representation. Hashemi and JalaliMoghadam (2013) considered the study of effect of accruals on the external financing relation with future stock returns. Statistical sample consists of 80 listed companies in Tehran Stock Exchange in 2011. The results show that accruals has a positive an significant relationship with future stock returns and external financial does not have a significant relationship with future stock returns, and these results are not compatible with theoretical principles behind them. After that with adding the accruals variable to relation of financing with future stock returns, research results changed and the mentioned relation became significant, that it indicates existence of anomalies outside the organization financing. So at the same time attention of investors to accruals and external financing has a great importance.

1.3. The research model

The model used to test the first hypothesis:

$DIV_{i.t} = \beta_0 + \beta_1 EFG_{i,t} + \beta_2 SIZE_{i,t} + \varepsilon_{i,t}$

The model used to test the second hypothesis:

$AC_{i.t} = \beta_0 + \beta_1 DIV_{i,t} + \beta_2 SIZE_{i,t} + \varepsilon_{i,t}$

EFG: Financing outside the organization

DIV: The distribution of dividend payments

AC: The cost of representation

SIZE: Company size

1.4. Research hypotheses

H_1: There is a significant relationship between growth of financing outside the organization and amount of distribution of profits.

H_2: There is a significant relationship between g amount of distribution of profits and the cost of representation.

2. Methodology

Presented research is an applied Research in terms of goal. Also is a correlating – study in terms of procedure. Library research method is used to collecting information and data. Statistical society is all companies listed in Tehran Stock Exchange and are selected for the following reasons:

1. Tehran Stock Exchange financial information is accessible.
2. Since standard and special conditions are considered to accept, continue activities and the flexibility of the companies in stock, all of these companies are valid.
3. Also accessing to financial information of companies that are not accepted in Tehran Stock Exchange is not possible.

3. Data analysis

Regression model and correlation coefficients is used to test the hypothesis. The cause of using regression model and correlation coefficients is that this research is a survey research and tries to define the relations between variables, and in such researches to determine the relationship and type of relationship between variables regression model and correlation coefficients is used.

4. Hypothesis testing results

4.1. The first hypothesis testing

As the results of Table 1 shows, Chance statistics of t for the β_1 coefficient is less than error level of 5% and estimated coefficient of the variable is positive. As a result it can be stated that there is a significant relationship between financing growth of outside the organization and the amount of direct profit distribution; So that with increasing external financing, the amount of profit distribution will be increased. Also estimated coefficient shows that 1%

increment in financing outside the organization will increase the amount of earned profit distribution to 0.02%. Also the coefficient of determining this model is almost 0.42. This number shows that 42% of changes in dependent variable can be explained by the independent variables.

Table 1: The results of the first best estimate assumptions

$DIV_{i,t} = \beta_0 + \beta_1 BFN_{i,t} + \beta_2 SIZE_{i,t} + \varepsilon_{i,t}$				
Variables	Method	Estimated Coefficient	Statistics	Probability
β_0	t	-3.043	- 5.290	0.000
β_1	t	0.02	2.690	0.007
β_2	t	0.479	8.214	0.000
Coefficient of Determination = 0.64		Adjusted Coefficient of Determination = 0.42		

These explanations show the first hypothesis that suggests a significant relationship between financing growth of outside the organization and amount of profit distribution won't be rejected at assurance level of 95%.

4.2. The second hypothesis testing

As the results of Table 2 shows, Chance statistics of t for the β_1 coefficient is less than error level of 5% and estimated coefficient of the variable is positive. As a result it can be stated that there is a significant relationship between the amount of direct profit distribution and cost of representation; So that with increasing amount of direct profit distribution, the cost of representation will be increased. Also estimated coefficient shows that 1% increment in amount of direct profit distribution will increase the cost of representation to 0.13%. Also the coefficient of determining this model is almost 0.56. This number shows that 56% of changes in dependent variable can be explained by the independent variables.

Table 2: The results of the second best estimate assumptions

$AC_{i,t} = \beta 0 + \beta 1\ DIV_{i,t} + \beta 2\ SIZE_{i,t} + \varepsilon_{i,t}$				
Variables	Method	Estimated Coefficient	Statistics	Probability
β_0	t	-0.326	- 1.826	0.06
β_1	t	0.137	2.459	0.01
β_2	t	0.463	7.892	0.000
Coefficient of Determination = 0.74		Adjusted Coefficient of Determination = 0.56		

These explanations show the first hypothesis that suggests a significant relationship between the amount of direct profit distribution and cost of representation won't be rejected at assurance level of 95%.

5. Conclusion

The goal of this research is to find an answer if there is a significant relationship between the relationship between financing growth of outside the organization and representation price with profit sharing in companies listed in Tehran Stock Exchange. The main subject of study is to survey the relationship between external financing growth and representation price with profit sharing in companies listed in Tehran Stock Exchange. Required information is gathered from 2010 to 2014 and T-statistics is used to test hypothesis.

The results of the first hypothesis show that T-statistics for β_1 coefficient is less than error level of 5% and variable estimated coefficient is positive. As a result it can be stated that there is a direct and significant relationship between external financing growth and profit distribution; so that estimated coefficient shows that 1% increment in external financing growth will increase amount of profit distribution to 0.02%. Also the model coefficient of determination is about 0.42. This number shows that 42% dependent variable changes can be explained by the independent variables.

The results of the second hypothesis show that, chance of T-statistics for β_1 coefficient is less than error level of 5% and variable estimated coefficient is positive. There for it can be stated that there is a direct and significant relationship between amounts of profit sharing and representation price; so that by increasing the amount of profit distribution, the final value of cash will rise. Also estimated coefficient shows that 1% increment in amount of profit distribution will increase representation price to 0.13%. Also the model coefficient of determination is about 0.56. This number shows that 56% dependent variable changes can be explained by the independent variables.

5.1. Suggestions

1. According to the relationship of external financing and profit sharing, it is suggested to investors, managers and actual and potential shareholders to pay special attention to restriction financing as an important and effective factor in company financial decisions.
2. It is suggested to shareholders, analysts and investors of financial markets if they If desire to earn high amount of dividend, consider the costs and take proper decisions based on it when investing in company.
3. It is suggested to shareholders in selecting target company gain more information from that company's dividend policy and factors which may

effect on them. These factors contribute to the financial decisions can improve allocation of resources.

5.2. Suggestions for future research

1. It is recommended that instead of amount of profit distribution, select another dependent variable and study on it.
2. Examines the relationship between variables such as size, type of industry, ownership type, profitability, growth, … with selection and managers prefer in field of use of financing outside the organization and the amount of profit distribution.
3. Identify and evaluate other variables that affect the cost of representation and study based on those variables.
4. It is suggested to do a study with surveying the relationship between external financing as independent variable and representation price as dependent variable.

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