Trends in Life Sciences
An International Peer-reviewed Journal
www.sciencejournal.in

EFFECT OF EARNINGS PER SHARE AND OPERATING CASH FLOW ON REWARD OF DIRECTORS BOARD

Yadollah Tariverdi[1], Farzaneh Heidarpoor[2] and Zohreh Navaei[3]
[1]Department of Economics and Accounting, Central Tehran Branch, Islamic Azad University, Tehran, Iran
[2]Department of Economics and Accounting, Central Tehran Branch, Islamic Azad University, Tehran, Iran
[3]Department of Economics and Accounting, Centeral Tehran Branch, Islamic Azad University, Tehran, Iran

ABSTRACT
In this study, we tried to evaluate the effect on earnings per share and operating cash flow remuneration of board members to answer the question whether the earnings per share and operating cash flow impact on the remuneration of the members of the board there 3. To examine the hypothesis formulated above, we then test these hypotheses, data on 152 companies listed in Tehran Stock Exchange in the 760 observed in the company constituted over a period of 5 years (2008 2012), we consider that the results of the research suggest that earnings per share and operating cash flow positive and significant impact on the remuneration of the members of the Board of cash flows and earnings per share over the most influence over the remuneration the Board of Directors.

KEYWORDS: earnings per share, Human behavior, life, operating cash flow, reward Board of Directors

INTRODUCTION

Before the industrial revolution, the prevailing theory was the principal owner. This means that small businesses were simultaneously an owner and a manager, which in this case was not a conflict of interest between owners and managers. But after the industrial revolution institutions were converted into joint stock companies. However, prior to the wealth of companies that are owned by their relatives were formed, to be sure, but over time, and the need to increase capital market development and the accumulation of wealth, mostly was a feeling that led to the establishment of her the company was great. This (the company) led to more cost and time it takes to run the business units, in such circumstances, the management had become a true professional. Moreover, the multiplicity of stakeholders, cause problems in the control and management of the company to the owners (shareholders), corporate governance is the responsibility of another person named "manager" was assigned. The separation of ownership from management theory as the "Agency theory" suggests that on one hand, and on the other hand, the directors are shareholders. Agency relationship is a contract whereby the owner of one or more persons, as agent on behalf of another person appointed and delegated his authority to make decisions (Jensen and Mackling, 1976). The shareholders are the owners of all the company's assets are available to managers.

Managers have a responsibility to maximize the interests of shareholders. If the interests of shareholders and managers and line managers to take any action that the interests of managers and shareholders increases. But there is a conflict of interest between the two sides will be looking to maximize their own interests that each of their interests vary according to be favorite function. Agency theory is based on assumptions, including assumptions specific behavior between shareholders and managers (Mohammad Namazi, 2005). Conflict of interest between managers and shareholders, as the first problem (the problem) and represents one of the features, or in other words the assumptions of agency theory as a branch of Game theory is considered. In game theory, unlike the theory of finance which is assumed to be a manager in the interests of shareholders (profit maximization) operates one of the parties seeking to maximize their own interests. In other words, the theory of games, especially in agency theory, a player action or action requested by the other players do not (Scott, 1931). Conflicted interests due to two main causes: first, that each One of the participants, goals and preferences are different from each complete information actions, knowledge and preferences are different. Obviously, this separation, assuming the absence of effective implementation of corporate governance mechanisms, causing field managers to act in accordance with their interests and not the interests of shareholders will (Berlin means 1932). Therefore, this problem requires a solution that is generally thought to be representative of reward management is a fundamental solution to the problem. According to this belief in the face of a model for the payment of bonuses to directors, shareholders and lenders are in order to operate. The main reason is that the reward should be the responsibility of the organization to managers responsible for the reward and they create incentives for better performance (Modarres, 1994).

Trends in Life Sciences
An International Peer-reviewed Journal
www.sciencejournal.in

The agency theory is the study of conflict between employer and agent. The conflict arises from the difference in goals. Is assumed to be representative of each party are trying to maximize their own interests. Suppose there is a conflict of interest between the client or the owner's representative or agent (s) causing any their interests are trying to optimize and maximize (Namazi, Sirani, 2004). According to the above-mentioned need to reward managers in the field as one of the mechanisms (mechanisms) agency, is growing. 1 Team productivity, team productivity represented as a branch of game in which the contracts were placed so ably representative who acts in a way that motivates and representative when it is possible to the interests of the interests of the client (Business Owners) In contrast, the On behalf of the client (owner) Act (William Scott, 1931).

In this study, we try to deepen the study of the remuneration of directors and its influencing factors to answer the question of whether the remuneration of the members of the Board, earnings per share and cash flow relationship there. The topics and issues that have been studied in the field of executive remuneration, to study the relationship between salaries and bonuses paid to the members of the board of directors and firm performance. Although the relationship between salary and remuneration of directors and firm performance, as discussed in university classes in the nature of the relationship is very little consensus, to understand the true relationship between the two is needed to further research with more detail and be in a better place (Null, 2013). Thus, in this study we use two variables to test the remuneration of the members of the Board are as follows: " Earning Per Share (EPS) "and" Operating Cash Flow "and have tried using appropriate statistical model, the effect of the independent variable on the dependent variable," Remuneration Board of Directors' study.

Hypothesis:
First hypothesis: the effect on earnings per share based remuneration of the Board members.
The second hypothesis: remuneration Board of Directors has an impact on cash flows.
Method:
The aim of the research is based on applied research and the methodology of research is casual relationship. The population of this study is listed in Tehran Stock Exchange. The information and data included in the sample for the period of 5 years in the period from 2008 to 2012 were collected. In the present study for the selection of methods of systematic screening is used and the conditions and criteria for selection included the following: The

1. Companies until 2008 in exchange are accepted until 2012 register to continue.
2. End of the financial year, the end of March and during this period, have not changed their fiscal year.
3. Companies in the 5-year period studied, the financial statements presented to the Tehran Stock Exchange has been audited and approved by the organization.
4. Access to information, financial statements and notes exist.
5. Companies and financial intermediaries are among the companies.

After applying the above mentioned cases among 470 companies Accepted By At Exchange Papers Exchange Tehran, To The sample consists of 152 companies found.

Research model:

Model 1)	$\mathbf{PADASH_{it} = \beta_0 + \beta_1 EPS_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 CFI_{i,t} + \beta_4 CFF_{i,t} + \varepsilon_{it}}$
Model 2)	$PADASH_{it} = \beta_0 + \beta_1 CFO_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 CFI_{i,t} + \beta_4 CFF_{i,t} + \varepsilon_{it}$

Data analysis:
The results of inferential statistics are little research has been used to obtain useful results.

Correlation

To evaluate the correlation between quantitative variables, Pearson's correlation coefficient is enjoying the results of the tests in Table 2 is presented.

Trends in Life Sciences
An International Peer-reviewed Journal

www.sciencejournal.in

DAMA INTERNATIONAL

(Table 2) for quantitative variables and Pearson's correlation matrix R

Variable	PADASH	EPS	CFO	SIZE	CFI	CFF
Board of directors' remuneration	1					
Earnings per share	0.185 **	1				
Significance level	0.000	-				
Cash flows	0.330 **	0.321 **	1			
Significance level	0.000	0.000	-			
Company Size	0.459 - **	0.046	0.077 - *	1		
Significance level	0.000	0.200	0.032	-		
Cash flows from investing	0.223 - **	0.153 - **	0.567 - **	0.034	1	
Significance level	0.000	0.000	0.000	.346	-	
Financing cash flows	0.015	0.019 -	0.005 -	0.076 - *	0.022	1
Significance level	0.675	.592	.884	0.034	0.530	-

* And ** significant at respectively 95% and 99% confidence

According to Table 2 and assumptions formulated:
The results of the Pearson correlation test shows that in 99% of operating cash earnings per share, respectively, with a correlation coefficient equal to (0.185 and 0.330) had a significant and positive relationship with the members of the Board are rewarded. In 99% of cash flows and earnings per share, there is a significant positive correlation; the correlation with a correlation coefficient (0.321) is obtained through the Pearson correlation test.

Unit root test variables
In this research was to test the Dickey-Fuller test generalized (ADF) is used.
The test results in Table (3) are provided.

(Table 3) Dickey-Fuller unit root test using generalized

Variable	Symbol	Value and t	Significant level.
Board of directors' remuneration	PADASH	28.283 -	0.000
Earnings per share	EPS	24.821 -	0.000
Cash flows	CFO	26.831 -	0.000
Company Size	SIZE	-22.549	0.000
Cash flows from investing	CFI	28.561 -	0.000
Financing cash flows	CFF	27.827 -	0.000

According to the test results, the level of significance for all variables (0.000) is less than the acceptable level of error (0.05) and, therefore, all the variables at 95 percent of enjoy.
Testing hypotheses:
Before testing research hypotheses, we first examined using the F test Lamer which methods Pooled data or the panel (panel) for our regression model is appropriate. Then, using a technique to address this issue we examined whether the model variance anisotropy there? To answer this question, we use the White test. The test should brush after removing the variance anisotropy that actually Godfrey serial correlation test revealed itself, and finally we used regression is used to test the regression model we F-Fisher examined are explanatory power?

The first hypothesis test results

Trends in Life Sciences
An International Peer-reviewed Journal
www.sciencejournal.in

First hypothesis: the effect on earnings per share based remuneration of the Board members.

(1) $PADASH_{it} = \beta_0 + \beta_1 EPS_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 CFI_{i,t} + \beta_4 CFF_{i,t} + \varepsilon_{it}$

(Table 4-5) The first hypothesis test results

Variable name	Variable symbol	Coefficients (Coefficient)	Statistics (t-Statistic)	Prob.
Earnings per share	EPS	0.0003	5.989	0.000
Company Size	SIZE	0.0006 -	9.326 -	0.000
Cash flows from investing	CFI	0.004 -	2.469 -	0.013
Financing cash flows	CFF	0.001 -	0.527 -	.598
Constant	C	0.009	9.878	0.000
The coefficient of determination	R Square		0.285	
Adjusted coefficient of determination	Adjusted R Square		.281	
Watson camera	Durbin-Watson		1.985	
Statistics F	15.345		Prob. 0.000	
Godfrey statistic	.360		Prob. .697	
F-white test	2.163		Prob. 0.007	
F- limer statistics	.559		Prob. .691	

According to the first hypothesis test results in Table (4-5) is provided, the level of statistical significance F- lamer (0.05 <0.691) indicates that using pooled data compared to the panel (panel) is preferred. The significance level test F-

The second hypothesis test results

The second hypothesis: Remuneration Board of Directors has an impact on cash flows.

(2) $PADASH_{it} = \beta_0 + \beta_1 CFO_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 CFI_{i,t} + \beta_4 CFF_{i,t} + \varepsilon_{it}$

(Table 4-6), the second hypothesis test results

Variable name	Variable symbol	Ccoefficients (Coefficient)	Statistics (t-Statistic)	Prob.
Cash flows	CFO	0.003	6.734	0.000
Company Size	SIZE	-0.0006	8.930 -	0.000
Cash flows from investing	CFI	-0.0014	1.248 -	0.212
Financing cash flows	CFF	-0.0018	-0.727	.466
Constant	C	0.0090	9.478	0.000
The coefficient of determination	R Square		.301	
Adjusted coefficient of determination	Adjusted R Square		.297	
Watson camera	Durbin-Watson		1.984	
Statistics F	81.335		Prob. 0.000	
Godfrey statistic	.779		Prob. 0.459	
F-white test	1.959		Prob. 0.018	
F- limer statistics	.347		Prob. 0.846	

white, (0.50> 0.007), which indicates that the regression is a variance anisotropy. So after the error regression fit and more meaningful level statistics Godfrey (0.05 <0.697) in the regression is not a problem of serial correlation. The next step is to test the significance level of F (0.50> 0.000) indicates that the explanatory power of the regression has finally given the significant level of earnings per share variables (independent variables) (0.000) with the significance level (5%) and the coefficient β_1 (EPS) is a positive sign on this basis, earnings per share is significantly positive effect on the remuneration of the members of the Board. Control variables, firm size and cash flows of the investment have a negative effect on the remuneration of the members of the Board. Watson statistic camera as well as between 1.5 and 2.5 then we can conclude that there is no correlation between the variables in the problem itself. Moreover, the coefficient of determination indicates that the changes in the independent variables and the dependent variable are the change in control, which represents 28.5 percent.

According to the second hypothesis test results in Table (4-6) is provided, the level of statistical significance F- limer (0.05 < 0.0846) show that the method Pooled data (consolidated) compared to panel data (panel) is preferred. The significance level test F-white, (0.05> 0.018), which indicates that this regression is a variance anisotropy. So after the error regression fit and more meaningful level statistics Godfrey (0.50 <0.459) and, therefore, the regression is not a problem of serial correlation. Then, according to the statistics F (0.05> 0.000) The explanatory power of the regression. Also the fact that the variable cash flows (independent variable) with the significance level (5%) and the coefficient β_1 (cash flows) is a positive sign on the The cash flows are significantly positive effect on the remuneration of the members of the Board. The control variables are the negative effect on the Company's Board of Directors remuneration. Watson statistic camera as well as between 1.5 and 2.5, then we can conclude that there is no correlation between the variables in the problem itself. Moreover, the coefficient of determination indicates that the changes in the independent variables and control represent 30.1% of the variation in the dependent variable.

According to the results of the first and second hypotheses, it can be argued that such a significant positive impact on earnings per share and operating cash flow as an indicator of value, indicated the influence of reward Board of Directors of the criteria that influence and are dependent on performance, respectively. So in general it can be concluded that the remuneration of managers with performance that leads to achieving the goals of the business unit (create value and wealth for shareholders) can be linked to the same conclusion the results of research, Famma (1980), Jahanshad and Elm Ahromi (2013), Sajadi Mehrizi (2011), Mohammad Null (2013) and contrary to the findings of research Jensen and Meckling (1990), Rodesen (1990), Motowidlo and Burman (1993).

Discussion and conclusion:

In order to minimize agency problems arising from non-alignment of interests between managers and shareholders have the utility function of each of the parties and the sharing of benefits and risks between them focused. In this way, managers can use their abilities and skills in the interests of their owners, encouraged and motivated. Bonuses paid to executives as part of their remuneration, one of the proposed methods to motivate managers and one of the common tools, consistent with the views of the administrators is to increase shareholder wealth (Kabirzadeh, 2008).

In corporate value and increasing shareholder wealth in the long-term priority, so that we can say that one of the main goals of the company is to achieve the optimum performance results company to achieve this goal and to achieve the managers will. Therefore, given the importance and urgency of the issue of remuneration committees and public companies in recent years have turned the scale value. Value created by management, a solid base for the payment of bonuses to managers. The strong link between remuneration paid to directors and shareholders arise (Jahanshad, Elm Ahromi, 2013).

Therefore, in this study the effects of scale accounting value, the earnings per share and operating cash flow on the remuneration of the members of the Board have reviewed.

Earnings per share as of accounting standards have always been popular for value creation and performance evaluation, have been used. In fact, the calculation of earnings per share is the ability to wealth generation companies, estimates and judgments regarding the profitability and the management of the company. Thus earnings per share as one of the measures of value creation salary, bonuses will affect managers. In other words, the increase / decrease in value and wealth creation for shareholders to increase / decrease the managers will be rewarded.

On the other hand, one of the main assumptions in accounting is due to the ability of the entity to generate cash flow of the operational activities. The cash flow from operating activities of continuing operations characterized himself as one of the business units, ie shareholders are willing to invest in a company that is better than providing the cash flow from operating activities of the company, be payment of a dividend interest and repayment of the company have confidence. Therefore, given that the ability to generate cash from operating activities of business units and their managers (managers) depends, it can be inferred that operating cash flow as one of the measures of value can be affected by the performance reward system the influence of managers.

The findings of the first two hypotheses tested in this study indicate that both earnings per share and operating cash flow has significantly positive effect on the reward Board of Directors are. Thus, as mentioned above, a significant positive impact on the standard of value shows the relationship between firm performance and the effectiveness of reward managers to reward merit. Therefore it can be concluded that the establishment of appropriate reward schemes based on value of contract management measures that will motivate them, the agency will help to solve the problem and lead to improved performance and thus achieve the objectives of company (increase shareholder value and wealth) will be.

Despite the limitations of EPS (such as being based on historical interest, disregarding inflation calculated, under the discretion of the directors, etc.) the results of several studies suggest that users of the financial statements of the two performance criteria and (income and operating cash flow per share) compared to earnings per share of more attention, because they believe earnings per share compared to operating cash flow is a measure reliable. However, contrary to our expectations, the results of this study are different from the results of other research.

In this study it was assumed that the earnings per share, operating cash flow was more effective than the board's remuneration. The findings of this study suggest that the third hypothesis testing, operating cash flow compared to earnings per share has more impact on the remuneration of board members. The difference in the results of this study with other studies can be justified by the following reasons:

1. Since earnings per share only for a certain period of time, so it cannot be given to the company and thus reward the managers that are influenced by judge the. The model CAPM The value of a share in earnings per share this year, rather than being tied to our expectations of future profitability of power (the amount and duration of the expected cash flows), confidence towards the realization of the expected cash flows depends on it.
2. As noted, the earnings per share impact opportunistic behavior of managers (earnings management) is, however, important to note that the exponential gain more profit is not always to the management, but the aim of earnings management gain the greatest benefit for your business is that it can be both short-term and long-term horizons this is communications director. Because executives see if the present value of future rewards than their current interests, the interests of victims of future benefits are present. So it can be argued that the low rate of earnings per share compared to operating cash flow can be caused by a policy of minimum income managers.

REFERENCES

Famma (1980). Agency problems & Theory of the firms. *J. Political Economy,*

Jensen M. and Murphy K. (1990). Performance pay and top management incentives. J. Political Economy. 98.

Jensen M.C. and Meckling W.H. (1976). "Theory of the firm: Managerial behavior, Agency costs and capital structures. *J. Financial Economics.* 3.

Lee T. (1985). Cash Flow Accounting, Profit and Performance measurement: A Response to Challenge. *Accounting and Business Res.*

Null Y.M. (2013). The effect of per share and cash flow per share on CEO cash compensation: An empirical study of TSX/S & P and NYSE Indexes. *Rev. Contemporary Res.*

Rosen S. (1990). "Contract and Market For Executives", University of Chicago –Economics Reserch Center,

Subra M., Mohan Venlcatachalam K.R. (2007). "Earnings, cash Flows, and EX post intrinsic value of Equity", The Accounting Rev. 82(2).

Wilson G.P. (1986). The relative information content of accruals and cash Flow: combined evidence at the earnings announcement and annual report release date. *J. Accounting Res.* 24.

