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## **NET PROFIT AND THE POLICY OF ITS DISTRIBUTION DURING ECONOMIC CRISIS WITH THE CONSIDERATION OF THE MAIN TARGET OF A PRESENT-DAY COMPANY**

### **Introduction**

The category of profit, despite the evolution of the objectives of company operations, is still perceived as a significant measure of economic benefits. It is a desired target of operations – according to some company theories it is the main objective and according to the other ones it is a partial objective but a decisive one as regards the main target, which is the growth of the company value for shareholders.

The aim of the article is to present the significance of net profit in generating economic benefits by the resources of a contemporary company and the role of the policy of net profit distribution, especially during economic crisis as there is a dilemma whether the net profit should be paid as a dividend (which implies the decrease of the most liquid element of the assets) or allocate the capital for self-development (the question arises whether the resources increased in such a way may be used rationally)

### **1. Partial target versus the main objective of a present-day company**

At present, companies are operating in a turbulent environment, which forces them to change management methods and has an impact on the perception of their targets. Target is understood as an assumed result of endeavors, a condition that a company is willing to achieve<sup>1</sup>. In order to ensure sustainable functioning of an organization it is necessary to establish a common target by means of a compromise between the shareholders, managers and members of the board. The fundamental task of a company is to take advantage of the favorable conditions of the environment with the aim of running long-term operations and strengthening its position on the market.

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<sup>1</sup> B. Godziszewski, M. Haffer, M. Stankiewicz, S. Sudoł, *Przedsiębiorstwo. Teoria i praktyka zarządzania*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2011, pp. 36-39.

When reviewing the contemporary company theories, one can distinguish the following approaches: neoclassical, behavioral and managerial company theories, agency theory, ownership rights theory and transactional costs theory (the last three constitute the core of the New Institutional Economics)<sup>2</sup>. Each of the theories focuses on a clear definition of the main target of company operations.

The classical (traditional) theory of company assumes that the objective of the operations is to maximize long-term profits. That concept identifies the organization with its owner, who provides the resources, which implies the generation of certain company costs but also gives the owner the right to compensation. The businessman receives both the income and (possibly) the profit generated. It is possible to achieve net profits, where the income is higher than the sum of the explicit and implicit costs<sup>3</sup>.

The behavioral theory of the firm concentrates on the decision making processes and defines the targets of all the stakeholders of the company. It clearly emphasizes the idea of the company, which is the “coalition of coalitions”, a search for “golden means” between different and contradicting interests of all the groups in the organization. Thus, behaviorists consider company target as a stream of targets of several decision makers<sup>4</sup>.

Since 1960s the theories of company have turned their attention to the separation of ownership and management functions in big economic units, which resulted in the definition of the main company target that takes into consideration the interests of its owners. According to the managerial theory, the main economic target of a company is the increase of company value by self-financing. Consequently, it should be understood that the main target that is defined in that way can be achieved by accomplishing partial targets, referred to as economic benefits, such as:

- the generated net profit (accrual accounting)
- the generated cash excess (cash accounting)

EVA – Economic Value Added, which combines both accrual and cash accounting and considers the cost of the total capital ( i.e. not only the cost of external capital as in the case of the accounting profit but also the cost of company equity) is considered the most synthetic measure of economic benefits. In practice, however, that target is difficult to be measured. As a result, very few big corporations apply it when accounting economic benefits, and if they use that instrument, the measurement is based on simplified calculation procedures.

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<sup>2</sup> M. Gorynia, *Przedsiębiorstwo w różnych ujęciach teoretycznych*, „Ekonomista” 1999, nr 4, p.531.

<sup>3</sup> *Ibidem*, p.531-535.

<sup>4</sup> *Ibidem*, p.541-545.

When defining company targets, the aspect of time should also be considered as they are defined differently for current and strategic management purposes.

The target of profit maximization that was emphasized by the neo-classical economy has been superseded by the managerial theory where profit is perceived as the optimization of profit. New concepts of present-day management are taken into consideration that are based on the creation of long-term relations with stakeholders, especially including the clients (along with the lines of the managerial ideas regarding the client value). However, profit should be still perceived as a partial target of a company. Firstly, it is the measure of the owners' capital increase and secondly, it is the source for financing company's development.

The accomplishment of the target by generating a net profit results in the creation of the possibility to meet the main target, which - according to the contemporary theory of company - is the increase of company value for shareholders by means of self-financing the development. The measurement of company value is difficult due to the complexity of the measurement object - it is the determination of the value of a company which is an economically and legally organized entity. It should be noted that not all resources are measurable and, consequently, cannot be presented in company's balance sheet. Moreover, the investors are not particularly interested in net assets but in the capability of the assets to generate economic benefits that in the company valuation procedure are referred to as company income (net profit, net positive cash flow)

The article discusses company value in the asset approach (accounting value) - the total company value will be analyzed through the total value of assets, while the company value for shareholders through net assets. Due to the fact that net assets are financed by the equity capital, it will be the object of analysis with the aim of assessing the changes in company value for shareholders in 2005-2013.

## **2. Significance of financial result measurement in accounting**

Accounting as an applied economic science that is linked with many other scientific disciplines plays a special role in providing financial information for the needs of management. It must meet the requirements of contemporary management and with the evolution of the targets of management it must extend the scope of the information it generates. The presentation of changes in the equity capital (fund) is a symptom of the growth of the information capacity of a financial statement. That element of the statement extends the knowledge on the financing sources of net assets which - as it was mentioned before - are the

measure of the company value for shareholders in the asset approach. The structure of the equity capital given in a dynamic approach constitutes a basis for the management of the accounting company value for shareholders. It can be even stated that accounting plays a stimulating role as regards the management of that measure. The presentation of changes in the equity capital makes it possible to distinguish how profit was shared in previous year(s) and, as a result, it helps find the part of the profit that will constitute the internal source of self-financing the company development

It has to be mentioned that the net financial result of the financial year is included in the asset balance sheet within capital equity (liabilities). That item of capital equity needs to be interpreted cautiously as the profit fully increases capital equity at the moment of generating the balance sheet, which may lead to the conclusion that the accounting company value for shareholders is rising exactly by the value of the net profit. However, as late as after distributing the profit in the accounts of the following year, the impact of the generated net profit on the increase of the company value for shareholders will be visible. That information will be given in the presentation of changes in the capital equity which will be made at the end of the financial year in which the profit distribution was made.

The profit and loss account, which is an obligatory element of a financial statement, constitutes the main source of the information on the financial result. The segment structure of the account makes it possible to determine both the value and the structure of the financial statement and, as a result, it supports the management of company's financial result. Competency in reading the profit and loss account supports significantly company management.

The segment of the ordinary operations constitutes an important information area on the changes in the economic result and has to be assessed and predicted as regards the rule of the continuity of operations. The continuity of occurrence is typical for the economic categories that generate the sales result when the operations are continued and makes it possible to present them in the form of an econometric model. Managers should manage the sales result in such a way that it always has a positive value and is big enough to cover the possible losses in other result segments, e.g. in the segment of financial operations, which even in a correctly functioning entity may show a loss because of the use of financial instruments such as financial leasing, credits and loans.

The segments: other operations, financial operations and extraordinary events present the result of events that are rather unrepeatable and unique, which makes the prediction of the results in these segments fairly difficult and requires significant thoroughness in the

retrospective analysis (in the financial analysis). A relatively high profit generated in a given period may not imply that in the next period(s) the segments will show a positive result. The prediction of values of the results should be based on the information that results from the company's operational strategy, especially from the report of its operations.

In conclusion, the entities that run complete accounting are obliged to provide information on the financial result in the accounts and the profit and loss account. The financial result is a measure of economic benefits that are generated by company resources and expected by shareholders who want the invested capital to be increased. The economic benefits are also expected by the board in the context of ensuring the self-financing of company development and the assessment of the effectiveness of the decisions made.

### **3. The impact of economic crisis on profit distribution policy**

Due to the globalization processes there are strong connections between economies and as a result the crisis spreads more promptly and its scope is increasing. Although cyclical fluctuations are a natural feature of market economy, it is necessary to limit the range and minimize the effects of a crisis – both by the state economic policy and an adequate company policy – when the scale of disturbances is significant enough to affect the stability of the whole economic system.

The mechanism of the latest economic crisis was complex in nature. The Global Crisis that started in the USA in 2008 was initiated by many factors, among which were: the uncontrolled increase of property in 2005-2006, the excessive creation of innovative financial products without assessing the credit rating, inadequate bonus schemes in financial institutions that encouraged a relatively large risk taking as regards taking credits, and the financial expansion policy run by the FED.

The financial crisis started when the bankruptcy was announced of the one of five biggest investment banks in Wall Street- the Lehman Brothers - and it moved relatively quickly from the financial sphere to the real world; the crisis signals were then transmitted through the global trade and capital transfers<sup>5</sup>.

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<sup>5</sup> P. Kawa, *Kryzys finansowy i jego implikacje w wybranych obszarach gospodarki*, Wyższa Szkoła Zarządzania i Bankowości, Kraków 2012, p. 9.

According to the K.Jajuga's<sup>6</sup> negative concept of risk, the instability of macroeconomic environment that is caused by a business cycle or a crisis may be treated as a loss which results in the uncertainty of business and, consequently, may determine the policy of company as regards profit distribution.

Bearing in mind various meanings of the term *profit*, the authors understand it as a positive financial result that has the following functions: a redistributive function – it is the source of self-financing company's development needs, a function of the basic measure of business performance, and an incentive function – it motivates a company to effective performance<sup>7</sup>. The profit may constitute the source of financing the company, dividends to shareholders and donations to a third party.

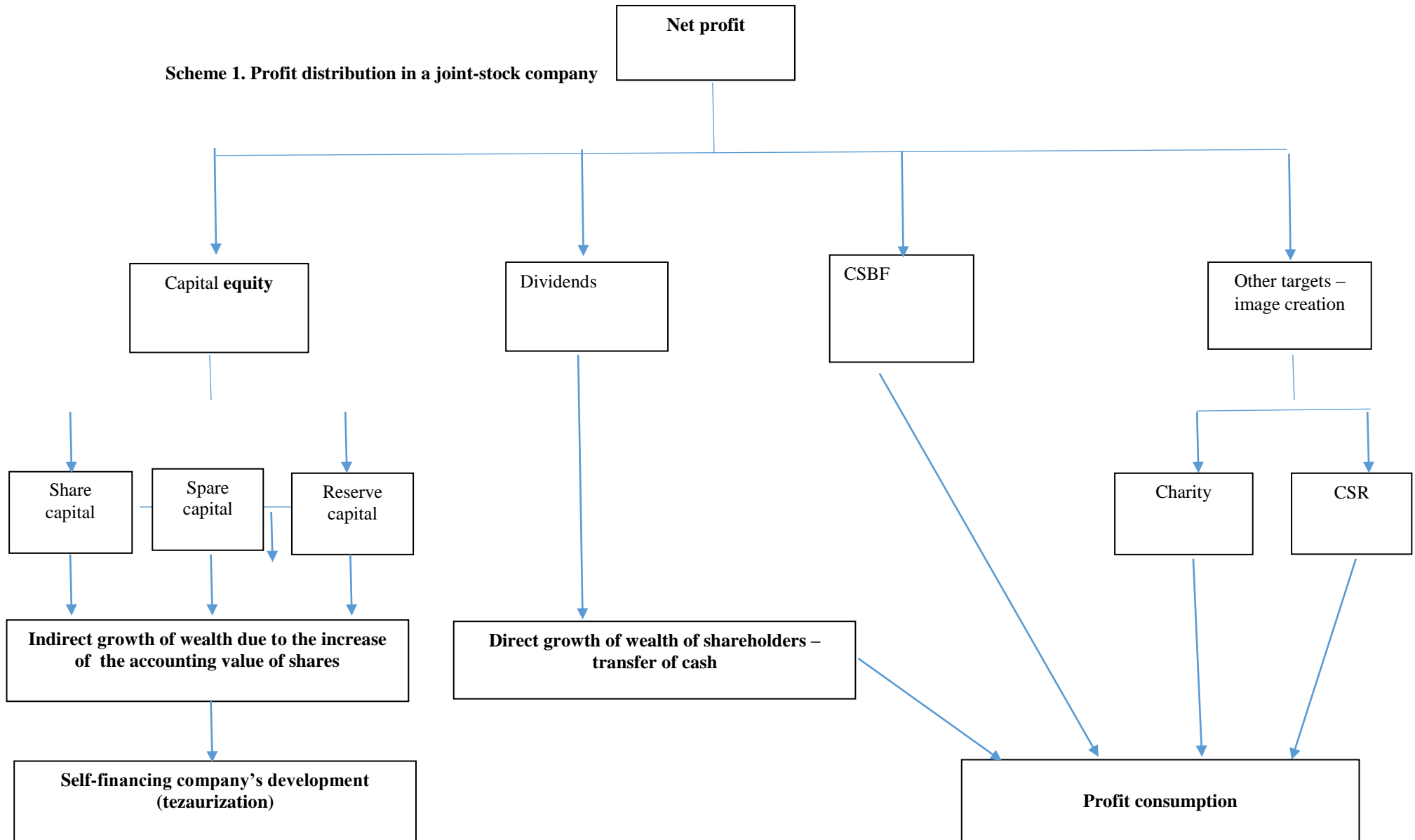
Scheme 1 presents a possible profit distribution in a joint-stock company, with an emphasis on the two distribution trends: account titles that indicate self-financing of company development and the ones that indicate the consumption of the profit. The account title *profit consumption* in the form of a dividend is a special one as it represents a significant issue from the point of view of the company income value – the category of dividend as an income measure is applied by one of the valuation methods of company income value.

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<sup>6</sup> K. Jajuga, *Koncepcja ryzyka i proces zarządzania ryzykiem – wprowadzenie* [in:] K. Jajuga (ed.), *Zarządzanie ryzykiem*, Wydawnictwo Naukowe PWN, Warszawa 2009.

<sup>7</sup> A. Kozieł, *Zysk w spółce kapitałowej. Aspekty prawno-handlowe*, Difin, Warszawa 2013, p. 20.

**Scheme 1. Profit distribution in a joint-stock company**



Source: Authors' research

There are even different theories on the dividend in the literature on the subject<sup>8</sup> :

- Modigliani-Miller dividend irrelevance theory – it assumes that paying out dividends is neutral to shareholders; it do not affect the share price;
- Gordon-Lintner bird-in-the-hand theory, according to which the value of shares rise with the increase of the dividend value;
- tax benefit theory, which assumes that the pay-out of substantial dividends results in the decrease of the value of shares.

The decision on the distribution of the profit depends fully or partially on the decision of the shareholders. They can dispose of the profit in line with the status or resolutions made at general meetings at their own will or they may seek advice from other stakeholders, e.g. the Supervising Board or the Board of Directors.

In capital companies the net financial result is subject to distribution after it is verified i.e. given in the financial statement after being audited by an auditor.

During the crisis, the decision on profit distribution is difficult, especially when the interest of the company is to be taken into consideration.

The economic crisis, which manifests itself, among others, in the increased requirements of banks as regards the assessment of credit ratings and the reduction of the volume of credits granted, discourages the companies from making the decisions on paying the dividends. That is due to the fact that such a payout leads to getting rid of the most liquid component of working assets, i.e. of the cash, which may pose a threat to the financial liquidity in the prompt discharge of matured liabilities and the coverage of current expenses.

The allocation of profit to targets that in the scheme are referred to as *image creation* can be perceived differently. Although it accounts for the consumption of the profit and it requires cash means, its scale is much less significant than in the case of the dividend. Moreover, all CSR operations may account for promotion and they may encourage customers to buy company's products.

However, considering net profit as an internal source of self-financing company development during the crisis and the lack of knowledge as regards its scope and effects may also pose a risk. The allocation of the net profit to development self-financing results in the increase of the asset potentials of a business company. A rational investment of the increased part of the equity capital will lead to a success. For example, the increase of the production potential will result in the rise of the output but during the crisis the market may not absorb

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<sup>8</sup> Ibidem, p. 165 and further



that increase (there even may be a drop of sales in comparison to previous years). Investing in financial assets may also be dangerous – it is especially risky to allocate the capital to securities carrying the right to equity interest, e.g. to the shares of stock exchange companies where the volatility of stock is significant; the visible fluctuations of the stock market prices prevent companies from buying the shares of other entities. Only the purchase of bonds, especially of the State Treasury bonds, is considered a safe allocation of the capital.

#### **4. The assets and capital of the Firma Oponiarska Dębica S.A. stock exchange company in 2005-2013 and its book value**

One of the historically oldest concepts of company valuation is based on the value of its assets<sup>9</sup>. Balance sheet report is the basic information source on the book value of company assets and it is based on the figures given in the books of account. In business practice, however, there are situations where legal regulations must be applied that require the use of the fair value method in the valuation (e.g. in the case of mergers). It can be generally stated that according to the asset-based approach, a company is worth as much as its assets<sup>10</sup>. The assets can be identified on the basis of the data resulting from the balance sheet report that is made in accordance with the requirements of the current balance sheet law and the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS).

The value of company resources that are in disposal of a company, i.e. its total assets determines the total company value in the asset-based approach. The board of the business entity deals with the control of the assets (rational management) and is responsible to the shareholders for the effectiveness of the decisions made. The owners are interested in the value of assets that are not burdened with debts, i.e. in the value of net assets (the value of the entity's total assets minus its liabilities and provisions for the liabilities) that are financed by the equity.

The article analyses the value and structure of the assets and capital of the Firma Oponiarska Dębica S.A company in 2005-2013, which makes it possible to assess the total company value and the company value for shareholders during the crisis that affected not only the national but also the global economy. The Firma Oponiarska Dębica S.A company has

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<sup>9</sup> The asset-based approach distinguishes book value, fair value, replacement value and liquidity value methods.

<sup>10</sup> P. Waśniewski, *Zarządzanie wartością przedsiębiorstwa jako narzędzie sterowania jego działalnością*, Studia i Prace Wydziału Nauk Ekonomicznych i Zarządzania Nr 21, Wydawnictwo Naukowe Uniwersytetu Szczecińskiego, Szczecin 2011, s. 120.

been a Polish manufacturer of tyres for almost 75 years. It has been selected for the analysis of the profit distribution policy due to the fact that it maintained a growing profit value in the period under analysis (2005-2013), with the exception of 2009. Moreover, it seemed interesting in the context of the global crisis that in 1995 the Company gained a strategic investor, The Goodyear Tyre & Rubber Company, which possesses 65% of Company shares. One may suspect that that fact enabled the Company to survive fairly successfully the period of the economic crisis (the expansion of the market).

Table 1 gives a synthetic presentation of the Company assets and liabilities; table 2 shows the dynamics of the assets and capital, while graph 1 is a graphic presentation of the assets, equity and net profit.

The line representing the value of total assets shows the changes in the total company value of the Firma Oponiarska Dębica S.A. company. Both graph 1 and the data in tables 1 and 2 imply that in 2009 there was a decrease of value in relation to 2008 by 8.7%; also in 2012 the Company had a lower value by 4.31% than in the previous year. In the remaining years of the period under consideration there was an increase of the Company value. In 2010 the increase was the highest but that was because of the low value in the previous year. It is worth mentioning that in the case of the fixed assets there was a decrease of the value in relation to the previous year only in 2009, while in the remaining years there was always an increase as regards that group of assets. The decrease of the value of current assets occurred in as many as four years: 2007, 2009, 2012 and 2013 (in each case in relation to the previous year). Such decreases of the current assets could have an impact on the value of the net profit, which decreased both in 2007 and 2009 by 6.5% and 19.97%, respectively.

In short, in 2005 the total value of the Company was 957 848 thousand PLN while in 2013 it reached 1 449 337 thousand PLN; thus the increase amounted to over 50%.

The Company's book value for shareholders should be looked at through the equity capital value. The figures in tables 1, 2 and the graph present annual growths of the Company's value for shareholders in the whole period under investigation. The most significant growth in relation to the previous year took place in 2008, while the lowest was in 2006 (in relation to 2005). The increase in 2008 was caused by a substantial rise of other reserve funds and the net profit, while such an insignificant growth in 2006 was due to the unchanged value of all capitals – only the net profit rose by 19.35%

There is no directly proportional correlation between the changes of the net profit and the equity capital value; the net profit generated in a given financial year affects the equity capital in the next year, after the distribution of the profit.

While in the period under investigation the equity capital showed a growing trend, the liabilities showed decreasing levels in 2009, 2012 and 2013.

**Table 1. Synthetic presentation of the assets and capital of the Firma Oponiarska Dębica S.A. company in 2005 – 2013 (in thousand PLN)**

Description	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Total assets</b>	<b>1449337</b>	<b>1391969</b>	<b>1454724</b>	<b>1377530</b>	<b>1141820</b>	<b>1250577</b>	<b>1109280</b>	<b>1062759</b>	<b>957848</b>
A. Fixed assets, including:	873151	765669	665529	637359	630654	653166	592264	523083	461220
Tangible fixe assets	851449	755675	648994	618310	614300	629690	560516	493557	436690
B. Current assets, including:	576186	626300	789195	740171	511166	597411	517016	539676	496628
Inventory	108447	117687	286218	231571	167243	219516	174334	175373	162843
Short-term receivables	337528	323388	456349	460319	266852	345735	300041	316300	288095
Short-term investments	129623	184772	58666	51664	76396	42327	42327	46164	45449
<b>Total liabilities</b>	<b>1449337</b>	<b>1391969</b>	<b>1454724</b>	<b>1377530</b>	<b>1141820</b>	<b>1250577</b>	<b>1109280</b>	<b>1062759</b>	<b>957848</b>
A. Equity capital, including:	934388	866245	818230	768292	748719	698774	639808	613148	603226
Share capital	110422	110422	110422	110422	110422	110422	110422	110422	110422
Spare capital	322482	320041	319618	318893	310603	310603	310603	310603	310603
Revaluation reserve capital	70076	72 517	72940	73665	81955	81955	84003	84003	84003
Other reserve capitals	316611	269 839	224455	183626	173710	105794	77754	47128	47094
Net profit/loss	114797	93426	90795	81686	72029	90000	57026	60992	51104
B. Liabilities and provisions for liabilities, including	514949	525 724	636494	609238	393101	551803	469472	449611	354622
Long-term liabilities	1298	1 647	6386	3416	1880	2176	1916	1626	1918
Short-term liabilities	424707	439 479	543599	522080	309680	452236	353186	339852	252645

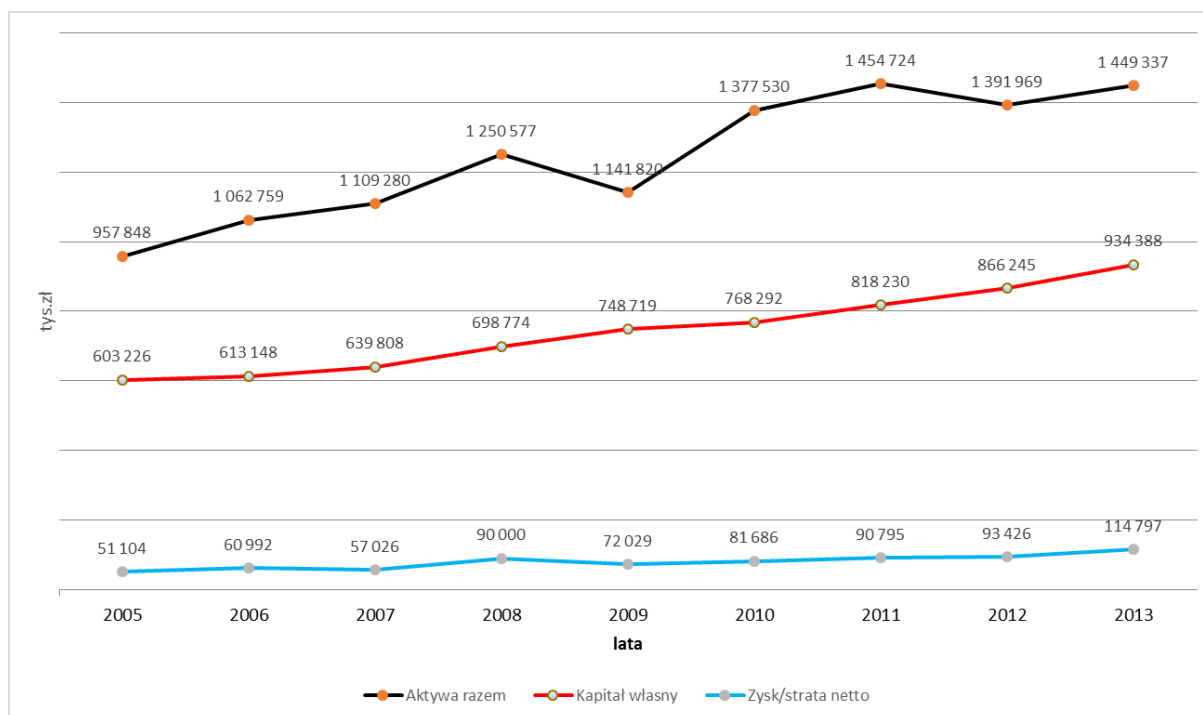
Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

**Table 2. Dynamics of the assets and liabilities in the Firma Oponiarska Dębica S.A. company in 2005-2013 (%)**

Description	2006/2005	2007/2006	2008/2007	2009/2008	2010/2009	2011/2010	2012/2011	2013/2012
<b>Total assets</b>	<b>110,95</b>	<b>104,38</b>	<b>112,74</b>	<b>91,30</b>	<b>120,64</b>	<b>105,60</b>	<b>95,69</b>	<b>104,12</b>
A. Fixed assets, including:	113,41	113,23	110,28	96,55	101,06	104,42	115,05	114,04
Tangible fixed assets	113,02	113,57	112,34	97,56	100,65	104,96	116,44	112,67
B. Current assets, including:	108,67	95,80	115,55	85,56	144,80	106,62	79,36	92,00
Inventory	107,69	99,41	125,92	76,19	138,46	123,60	41,12	92,15
Short-term receivables	109,79	94,86	115,23	77,18	172,50	99,14	70,86	104,37
Short-term investments	101,57	91,69	100,00	180,49	67,63	113,55	314,96	70,15
<b>Total liabilities</b>	<b>110,95</b>	<b>104,38</b>	<b>112,74</b>	<b>91,30</b>	<b>120,64</b>	<b>105,60</b>	<b>95,69</b>	<b>104,12</b>
A. Equity capital, including:	101,64	104,35	109,22	107,15	102,61	106,50	105,87	107,87
Share capital	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Spare capital	100,00	100,00	100,00	100,00	102,67	100,23	100,13	100,76
Revaluation reserve capital	100,00	100,00	97,56	100,00	89,88	99,02	99,42	96,63
Other reserve capital	100,07	164,98	136,06	164,20	105,71	122,23	120,22	117,33
Net profit/loss	119,35	93,50	157,82	80,03	113,41	111,15	102,90	122,87
B. Liabilities and provisions for liabilities, including:	126,79	104,42	117,54	71,24	154,98	104,47	82,60	97,95
Long-term liabilities	84,78	117,84	113,57	86,40	181,70	186,94	25,79	78,81
Short-term liabilities	134,52	103,92	128,04	68,48	168,59	104,12	80,85	96,64

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

**Graph 1. Graphic presentation of the assets, equity capital and net profit of the Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN)**



Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

In the period under investigation the company value for shareholders amounted to 934 388 thousand zlotys in 2013; as in the first year of the investigation the value was 603 226 thousand, the increase amounted to about 55%.

That implies that the company value for shareholders was increasing at a higher rate than its total value. The impact of the crisis is visible in the company total value – in 2009 the company's assets had a lower value, with less financing from external sources (liabilities). In 2009 the net profit was also lower than in 2008 (by about 20%).

The effects of the economic crisis are visible in the levels of ROA and ROE, which is shown in table 3.

**Table 3. Returns on assets and equity (%)**

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
ROA	5,34	5,74	5,14	7,20	6,31	5,93	6,24	6,71	7,92
ROE	8,47	9,95	8,91	12,88	9,62	10,63	11,10	10,79	12,29

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

The values of the indicators presented in table 3 imply evidently that the profitability of assets dropped in 2009 – while in 2008 one zloty of the Company value generated 7.2 grosz

of net profit, in 2009 it was only 6.31 grosz. In 2010 it was even less (5.93 grosz) and in 2011-2013 the level of ROA was lower than in 2008. The improvement of profitability occurred in 2013 (the last year of the period under investigation); in that year ROA even exceeded the level of 2008. Similar changes took place as regards ROE. In 2009-2013 ROE went down in relation to 2008; however ROE in the last year of the investigation period was only insignificantly lower than in 2008, while 1 grosz of the equity capital generated 12.88 grosz of the net profit in 2008, in 2013 it was 12.29 grosz.

## **5. Assessment of the net profit distribution in the Company; the impact of the profit distribution policy on the company value for shareholders**

As it was mentioned before, the Firma Oponiarska Dębica S.A. company generated net profit in the whole period under investigation. Table 4 presents the value and structure of the Company's net financial result in 2005- 2013. The data in table 4 imply that the segment of the ordinary operations was the main source of the income generation, which is a positive symptom as it is the segment that generates the revenues and costs in a continuous way – assuming that the operations are continued continuously. The return on sales was big enough to cover – with a substantial excess – the losses in other segments and the income tax. Table 5 presents the sales figures. In 2008 – 2009 there was a decrease in the sales revenue and a simultaneous decrease of the allowable expenses which was more significant than in the case of the revenue, and which allowed the Company to achieve a gross profit on a relatively high level. The highest margin (gross profit) was reached in 2008 (238 991 thousand PLN), but in 2012-2013 gross profits were much lower. In 2008, the return on sales reached the highest level (138 731 thousand PLN), while in the next years it decreased and in 2013 it amounted to 107 689 thousand PLN.

In the whole period under investigation the Company made a loss in the segment of other operations; the highest loss occurred in 2009 (35 801 thousand PLN); relatively high losses were accounted in 2006 and 2008 (30 479 thousand PLN and 28 055 thousand PLN, respectively); also in 2012 and 2010 the results were not satisfactory and the losses amounted to 12 149 thousand PLN and 11 144 thousand PLN, respectively.

A special attention should be paid to the loss in the financing activities segment – the Company reached a negative result in 2005-2011; a relatively high loss occurred in 2008-2009 and 2011. At that time, the Company incurred substantial liabilities, which resulted in high financial costs.

The net profit that was reached by the Company had a significant impact on the value of the equity capital, which reflects the company value for shareholders. As it is shown in table 6, the share capital remained the same in the whole period under investigation and the changes in the spare capital and other reserve capital that occurred at the end of the period resulted from allocating the net profit to self-financing capitals.

On the basis of the presentation of changes in the equity capital (an element of financial statement) an analysis was made of the profit distribution policy applied by the Company in 2005-2013. The aim was to establish the ratio between the allocation of profit to self-financing the Company development and the amount devoted to the dividend. One should note the fact that the profit allocated to the reserve capital may be distributed among the shareholders.

Table 7 presents the distribution of the previous year net profit made in the accounts of the current year by values given both in thousand PLN and in percentage terms.

**Table 4. Value and structure of the net financial result by segments in the Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN).**

Result segment	Partial results								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
I. Ordinary operating activity	107689	121782	137874	121464	138731	153716	78403	106896	72034
II. Other operating activity	-4543	-12149	-2880	-11144	-35801	-28055	-5075	-30479	-391
III. Financing activities	5445	7249	-21390	-8472	-13191	-13847	-2245	-559	-8046
IV. Extraordinary events	0	0	0	0	0	0	0	0	0
V. Obligatory charges on the financial result	-6206	23456	22809	20162	17710	21814	14057	14866	12493
<b>VI. Net profit/loss</b>	<b>114797</b>	<b>93426</b>	<b>90795</b>	<b>81686</b>	<b>72029</b>	<b>90000</b>	<b>57026</b>	<b>60992</b>	<b>51104</b>

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company



**Table 5. Changes in value and structure of the financial result of the ordinary operating activities in the Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN).**

Description	2013	2012	2011	2010	2009	2008	2007	2006	2005
I. Net revenue on goods sold	19861 79	21332 59	23215 86	17933 51	14225 59	14672 12	15465 39	15258 10	14176 73
II. Cost of goods sold	17991 66	19333 10	20771 31	15765 29	12020 98	12070 54	13819 07	13407 68	12567 31
III. Gross profit/loss	16701 3	19994 9	24445 5	21682 2	22046 1	23899 1	16463 2	18504 2	16094 2
IV. Sales costs	30651	26771	35377	31007	26022	32624	34925	32908	39111
V. Management and administration costs	48673	51396	71204	64351	55708	52651	51304	45238	49797
<b>VI. Sales profit/loss</b>	<b>10768 9</b>	<b>12178 2</b>	<b>13787 4</b>	<b>12146 4</b>	<b>13873 1</b>	<b>15371 6</b>	<b>78403</b>	<b>10689 6</b>	<b>72034</b>

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

**Table 6. Changes in equity capital of the Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN) (dynamic approach)**

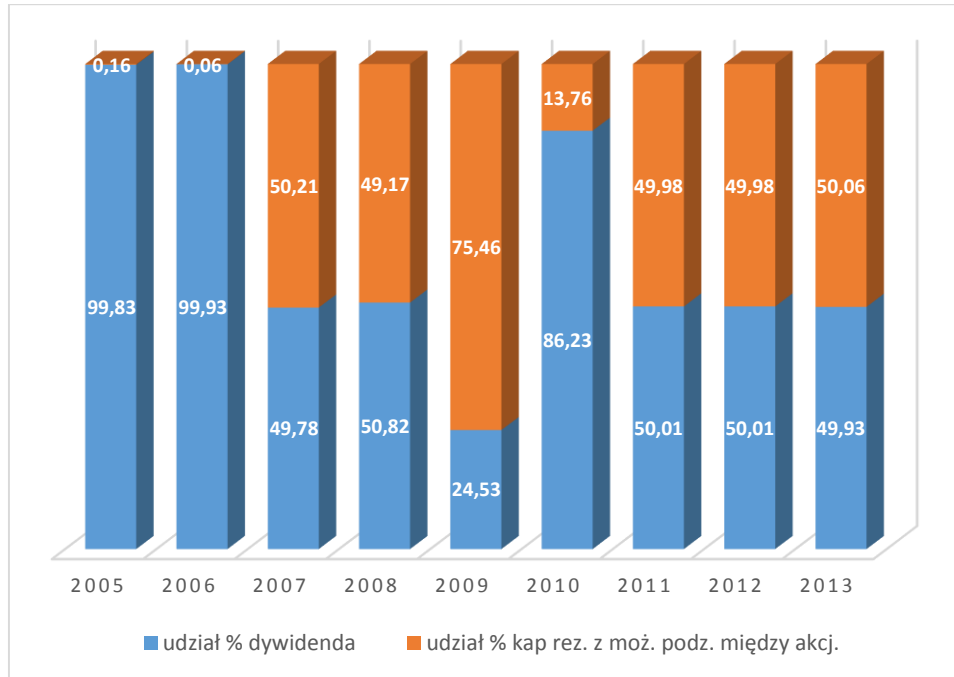
<b>I. Opening balance of equity</b>	<b>866245</b>	<b>818230</b>	<b>768292</b>	<b>748719</b>	<b>698774</b>	<b>639808</b>	<b>613148</b>	<b>603226</b>	<b>645981</b>
1. Opening balance of share capital	110422	110422	110422	110422	110422	110422	110422	110422	110422
1.1 Closing balance of share capital	110422	110422	110422	110422	110422	110422	110422	110422	110422
2. Opening balance of share capital	320041	319618	318893	310603	310603	310603	310603	310603	310603
2.1 Closing balance of share capital	322482	320041	319618	318893	310603	310603	310603	310603	310603
3. Opening balance of revaluation reserve capital	72517	72940	73665	81955	81955	84003	84003	84003	84003
3.1 Closing balance of revaluation reserve capital	70076	72517	72940	73665	81955	81955	84003	84003	84003
4. Opening balance of other reserve capital	269839	224455	183626	173710	105794	77754	47128	47094	46936
4.1 Closing	316611	269839	224455	183626	173710	105794	77754	47128	47094

balance of other reserve capital									
5. Opening balance of previous year profit (loss)	93426	90759	81686	72029	90000	57026	60992	51104	94017
5.1 Closing balance of previous year profit (loss)	0	0	0	0	0	0	0	0	0
6. Net result	114797	93426	90795	81686	72029	90000	57026	60992	51104
6.1 Net profit	114797	93426	90795	81686	72029	90000	57026	60992	51104
<b>II. Closing balance of equity</b>	<b>934388</b>	<b>866245</b>	<b>818230</b>	<b>768292</b>	<b>748719</b>	<b>698774</b>	<b>639808</b>	<b>613148</b>	<b>603226</b>
<b>III. Equity after proposed profit distribution (loss coverage)</b>	<b>934388</b>	<b>866245</b>	<b>818230</b>	<b>768292</b>	<b>748719</b>	<b>698774</b>	<b>639808</b>	<b>613148</b>	<b>603226</b>

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

Graph 2 illustrates the structure of the net profit distribution in order to emphasize the distribution policy in the period when the crisis was made visible. In 2009, a substantial part of the net profit (75.5%) was allocated to the reserves, while only 24.5% went to the dividends. A surprising decision was made in 2010 when most of the previous year profit was allocated to the dividend (approx. 86%) and only approx. 14% supplied the reserve capital. Generally, in 2007-2008 and 2011-2013 almost similar percentage of the profit was allocated to development self-financing and the dividends. In 2005-2006 almost the whole profit was allocated to the dividends.

**Graph 2. Graphic presentation of the previous year profit distribution in the Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN)**



Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

As it was mentioned above, the dividend payout affects financial liquidity. Table 8 presents the change structure of cash flow in the Company in order to assess how the dividend payout influenced the net cash flow.

**Table 7. Previous year net profit distribution in the Firma Oponiarska Dębica S.A. in 205-2013 (in thousand PLN)**

Description	Net Cash flow								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
A. Operating activities	182056	336688	163595	102178	247522	89454	142832	78794	110264
B. Investment activities	-192338	-131729	-98240	-67853	-68973	-126981	-91962	-92242	-79236
C. Financing activities	-49545	-78615	-53570	-61686	-134499	27666	-55194	14509	-77010
<b>D. Total net cash flow</b>	<b>-59823</b>	<b>126344</b>	<b>11785</b>	<b>-27361</b>	<b>44050</b>	<b>-9861</b>	<b>-4324</b>	<b>1061</b>	<b>-46000</b>

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

**Table 8. Change structure of cash flow in Firma Oponiarska Dębica S.A. company in 2005-2013 (in thousand PLN)**

Description	2013	2012	2011	2010	2009	2008	2007	2006	2005
Previous year profit	93426	90795	81686	72029	90000	57026	60992	51104	94017
Profit dsitribution	46653	45411	40857	62113	22084	28986	30366	51070	93859
a) Dividend									
- percentage	49,93	50,01	50,01	86,23	24,53	50,82	49,78	99,93	99,83
b) reserves with the possibility to be distributed among shareholders	46773	45384	40829	9916	67916	28040	30626	34	158
- percentage	50,06	49,98	49,98	13,76	75,46	49,17	50,21	0,06	0,16

Source: Authors' investigation based on the financial statements of the Firma Oponiarska Dębica S.A. company

In 2005 almost the total net profit was paid out to the shareholders (93 859 thousand PLN); at that time the value of cash flow was negative (- 46 000 thousand PLN); in 2006 – despite the allocation of the almost total net profit to the dividends – the cash flow was positive but in 2010 as much as 86% of the net profit (62 113 thousand PLN) was paid out as the dividend and in that year there was a negative cash capital (- 27361 thousand PLN). The discrepancy between Company's capacities to generate net profit and cash surplus in 2013 are disturbing. The profit amounted then to 114 797 thousand PLN (which was more by almost 23% than in the previous year), while the net cash flow was negative and equaled as much as -59823 thousand PLN.

## **Conclusions**

The article discussed – against the background of contemporary company theories - the role of the category of net profit and the possible titles of its distribution during the global economic crisis that had - and still has - a significant impact on the profit distribution policy. The issue was illustrated within the framework of Polish economy; the authors analyzed the changes in the financial result and the profit distribution policy in one of the leading stock exchange companies on the Polish capital market – the Firma Oponiarska Dębica S.A. company. The investigation covered the period of 2005-2013 in order to make possible the assessment of the possible impact of the economic crisis on achieving net profit and – subsequently – on its distribution.

The total value of the company assets was presented from the perspective of the resources, while the company value for shareholders was discussed through the category of equity capital, which is the financing source of net assets. The analysis made implies that the symptoms of the economic crisis are visible – the decrease in the value of resources, the drop in the net profit value and differences in the profit distribution as regards the tezaurization segment (allocating the profit to the self-financing capital) and the consumption segment (the dividend payout).

In the whole period under investigation the Company value for shareholders had an increasing trend, while the total Company value in 2009 decreased significantly to rise in the two subsequent years.

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## ***Abstract***

The aim of the article is to present the role of net profit as the target of a business company operations against the background of contemporary theories of company. The article also shows the significance of the profit distribution policy that is directed at shareholders and potential investors (the dividend payout) and the strategic development of an entity (the increase of the company value for shareholders). That issue was illustrated by the analysis of the Firma Oponiarska Dębica S.A stock exchange company. The authors investigated the period of 2005-2013 in order to be able to observe company capacity to generate net profit and the policy of profit distribution in the time of the economic crisis that started in 2007.