



Investigating the relationship between dividend policy on stock prices in listed companies on the stock exchange

Sahebeh Mohammadian Mansoor

Department of Economic, Payame Noor University

ABSTRACT

The aim of this study was to investigate the relationship between dividend policies on stock prices in listed companies on the stock exchange. In this research, the population consisted of listed companies in the Tehran stock exchange during the years 2009 to 2013. A total of 300 companies were eligible for the study population. The financial statements of the above companies have been extracted from the Stock Exchange database. For inferential analysis results of linear regression to determine the significance of hypotheses is used Eviews software. The results showed that have a significant relationship between dividends paid and retained earnings on stock prices. Results of this research are similar to some results of external studies have been done. This issue suggests that perhaps in emerging markets, such as the Iranian capital market paid attention to in the dividend. (Dividends paid and retained earnings). The most important reason on the importance of dividend policy is the impact that to leave on the views of investors about the company. Unpaid dividends by the company are creating pessimism to the shareholders.

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INTRODUCTION

The right to counsel to ensure the rights of defendants in Iran's Code of Criminal Procedure explicitly emphasized. Because lawyers in the principles of "legal security", which is actually more important than the individual social and economic security are counting on several principles are recognized, including: Prohibition of illegal detention, Financing considered a very important step in the growth of companies. It is important for companies that their shares price, show the real value of assets and their growth opportunities. (Sally, 2010). Company with Stock issue is entering the capital market. Usually these companies grow so fast that traditional sources of funding (such as bank loans, retained earnings and capital owners) often are not enough to their development finance. (Baskin, 1989). Organizations Successful response in a very dynamic and changing environment is depending on their ability to provide appropriate information and solutions to problems that they are facing. (Tahmasebi, 2004). Company's dividend policy for over half a century has been of interest to researchers, and is related to the vital areas of the company from the issue of representation to the evaluation of the company's shares. Normally, investors are risk-averse and investments changes are important for them, because it is the measure of risk that they face with it. Companies know that investors consider to dividend yield and the risk in their investment may affect on evaluation of the company's shares in long-term. As a result of changes in stock prices is equally important for investors is also

important for the company. Dividend policy is defined as the choice of company to paid money as a cash dividend to shareholders or retained earnings. The company must be deciding about the frequency time of these payments (annual, half-yearly or quarterly) and also the pay amount. (Shakeri, 2013). Allocate part of the profit as dividend is considered an important issue in financial management, because management with the application of this policy to achieved its primary goal that is maximizing shareholder wealth through the receipt of dividends and share price increase. (Mehrani, 2004). Company's dividend policy plays a key role in the stock price changes in the Tehran Stock Exchange. Therefore, company to be able to maximize shareholders wealth should act in such a way that the sum of the two digits of the dividend and raise prices in the market to achieve the most desirable combined. Therefore, companies must decisions about own dividend policy, namely amount of cash profit that should be distributed between the shareholders. Therefore dividend policy of a company on its shares current price is a very important issue in response to it so far and there is not a complete consensus. (Bokpin, 2010). This issue, not only is important from the perspective company of senior managers, who want to develop this policy, but have great importance in terms of investors to make decisions about buying shares as well as in terms of scholars of economics that are seeking to assess the performance of capital markets, therefore, this question arises that what is there a relationship between dividend policy and stock market prices? (Parsaeian, 1994).

1.1 Research Hypotheses

1. There is a significant relationship between dividend paid and stock prices of listed companies on the stock exchange.
2. There is a significant relationship between retained earnings and stock prices of listed companies on the stock exchange.

2. Literature

- Shakeri (2013) in his study concluded that in the level of listed companies in the Tehran Stock Exchange, the dividend policy criteria (dividend payout ratio) does not have a significant impact on the volatility of the stock price, as well as other research results show that in the automotive industry and construction parts, the dividend policy criteria (dividend payout ratio) have major and positive impact on the volatility of stock price.

- Raeiszadeh (2013) in his study showed that there was a weak significant relationship between dividend policy and volatility of company's stock price, which shows investors' decisions to buy or sell stocks, is not so under the influence of dividend policy adopted by the companies.

- Irandoost (2014) in his research concluded that the dividend policy has a significant impact on stock prices fluctuations in short-term. Dividend policy on the long-term fluctuations in stock prices has no significant impact on investment decisions and dividend policy has no significant effect in terms of cash and accrual. Dividend policy has no significant impact on the stock prices fluctuations in long-term, and also dividend policy has no significant impact on investment decisions in terms of cash and accrual.

- Adefila (2013) has paid studied in the Nigerian companies. The results have not any correlation between stock prices and dividends in Nigeria companies as established stock prices, but after it, the findings showed that Nigerian companies have to implementing dividend policies that is related to income.

3. Research Methodology

This research has deductive-inductive approach and among the types of correlation research is the regression analysis. The population consisted of listed companies in the Tehran stock exchange during the years 2009 to 2013. In order to select population, to be selected companies which have the following conditions:

1. Companies that from 2009 to 2013 are accepted at the Tehran Stock Exchange.
2. Companies that are end fiscal year on March 29.
3. Companies that do not change the fiscal year.
4. Companies that are available their data.
5. Companies that until 2009 were accepted at the Tehran Stock Exchange.
6. Companies that are not part of banks and financial institutions. (Investment companies, financial intermediaries, holding companies, banks and leasing).

After from in taking into account the above criteria and during above mentioned stages, a total of 300 companies were eligible for the study population. The financial statements of the above companies have been extracted from the Stock Exchange database and analyze research data is used Eviews software.

4. Research Findings

❖ The first hypothesis testing

The first hypothesis is as follows:

H0: There is not a significant relationship between dividend paid and stock prices of listed companies on the stock exchange.

H1: There is a significant relationship between dividend paid and stock prices of listed companies on the stock exchange.

In Table 1, the amount of significance level of dividends paid is equal to 0.03, means less than 0.05. So at 95 percent confidence level, there is a significant relationship between dividend paid and stock prices. Hence, the H0 statistically null hypothesis is rejected and the alternative hypothesis that means H1 hypothesis is confirmed.

Table1. The first hypothesis testing

Model	Non-standard coefficients		Standardized coefficients	T-statistics	Significance level
	Beta	Standard error	Beta		
Fixed amount	-0.255	0.16		15.06	0.000
Dividends paid	0.23	0.006	0.08	2.132	0.03

❖ The second hypothesis testing

The second hypothesis is as follows:

H0: There is not a significant relationship between retained earnings and stock prices of listed companies on the stock exchange.

H1: There is a significant relationship between retained earnings and stock prices of listed companies on the stock exchange.

In Table 2, the amount of significance level of retained earnings is equal to 0.01, means less than 0.05. So at 95 percent confidence level, there is a significant relationship between retained earnings and stock prices. Hence, the H0 statistically null hypothesis is rejected and the alternative hypothesis that means H1 hypothesis is confirmed.

Table2. The second hypothesis testing

Model	Non-standard coefficients		Standardized coefficients	T-statistics	Significance level
	Beta	Standard error	Beta		
Fixed amount	-0.255	0.16		15.06	0.000
retained earnings	0.36	0.34	0.337	6.43	0.01

Dividend model for the entire statistical sample in this section according to the results of testing hypothesis is done test related to the formulation of dividend model or all companies in the sample. In the previous section, it was found that dividend paid and retained earnings have a significant relationship with stock prices and their impact on it. Table 1 and 2; have identified the coefficients related to each of the independent variables. So dividend model extracted as follows from the above image:

$$Y = -2.55 + 0.23x_1 + 0.36x_2$$

X1: Dividends paid and X2: retained earnings

4.1 Model validation

To evaluate the model is used of ANOVA. This test is consists of F statistic and significance level. Results of this

test are shown in Table 3. The amount of F statistic is equal to 20.350 and its significance level is equal to zero. Thus the above test confirmed the validity of the model. The determination coefficient of model that shows the explained variance ratio to the total variance according to the regressions in Table 4 is equal to 10 percent. This issue indicates that 10 percent of the dependent variable is expressed based on changes in the independent variables of the model, and the rest influenced by the other factors that are not visible. On the other hand, since the difference between determination coefficient and adjusted determination coefficient is very low, so this issue shows that the model independent variables were selected correctly.

Table3. Variance analysis test

Model	Sum of	Degrees	Mean	f	Significance
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Table4. Durbin Watson coefficients, determination coefficient statistical and F statistic changes

Model	Correlation coefficient	Determination coefficient	Adjusted determination coefficient	estimates Standard error	Statistics relating to changes					Durbin Watson statistic
					determination coefficient changes	F changes	Degrees of freedom 1	Degrees of freedom 2	Significant level of F changes	
	0.32	0.104	0.099	1.10	0.104	20.350	2	525	0.000	1.985

5. Conclusion and Suggestion

In this study, was investigated the relationship between dividend policy and stock prices in listed companies on the stock exchange. The results of testing hypothesis of this study suggest that there is a relation between dividends paid and retained earnings on stock prices. As seen in Table 1, related to first hypothesis, the amount of significance level of dividends paid is equal to 0.03, means less than 0.05. So at 95 percent confidence level, there is a significant relationship between dividend paid and stock prices. Hence, the H0 statistically null hypothesis is rejected and the alternative hypothesis that means H1 hypothesis is confirmed. In relation to the second hypothesis in Table 2 were observed that the amount of significance level of retained earnings is equal to 0.01, means less than 0.05. So at 95 percent confidence level, there is a significant relationship between retained earnings and stock prices. Hence, the H0 statistically null hypothesis is rejected and the alternative hypothesis that means H1 hypothesis is confirmed. This issue suggests that, perhaps in emerging markets, such as Iran's capital market, pay attention to the dividend policy. The results of this research are consistent with similar findings by Evin Lola (2014), Oygebeh (2012), Zakaria (2012). Conclusion these findings show that have relation between dividend paid and retained earnings on stock prices. In this regard, it is suggested that by increasing the dividend paid and retained earnings for the users of financial statements to provide the possibility of increasing stock prices. The most important reason on the importance of dividend policy is the impact that to leave on the views of investors about the company. Unpaid dividends by the company are creating pessimism to the shareholders and this imagination in created with them, that the company was faced with serious financial difficulties that is unable to pay dividends. In this case, it is possible that due to the caused pessimism, the shareholders attempted to sell their shares and thus causing reduce the price of the stock.

	squares	of freedom	squares		level
Regression	74.303	2	27.786	30.350	0.000
Remaining	638.980	525	1.217		
Sum	713.282	527			

4.2 Durbin Watson test

This test for determining the existence or nonexistence of autocorrelation is used in the model error value (ϵ). If the mentioned value is estimated between 1.7 to 2.3, in the existence of autocorrelation are rejected in the model error values. Thus, according to the Table 4, the amount of Durbin Watson statistic is equal to 1.985. So the existence of autocorrelation is rejected in the model error values.

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