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AN OVERVIEW ON EFFECT OF FAMILY OWNERSHIP WITH ACCURACY ON PREDICTED PROFITS

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Abstract: Dividend *is one of the issues drawn into attention from the long lost past. On the other hand, presence of* real stakeholders *of family with having high percent of share and/or their presence in the* board of directors *indicate family ownership of firm. The present research intends to examine effect of family ownership with accuracy on predicted profits during 2008-2013 among the companies listed in Tehran stock exchange. In this study, the information of the statements released by the companies in sample group was used and seasonal information was used for data collection. Studying the relationship between two variables using regression and correlation via software EVIEWS and SPSS has been considered as the research method in the present research. Results of research indicated that there is negative significant relationship between family ownership and predicted profit at error level (1%) with coefficient (-3.015), f-statistics (9.035) and adjusted determination coefficient (0.016).*

Keywords: *Family ownership, deviation from the predicted profit.*

INTRODUCTION

Dividends have been an important component of total return; since the predicted profit is one of the important elements in calculating the expected return in investments, taking accuracy in predicting profit and detecting effective factors in deviation of profit is of great importance. It might search the most important effective factors in stock price in predicting earnings per share. The most important information source for investors, creditors and other users of information of firms can be predictions for the profit proposed by them at certain period of time(Saghafi and Talaneh, 2006, pp. 3-34; Alavi Tabari and Jalili, 2006, pp. 119-134). There are a variety of methods to

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predict profit, which prediction by managers and predictions based on time series models are accounted as the most important prediction methods. Since a majority of investors have no information on access to time series models and rely on the predictions of profit by managers, accuracy in prediction by managers can be of great importance (Frankel R, McNichols M. 1995, 135, 150). On the other hand, significance of family-based firms in the world of economy goes beyond so far as 175 firms (35%) among 500 American firms have been found as family-based firms(Omidvar et al. 2010). For this, a variety of indices have been proposed to define such firms in most of countries and the researchers in recent years have conducted numerous studies about these firms especially due to significance of these companies. In Iran, unfortunately due to low transparency, disclosed information on nature and ownership of firms and subsequently lack of separation of family-based firms, numerous studies have not been conducted in the context of these firms to date. In family-based firms, a large part of share is in authority of one or several shareholders of a family, that members of family are now working in operating and management positions. According to the related works, it has been specified that if amount of managers' share goes beyond the specified limit, this can make this motivation in them to propose more favorable financial status and performance; further, the shareholders can affect decisions and activities of firm through taking control over managers' behavior (Mohammadi, 2009). In family-based firms, due to special ownership structure of these firms, maintaining the family's benefits might be superior to maintaining shareholders' benefits, as a result it will be felt that benefits of this group are subjected to risk especially long-term risk (Abdolmohammadi, M. kvall, E. 2010).

THEORETICAL BACKGROUND

Hutagaol Y, Siauw F. (2014) investigated the determinants of forecasted error published by the management in the IPO prospectuses. They observed six possible determinants that affect the absolute forecast errors (AFE). Furthermore, they also examined whether the earning forecast errors could explain the IPO stylish underpricing phenomenon. A sample of 124 IPO firms that went public in Indonesian Stock Exchange(prior Jakarta Stock Exchange) during the 1997-2005 period, was attended in the research. The results show that the research models proposed are valid models. This study also found that the AFE is positively related to the IPO underpricing, suggesting that the higher the forecast errors, the more underpriced is the IPO. Moreover, it is also found that market condition also influences the underpricing level in Indonesian IPO market.

Elton E. J, Gruber M. J. (2013) in a study "Earnings Estimates and the Accuracy of Expectational Data" compared accuracy in prediction by analysts with the accuracy in prediction by time series models and concluded that prediction by analysts is more accurate than prediction by time series models, whereby these results have been inconsistent with findings by *Michael and* Cragg.

Mishra et al, (2012) found a positive association between founding family control and firm value for four alternative definitions of founding family control. They found that the association between founding family CEOs and firm value is stronger among younger firms, firms with smaller boards, and firms with a single class of shares. However, the impact of founding family directors on firm value is not affected by corporate governance conditions such as firm age, board independence, and number of share classes. They also found that the relation between founding family ownership and firm value is greater among older firms, firms with larger boards, and particularly when these firms have multiple classes of shares.

RESEARCH METHOD

This research is a quasi-experimental research in sake of correlation and method of research and a prospective research at the area of *positive accounting* research, conducted via real information; further it is an applied research since it can be used in the process of use of information. The statistical population of this research consists of all the companies listed in Tehran stock exchange during 2009-2013.

RESEARCH HYPOTHESIS

There is a significant relationship between extent of family ownership and extent of deviation in predicted profit.

RESEARCH VARIABLES

Dependant Variable

Prediction of profit: Predictions by managers about profit can affect company value and cause increase or decrease in stock price within stock exchange. The accuracy in the predictions taken by manager relies on degree of conservatism. Regression is used to predict profit. Through overview of data of four years ago, it can predict through use of regression. Firstly, data of profit for the period of time must be predicted and then put in the regression pattern so as to specify the error level. In other words, the error level in prediction of profit indicates the difference between proper prediction and improper prediction. When data of four periods ago are examined, the profit is calculated via the formula below. Then, the predicted profit is compared with real profit, and the error level for prediction of profit is acquired. Accuracy in the earning per share is obtained from division of net profit of company to the number of shares of company(Bahram far and Mehrani, 2004, pp. 26-47).

Independent Variable

Family ownership: Giving definition for family-based companies is the most important issue in the research concerning family-based companies. It can give definition for family-based companies from different perspectives. Membership by members of family in board of directors, percent of ownership of share by members of family and control or influence by family in company have been mentioned as the factors through which it can give a definition for family-based companies. For instance, Ehrhardt and Nowak (2000) have defined family-based companies as the companies that one of several members of one or two families owe at least 50% of shareholders' equity. Villalonga, Amit (2006) have defined family-based company in this way: family-based company is called to a company whose founder is a member of board of directors, executive manager or owners who owe at least 5% of company's share.

In this year, Wang in his research called family-based company to a company that large amount of its share is in hand of family members, such that they have an active attendance in board of directors of company. With regard to what mentioned above, after reviewing the conditions undergoing Iranian companies and using experts' views, two conditions below have been used to define family-based companies in Iran:

- the real share of owner must be about 20% of the ordinary share of company.
- one of the members of board of directors must owe just 5% of ordinary share and/or sum of real share of board of directors and family members must owe 5% of sum of ordinary share.

Non-family companies are called to those companies which lack the conditions above. Measurement of family ownership: sum of number of share in authority of individuals.

RESEARCH MODEL

$$EFE_{i,t} = \alpha_0 + \alpha_1 \text{Family ownership}_{i,t} + 3_{i,t}$$

EFE: accuracy in prediction of earning per share

EMPIRICAL RESULTS

Descriptive Statistics

Studying descriptive results of research variables indicate that mean of dependant variable(accuracy in earning per share) equals to 0.069 in the present research. Further, mean of family ownership equals to 575.855. Further, studying results of skweness coefficients for the research variables indicates that the variable of accuracy in earning per share has a negative skewness coefficient, indicating that such variable has a left skewness to the normal curve, yet the variable of family ownership has a positive skewness. Further, kurtosis coefficient of the research variables indicates that the research variables have a positive kurtosis. Distribution of data of the variables under study is longer than the normal curve.

Table 1
Results of descriptive statistics of research variables

	Results of descriptive statistics of research variables	
	Accuracy in earning per share	*Family ownership*
Mean	0.069	575.855
Standard deviation	0.004	688.195
Skewness	–0.856	2.891
Kurtosis	1.120	17.633
Minimum	0.055	0.000
Maximum	0.082	7188.390

RESULT OF HYPOTHESIS TESTING

There is a significant relationship between extent of family ownership and extent of deviation in predicted profit.

Studying results of regression model indicate that sig of f-statistics (9.035) is under 1%, thus it can reject H0 and confirm H1 at confidence level (99%), that is, there is a significant relationship between extent of family ownership and extent of deviation in predicted profit. On the other hand, determination coefficient of fitted model indicated that 1.8% of total changes in dependant variable have been elaborated by the variable of family ownership. Further, t-statistics and sig have been used to detect effect of variables on dependant variable. Yet, absolute value of calculated t is greater than value of t in table, whereby null hypothesis is rejected, otherwise it cannot reject null hypothesis. Further, sig indicates minimum probability for confirming null hypothesis based on the considered coefficient when equaled to 0, so that if this probability is greater than 5%, null hypothesis cannot be rejected, otherwise the considered coefficient is significant. As observed, sig of *t*-statistics for the variable of family ownership (–3.015) is under 1%, that is, it has a negative significant effect extent of deviation in predicted profit at error level(1%). Further, studying the regression coefficient for the variable of family ownership (–0.012) indicates that extent of deviation in the predicted profit of companies changes or reduces for about 0.012 per a change or increase in the variable of family ownership.

Table 2
Results of testing the second hypothesis

	Results of testing the second hypothesis			
Variable	*Regression coefficient*	*Standard error*	*t-statistics*	*Sig*
Fixed value	0.001	0.004	0.211	0.823
Family ownership	–0.012	0.004	–3.015	0.003
Determination coefficient	0.018	*f*-statistics	9.035 (0.003)	
Adjusted determination coefficient	0.016	Durbin-*Watson*	1.897	

CONCLUSION

nPrediction plays a key role in economic decision makings. At an economic enterprise, investors, creditors, managers and other users of financial statements rely on their predictions. Since most of users of direct financial statements have no access to financial information, they inevitably rely on the predictions proposed by manager. In this regards, stock exchange obliged the exchange firms to predict earnings in form of prediction of earning per share. With regard to the given explanations, the results of hypotheses are proposed as follows:

Research Hypothesis

There is a significant relationship between extent of family ownership and extent of deviation in predicted profit. This indicates that the more family ownership is great, the extent of deviation in predicted profit is higher, whereby accuracy is lower in prediction of profit. The reason lies on this fact that most of the companies with family ownership seeks to display their activities more interesting so as to attract investors. They seek to acquire more earnings and financial incentives and tend more to make the investment space more interesting in their company. It is often seen that such companies cause bankruptcy occurs in companies with their selfish decisions. The important point in these companies, lies on this fact that they cannot adopt proper decisions due to lack of expertise, knowledge and financial skills, and this can result in failure of a company. These companies have a high deviation in prediction of profit, and this can affect shareholders' trust. Result of this hypothesis is consistent with the results of study by Mishra. *et al.*, 2012 who say that managers in family-based companies have a high deviation in the predicted profit.

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