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The impact of the Agency's second conflict in the dividend policy and its impacts on the quality of profits: Applied to a sample of companies listed on the Iraq Stock Exchange

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Abstract

The research aims to study the effect of conflict of interest between the main shareholders and small shareholders in the dividend policy and its impact on the quality of the declared profits, as the impact of the agency's second conflict is reflected in the economic decisions that are implemented within the company, including the decision to determine the amounts that will be distributed to shareholders from the total Realized profits and amounts, For the purpose of achieving the research goal, the multiple linear regression model was used to measure the impact of the conflict of interests of major shareholders and small shareholders in the dividend policy and its reflection on the quality of the declared profits, which was measured through the modified Jones model to test the quality of the profits of companies in the research sample, and the research has concluded that Profits declared for the companies of the research sample (23) companies listed on the Iraq Stock Exchange for the period from 2016 to 2018 are not characterized by quality and there is a statistically significant relationship between the conflicts of interests of major shareholders and small shareholders and the policy of distributions as well as there are on Statistical significance between the agency's second conflict, and dividend policies and advertised profit quality.

The key words: *conflicts of interest, dividends, quality of profits.*

Introduction

The dividend policy in shareholding companies determines that part of the profits that will be distributed to shareholders and the portion that is held for meeting specific purposes in the future, where retained earnings are one of the most important sources of financing and expansion of companies with major shareholders on the one hand and on the other hand, the distribution of profits is desirable It also, especially from the point of view of the small shareholders, which creates a kind of conflict of interest between the big and small shareholders when they choose the dividend policy, which reflects in one way or another the quality of the declared profits, which is an important source of economic decision-making for the various parties.

Therefore, the research problem can be summarized in the following two questions:

1. Does conflict of interest between large and small shareholders influence the choice of a specific dividend policy?

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2. Does the effect of conflict of interest between large and small shareholders in the distribution policy affect the quality of profits?

The research aims to clarify the relationship between the Agency's second conflict over dividend policies and its impact on the quality of profits advertised by examining:

1. Introduction to the concept of the agency's second conflict and its relationship to dividend policies and quality.
2. Examining the impact of the agency's second conflict of conflicts of interest between large and small shareholders in the dividend policy.
3. Test the reflection of the effect of conflict of interest between the large and small shareholders in the dividend policy on the quality of accounting profits.

The research is based on the following two hypotheses:

1. There is an effect of a conflict of interest between the major shareholders and the small shareholders in the dividend policy.
2. The influence of conflicts of interests of major shareholders and small shareholders in the dividend policy is reflected in the quality of profits.

First: The effect of the agency's second conflict on the policy of dividend profits to shareholders

1- The Agency's Second Conflict (The Conflict Between Major Shareholders and Small Shareholders)

The separation of ownership and management is one of the main factors for the emergence of the agency theory, which arose as a result of the exploitation by some managers of the powers granted to them in achieving benefits for them at the expense of others, which resulted in a conflict of interest between the contracting parties (the agent and the **details**) and the emergence of the agency problem, and many studies have examined And accounting literature is those problems to reduce the intensity of the conflict between shareholders on the one hand and managers on the other hand, but with the development of the accounting profession and as a result of accelerating economic events a new problem emerged from the agency's problems represented in the conflict between large shareholders and small shareholders, as Recent studies have found that most of the companies that have a high proportion of large shareholders lead to another contradiction between the major shareholders and minority shareholders (Guizani & Kouki, 2012).

In this regard (Katah) indicates that the shareholders in the same company differ among themselves in how the company is managed, and these differences stem from the result of differing views between shareholders on how to increase the company's profits, and on the other hand, another conflict may arise as a result of diverging interests between the shareholders themselves, so if The major shareholders could obtain special benefits, whether monetary or non-cash, it is possible that the company tends to choose certain policies even if it is at the expense of the rest of the minority shareholders (Katah, 2009).

For example, the Brazilian money market is characterized by companies with high levels of ownership concentration, where the decisions taken are within the reach of a small number of shareholders, and therefore the company is subject to the control of the royal family or the state, or jointly between them, which shows with it the problems of governance between large shareholders and shareholders. Minorities, which creates disputes among themselves, which often occur when major shareholders try to seize economic decisions, taking advantage of their control as major shareholders (Silveira & Junior, 2009).

In a study conducted on a sample of 661 companies in 18 countries in the field of determining the value of voting rights within companies and specifically the controlling mass in votes (Nenova, 2002) indicates that the controlling parties in the company from the major shareholders can obtain special benefits that are not realized for the dispersed shareholders, The controlling shareholders are willing to pay the minority shareholders in exchange for their votes as a means of controlling the company's decisions (Nenova, 2002).

While the study (Katah) was interested in determining the impact of the conflicts between the major shareholders and minority shareholders on the price of Kakuzi company shares and the extent of its impact on what was circulated in the media and local newspapers about the decision of the major shareholders to get rid of one of the important assets of the company during the year 2007 and the occurrence Conflicts with small shareholders, and the study concluded that these news would be evidence of the company bearing the agency's costs as a result of those disputes, The study recommended the necessity of adopting corporate governance practices in order to avoid the depreciation of the company as a result of the conflicts between the major shareholders and the small shareholders (Katah, 2009).

2- **Dividend policy in the context of a conflict between major shareholders and small shareholders**

(Guizani & Kouki) notes that small shareholders in companies controlled by major shareholders are subject to expropriation, as excess control includes higher management of profits and transfer of resources from the company to large shareholders by concluding deals that benefit them and reduce dividends (Guizani & Kouki). This problem arises when the major shareholders have the ability to control the management and determine the important policies of the company (Noodezh & et al, 2015), and through this ability available to them the major shareholders try to take advantage of that control to obtain special self-benefits and exploit the small shareholders by include paying higher compensation to major shareholders, seizing company assets and reducing minority shareholder interests by affecting dividends and issuing shares (katah, 2009).

A study (Berzins & et al, 2017) that examined conflicts of interest between large and small shareholders and its relationship to dividends by applying to a sample of Norwegian companies indicated that conflicts of interest between shareholders naturally lead to lower investment returns, where the "opportunistic" model in this regard The majority of the major shareholders achieve special benefits for them at the expense of others, but at the end of the period share dividends must be proportionately shared with the small shareholders, and therefore the major shareholders may take advantage of their control rights in the company to obtain special benefits and the necessary funds for their projects and to reduce dividends For profits, on the contrary, the "conflict reduction" model indicates that the major shareholders are working to pay high profits in order to reduce the intensity of the conflict with the small shareholders and to give a good and fair image of them in a way that ensures that small shareholders invest more in the future, and by testing this On a sample of Norwegian companies, the results have shown that the model of “conflict reduction” has been adopted by the study sample companies by increasing dividends and increasing subsequent participation in new shares by small shareholders, which reflects the use of a dividend policy to reduce inconsistencies with small shareholders instead of exploiting them to Other purposes (Berzins & et al, 2017).

The study (Noodezh & et al, 2015) examined the relationship between shareholders ’struggle over dividends and their relationship to the accounting Conservatism by applying to a sample of companies listed on the Tehran Stock Exchange for the period 2010-2013, where the study indicated that the intensity of the conflict between large and small shareholders decreases with an increase Distributed profits and reduction of control rights of major shareholders, and the results indicate a direct relationship between the percentage of dividends and accounting reservations, in the sense that companies that have a high percentage of dividends often follow the policy of accounting Conservatism in the declared profits, due to the fact that the majority of Shareholders try to confiscate the rights of small shareholders by influencing distributed profits and work to increase their control over and control of the company by directing management towards applying the accounting Conservatism for the purpose of affecting the declared profits (Noodezh & et al, 2015).

Second: reflection of Dividend policy in light of conflicts of interest between small shareholders and large shareholders in the quality of profits.

Current and potential investors are greatly concerned with the ability of economic units to distribute profits and the continuity and amount of these distributions (Al-Oqla and Hamdan, 2017), as investors focus on distributions as they represent a source of information about the efficiency of the administration in managing the unit's activity, as shareholders do not actually have the opportunity to follow the activity actual of unit, and therefore they see the distribution policy as an indication of the unit's success. For example, the increase in the value of the dividends distributed per share from one year to the next gives a positive impression on the money market dealers about the effectiveness of the unit's performance, which leads to Because of the rise in the market value of its ordinary shares, and vice versa, the decrease in the payment of dividends is seen as a negative indicator about the signs of decline in future profits, which leads to a decrease in the share price (Reda and Ahmed, 2012), and in this context (Mousa & Desoky, 2019) indicates that The importance of distributions gives an indication of future profits, the continuity of profits and the continuation of cash flows.

Conflict of interests between small shareholders and major shareholders has an effect in choosing the dividend policy, where (Al-Sanidi) believes that the nature of the case indicates the necessity for the company to pursue a dividend policy that has a positive impact on the wealth of shareholders in it, but in view of the conflict of interests between shareholders, it may be It is difficult to follow a distribution policy that serves everyone and this difficulty increases as the size of the unit increases, and the variation in the desires of shareholders and investors is due to a number of factors, the most important of them (Al-Sanidi, 2017):

1- The tax position of the shareholder: It relates to the tax situation of the shareholders, so if the proportion of high-income shareholders is large and they fall within a high tax bracket, the company may decide to pay a small percentage of the profits to delay the payment of the shareholders in the company to their profits until the sale of their shares, if the shareholders achieved capital gains when selling , They will pay a tax on capital gains from selling shares, while shareholders with low incomes prefer to pay a high percentage of dividends, thus noting the conflict of interests of shareholders as a result of the difference in dealing with distributed profits and capital gains with regard to the taxes imposed on it.

2- Investment opportunities available to shareholders: There is a class of shareholders who prefer current profits, including retirees and those with low incomes, who represent small investors who consider distributions as their source of income and thus oppose the policy of holding high profits or low distributions unlike the major shareholders who prefer capital gains over current profits In order to reduce the tax burden on them and accordingly, the company's decision will be consistent with the wishes of a group of them and will contradict with the wishes of others.

Of course, adopting a specific distribution policy according to the conflict between the shareholders themselves has an effect on the declared profits and their quality, and in this regard (Kowerski, 2013) indicates that one of the most important factors affecting the quality of profits is the dividend policy, due to the fact that Asymmetry of information between small (minority) shareholders on the one hand and large shareholders and management (insiders) on the other hand leads to small shareholders relying on dividends as a way to provide them with information on the unit's status and future profits, if new distributions emerge or are increased, then this is a signal Positive for small shareholders about the financial position of the unit, moreover, and given the fact that shareholders do not prefer a fixed value of the dividends, but their interest is focused on a fixed percentage of the dividends depending on the declared profits number, the insiders try from time to time to influence the value of the profits and pay the dividends to give a good picture of the financial situation The unit is for small shareholders and potential investors, especially if future profits are expected to increase.

Numerous studies have emerged that confirm the existence of a relationship between dividends and their quality. (Sivakumar & Waymire ,1993) presented evidence indicating that dividends provide information about the quality of dividends. The (Skinner & Soltes) study examined how dividends relate to the continuity Profits and concluded that the economic units that have distributions possess more continuity in profits than units that do not have distributions, and in this regard the study of (Farinha & Moreira) concluded that there is practical evidence for the relationship between the quality of profits and distributions by testing the decision to pay the distributions and its relationship to quality Profits have been found to be of good quality High H has a high probability of influencing management's decision in dividends as well as setting more generous distribution policies (Farinha & Moreira, 2007) which was confirmed by a study (Hen & Bin, 2011) that concluded that the positive correlation between distribution decisions and the quality of profits is stronger (Weaker) when the value of the dividends is greater (less), which reflects a positive relationship between the dividends and the quality of the profits announced.

Third: Analyzing the results and testing the hypotheses

1- Community and study sample

The study used the companies listed on the Iraqi market for securities for the banking sector, amounting to (43) companies, being one of the sectors that achieved profits during the period throughout the research and for which the necessary data are available for the purposes of the study and was limited to (23) companies for the period from 2016 to 2018 where specific criteria were adopted To choose the study sample from which to achieve profits for the company and distribute or retain profits and exclude all companies with data that are not available or lost as well as excluding companies that have been liquidated or shut down.

2- Study variables

A- The independent variable (conflict of interests between small and large shareholders): Conflicts of interest between small shareholders (minority) and major shareholders (decision-makers) are the second type of agency problems, this conflict in turn leads to the company bearing the agency costs that may increase the costs of raising funds From outside the company and thus increasing dependence on money inside the company as the cheapest financing, and accordingly, the independent variable was measured using the utilization ratio of the assets by dividing the total sales by the total assets, a ratio that measures the effectiveness of the investment decisions taken by the decision makers (major Shareholders) and the extent of their ability to exploit the assets in the optimal way, a high percentage means that decision-makers manage the assets efficiently and effectively, which results in a decrease in agency costs, either in the event of a low percentage, this means that the company is making imperfect investment decisions or using it for profits in purchasing Unproductive assets creating agency costs for small shareholders from shareholders. This metric was used to measure agency costs in many studies, including (Ang et al, 2000), (Davidson, 2003), (Mcknight & Weir, 2009) and (Henry) , 2010) (El-Haddad et al., 2016). For the purpose of ensuring that the agency costs incurred by the company are the result of a conflict of small and large shareholders, a secondary independent variable has been adopted, which represents the proportion of major shareholders ’contributions in the capital of the company.

B- dependent variables

Dividends: It is the value of the net profits that the company will distribute to the shareholders where the dependent variable consists of a fictitious variable equal to (1) for companies that pay dividends during the year and is equal to (zero) for companies that did not pay dividends during the year and is denoted by the symbol (PAY)).

Quality of profits: The different users of the financial statements and their different goals and views regarding the quality of profits led to the emergence of several measures to measure the quality of profits, including what depends on the absence of these profits from manipulation through profit management practices carried out by decision-makers from within the company, the profits are the same High quality when it is free from evidence that it was managed, meaning that profit management is a reverse measure of the quality of profits.

The study was based on the 1999 modified Jones model, which is based on the calculation of the optional dues extracted from the total dues, which represent the available flexibility that the company can manipulate the value of the declared profits and thus affect its quality. It is assumed that the mean for the optional entitlements is equal to zero if the company's management does not practice profit management, which reflects the quality of the declared profits and whenever it moves away from zero, this indicates the companies 'practice of managing their profits and consequently the quality of profits.

3- Presenting and interpreting the statistical results for testing the first hypothesis

This axis aims to test the extent of the effect of a conflict of interest between the major shareholders and the small shareholders in the dividend policy through the use of the multiple linear regression model which was formulated according to the following formula:

$$PAYit = a0 + a1COTit + ß2SHit + Eit$$

whereas:

PAYit = dividends for company i in fiscal year t and equal to (1) in the event that the company distributes profits and equals (0) in the event that the company does not distribute profits during the year.

COTit = agency costs for company i in fiscal year t

SHit = Percentage of the major shareholders 'contribution to the company's capital i in the fiscal year .t

Eit = random error

Table (1) shows the results of applying the multiple regression model to the sample of research companies

Table 1 Results of applying the linear regression model using spss

indication	Sig.	F value for sample test	-R²	R²	R	Significance	T test for coefficients	Transaction values	Transactions
An effect	0.002	9.101	0.46	0.517	0.719	0.380	0.901-	0.569-	ao
						0.040	2.229-	8.219-	COTit
						0.036	2.272	0.014	SHit

The above table shows the three correlation coefficient values, which are the simple correlation coefficient (R), which has reached (71.9), the determining coefficient (R2), the amount (51.7), and the correct correction factor (R2-), which has reached (46), which means that the explanatory independent variables (conflict) Major shareholders and small shareholders, the proportion of the major shareholders 'contribution to the company's capital) was able to explain (46%) of the changes that occurred in the dividend policy and the remaining (54%) is due to other factors, as indicated by the simple correlation coefficient (R) Positive, indicating a correlation between model variables.

It also shows that the independent variables were statistically significant according to the test (t) (at the level of 0.05), which amounted to (0.040) for the variable of agency costs and (0.036) for the variable of the proportion of major shareholders 'contribution to capital, meaning that the company bears the agency's costs as a result of the conflict Among major shareholders and small shareholders has an influence on dividend policy.

4- Presenting and interpreting the statistical results for testing the second hypothesis

In this section, the impact of the conflict of interests of large shareholders and small shareholders in profit distribution policies will be tested on the quality of the declared profits. For the purpose of testing the hypothesis, it is necessary to test the quality of corporate profits in the research sample through calculating discretionary accruals using the modified Jones model, where the results showed The average of the discretionary accruals of the sample companies over the years of the research has reached (-29941189017) Given the fact that profit management is the opposite side of the quality of profits, it is clear through the discretionary accruals of the majority of the banks listed in the Iraqi market for financial markets that they exercise profit management in the sense that the profits of the research sample are not distinguished by quality according to the Jones model modified according to the average value of discretionary accruals.

For the purpose of testing the second research hypothesis, the equation for multiple linear regression model has been reformulated as shown below:

$$QERit = a0 + PAYit + a1COTit + ß2SHit + Eit$$

whereas :

QERit = the quality of profits for company i in fiscal year t, which represents the value of optional benefits for company i in fiscal year t.

PAYit = dividends for the company i in the fiscal year t and equals (1) in the event that the company distributes profits and equals (0) if the company does not distribute the profits during the year .

COTit = agency costs for company i in fiscal year t.

SHit = Percentage of the major shareholders 'contribution to the company's capital i in the fiscal year t.

Eit = random error.

Table (2) illustrates the results of applying the multiple regression model to the sample of companies under study

Table (2)

Results of applying a multiple linear regression model using spss

indication	Sig.	F value for sample test	$-R^2$	R^2	R	Significance	T test for coefficients	Transaction values	Transactions
An effect	0.046	3.330	0.269	0.384	0.62	0.000	4.413	6.548	ao
						0.019	2.604-	21.00	COTit
						0.864	0.174-	0.003-	SHit
						0.012	2.837-	1.171-	PAYit

The values of the three correlation coefficients are shown in the table above, which is the simple correlation coefficient (R), which has reached (62), the determining coefficient (R2), the amount (38.4), and the correct correction coefficient (R2-), which has reached (26.9), which means that the explanatory independent variables (conflict) Major shareholders and small shareholders, the proportion of the major shareholders 'contribution to the company's capital, dividend policy) You can explain what is (27%) of changes in the quality of profits and the remainder (73%) due to other factors, as we note that the signal of the simple correlation coefficient (R) Positive, indicating a correlation between model variables.

It was also found that the independent variables (agency costs and dividends) were statistically significant according to the test (t) (at the significance level of 0.05), which amounted to (0.019) for the agency costs variable and (0.012) for the dividend variable while the independent variable was a large share contribution The shareholders in the capital were not statistically significant as it reached (0.864), meaning that the company should bear the agency costs as a result of the conflict over the distribution policies, which has an impact on the quality of the profits.

Fourth: Conclusions

The conflict between the major shareholders and the small shareholders is the second type of the agency's problems, which results as a result of the preference of the major shareholders for their interests over the account of the small shareholders by controlling the economic decisions taken by the company, including the decision to distribute the profits and the amount of what is being held, which in turn affects the quality of the profits declared and the application to a sample Of the 23 companies, the results showed a statistically significant relationship between the conflicts of interests of large shareholders and small shareholders and the policy of distributions, as well as "a statistically significant relationship between the conflicts of interests of large shareholders and small shareholders and the dividend policy and advertised earnings quality.

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