Surveying the effect of conservation on dividend policy and company managers' bonus

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Abstract: The purpose of the research is to survey the effect of conservation on dividend policy and company managers' bonus. In this research, financial information of 110 the companies listed on Tehran Stock Exchange from 2008 to 2013 was studied (660 firm-year). SPSS 20, Eviews 7 and Minitab 16 were used to analyze the data. The results indicated that conservation and return on assets ratio on dividend policy, but there is not a significant relationship between cash flows, growth opportunity, company size and financial leverage on dividend policy. Also, the variables of conservation, cash flows, growth opportunity, company size and financial leverage do not impact on company managers' bonus, though, there is not a significant relationship between return on asset on managers' bonus.

Key words: Accounting conservation; Dividend polices; Managers' bonus

1. Introduction

Financial reporting system and conservative accounting is one of the most vital information resources which is useful for monitoring on managers and the evaluation of their strategies and decisions (Lafond & Watts, 2008). The standards of non-conservative accounting lead the managers of business units to manipulate accounting figures such as profit for receiving more bonuses. Board of directors as an entity for monitoring on managers and institutional owners as external conservators, play significant role in directing properly company including taking more conservative approaches (Yan San et al, 2012). Dividend policies can accelerate the achievement of profitability and finally the achievement of shareholders'' rights. One of the most controversial financial issues is dividend policy. Dividend decisions taken by managers are sensitive and very important. Managers are rewarded because of management innovation and creativity for finding and applying newer and better job approaches. The purpose of the research is to study the effect of conservation on dividend polices and managers' bonuses in the companies listed on Tehran Stock Exchange.

2. Theoretical framework and reviewing on research background

Conservation in accounting has been interpreted as time asymmetry in identifying good news against bad news in financial statements (Basu, 1997). There are many reasons for dividing or not dividing the profit. Company management must consider different variables before making decision how to pay dividend profit. While, factors affecting on dividend ratio and its effect are defined, managers find an attitude about the status of their companies in terms of dividend and make better decisions. Shermerhorn (1993) defined bonus as valuable consequences of done work by people. According to Hellriegel, bonus is to grand a gracious outcome for doing a desirable behavior in order to increase the likelihood of its recurrence. Adut et al (2013) found that there is a direct relationship between reward management and efficiency perspective about earning management. Management manages profit based on efficiency perspective, not opportunistic perspective, to receive more bonuses. Otamasa et al (2012) found that there is a negative relationship between accounting conversation and level of managers' bonuses. They also found that the relationship in the companies that bonus is allocated a bigger multiple from profit, is more. Their results indicated that accounting conversation leads reduced managers' bonus. Frankel et al (2007) indicated that there is a negative relationship between increased conservation and profit distribution among shareholders. Bani Mahd et al (2014) found that there is a negative relationship between accounting conservation and reward management. The results also indicated that there is a positive relationship between reward management and company size and profitability ratio. But the research did not approve significant relationship between debt ratio and management turnover with reward management. Mashayekhi et al (2010) studied the relationship between conservation with profit distribution and its stability. First hypothesis predicts there is a negative relationship between conversation and stock profit distribution. The results indicate that there are supporting evidences about the hypothesis. Second hypothesis predicts

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that there is a negative relationship between profit stability and conservation level. Using non-operational accruals to measure conservation, convincing evidences did not find to approve the hypothesis. While using adjusted ratio of net asset market value to book value to measure conservation, the second hypothesis is supported with a proper significance level. Then there is not an explicit comment on the acceptance or rejection of the hypothesis.

3. Research hypotheses

According to the purpose and theoretical framework, the hypotheses are developed as follows:

First Hypothesis: there is a significant relationship between accounting conservation and dividend policy.

Second Hypothesis: there is a significant relationship between accounting conservation and reward management.

3.1. Research Variables

Dividend Policy: it refers to cash profit among shareholders (Biabani & Kazemi, 2014:22). It is calculated using the researches done by Izadi Nia et al (2011), Baibani & Kazemi (2014) and also Obad et al (2012). In the method, DPS (dividend per stock) is divided on EPS (earning per stock).

Bonus: according to Choe's research, executives' bonus is calculated using the division of paid bonus in current year to total paid bonuses during three consecutive years preceding the year.

Conservative Accounting (CON$_{i,t}$):in the research, accounting conservative is calculated using Basu's model (1997) and in accordance with the researches done by Fatemeh Zad Pour (2014) as follows:

$$\frac{E_{i,t}}{P_{i,t-1}} = b_0 + b_1 \times D_{i,t} + b_2 \times R_{i,t} + b_3 \times D_{i,t} \times R_{i,t} + \varepsilon_{i,t}$$

$E_{i,t}$: accounting earning

$P_{i,t-1}$: market value of dividend at the beginning of the year

R: share return, it equals with the difference of price any share at the end of the period and price any share at the beginning of the period, in addition to adjustments resulting from share incomes (such as profit, bonus share and so on…) division on price any share at the beginning of the period

D: dummy variable, if there is bad news, it equals with 1, otherwise 0.

Cash Flows (CF$_{i,t}$)**:** cash flow resulting from operational activities indicates company' ability to make cash flows (Mehrani & Bagheri, 2010:52). Cash flows are calculated via dividing operational cash flows on net assets of company i at the end of year t (Chava & Suh, 2009).

Growth Opportunities: growth opportunity refers to market value ratio of dividend on book value ratio of dividend (Jayarman, 2008).

Company Size (Size $_{i,t}$): it equals with natural logarithm of book value of total assets based on the researches done by Asadi and Nick Ravesh (2013) and also Ahmed and Doelman (2005).

Leverage Ratio (Lev$_{i,t}$): financial leverage ratio is calculated via dividing book value of total debts on book value of total assets based on the research done by Asadi and Nick Ravesh (2013), Rahmani et al (2012) and also Jayarman (2008).

4. Research results

All variables have 660 observations. The variables of dividend policies, managers' bonus, conservation, cash flows and company size have positive skewness and three variables of growth opportunities, return on asset and financial leverage have negative skewness. Also, all variables have positive elongation.

4.1. Normality test of dependent variable distribution

Komogorov-Smirnov test was used in the research. Initial importance level of K-S statistics indicates that the variables of dividend policies and managers' bonuses have not normal distribution. Johnson Transformation function was used to study the normality of the data and Minitab 16 was used to analyze the data. Table 1 provides the results of K-S test after data normality process.

Table 1: the results of normality test of dependent variables after normalization process

Variable	Number (N)	K-S statistics	Significance level (Sig)
Dividend policies	660	0.834	0.490
Managers' bonuses	660	0.581	0.888

4.2. Liner of independent variables

Table 4 shows matrix of correlation coefficients between the variables and its results indicate that Move together is not critical among the variables.

Table 4 shows the results of model using Eviews 7

$$\text{D}IV_{i,t} = 2.1392 - 0.0784Con_{i,t} + 0.2387\text{CF}_{i,t} + 0.1357\text{MB}_{i,t} - 0.2122\text{Size}_{i,t} + 0.1039\text{ROA}_{i,t} + 0.0613Lev_{i,t} + \varepsilon_{i,t}$$

According to the possibility of t-statistics for coefficient of conservation variable, there is a significant relationship between accounting conservation and dividend polices.

4.3.2. Results of second hypothesis

Table 4 shows the results of the model using Eviews 7 software

$$BONUS_{i,t} = 4.9365 + 0.1276CON_{i,t} - 0.7249CF_{i,t} - 0.2178MB_{i,t} - 0.5829Size_{i,t} - 0.0408ROA_{i,t}$$
$$+ 0.5513Lev_{i,t} + \varepsilon_{i,t}$$

Table 2: matrix of Pearson's correlation coefficients between the variables

	Accounting conservation	Cash flows	Growth opportunities	Company size	Return on assets	Financial leverage
Accounting conservation (P-Value)	1					
Cash flows (P-Value)	0.054 (0.163)	1				
Growth opportunities (P-Value)	0.084 (0.031)	-0.009 (0.811)	1			
Company size (P-Value)	-0.124 (0.001)	0.029 (0.463)	0.065 (0.094)	1		
Return on assets (P-Value)	0.195 (0.000)	0.304 (0.000)	0.035 (0.370)	-0.128 (0.001)	1	
Financial leverage (P-Value)	0.019 (0.633)	-0.361 (0.000)	0.110 (0.005)	0.092 (0.018)	-0.457 (0.000)	1

4.3. Hypothesis test

4.3.1. Results of first hypothesis

Table 3: results of first hypothesis using constant effects method

Variable	Coefficient	t-statistics	P-value
Constant	2.1392	2.9354	0.0035
Accounting conservation	-0.0784	-2.9951	0.0029
Cash flows	0.2387	1.9131	0.0562
Growth opportunity	0.1357	1.6485	0.0998
Company size	-0.2122	-1.7409	0.0823
Return of assets	0.1039	2.7666	0.0059
Financial leverage	0.0613	0.3531	0.7241
Determination coefficient	0.550		
Watson-Durbin	2.26		
F-statistics (P-Value)	5.7822		

According to the results, second hypothesis is supported and it can be said that there is a significant relationship between accounting conservation and managers' bonuses.

5. Conclusion and discussion

Approving first hypothesis, the results indicated that there is a negative significant relationship between accounting conservation and dividend policies. The results are compatible with the researchers conducted by Frankle et al (2007) and Mashayekhi et al (2010).

According to theoretical principles of accounting, conservation leads to reduce profit and increase loss. The issue indicates that the managers of losing companies don't tend to manipulate losses, in spite of having needed tools. Then with reducing company profit, it expects that the level of paid profit also is reduced.

Table 4: results of second hypothesis using constant effects method

Variable	Coefficient	t-statistics	P-value
Constant	4.9365	4.9683	0.0000
Accounting conservation	0.1276	3.3921	0.0007
Cash flows	-0.7249	-3.9985	0.0001
Growth opportunity	-0.2178	-2.8911	0.0040
Company size	-0.5829	-3.5484	0.0004
Return of assets	-0.0408	-0.7085	0.4789
Financial leverage	0.5513	2.1839	0.0294
Determination coefficient	0.8455		
Watson-Durbin	2.03		
F-statistics (P-Value)	1.5397 (0.0008)		

The results are compatible with the expectations and with increasing conservation; level of paid profit will be reduced. Also, according to the analyses in relation with approving second hypothesis, it was found that there is direct significant relationship between accounting conservation and managers' bonuses. The result is significantly compatible with the researches done by Bani Mahd et al (2015) and Otamasa et al (2012). According to theoretical principles of accounting, conservation leads to reduce profit and increase loss. So it can be said that if profit is a criterion for calculating managers' bonuses, with increasing conservation in companies, the level of paid rewards will be reduced. The results obtained in the research do not follow the expectations. Then it can be concluded that the payment of bonuses to managers is on the basis of non – profits at most companies.

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