"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 8, No. 2, pp. 97–99
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

EMPIRICAL STUDY ON THE CORRELATION BETWEEN THE DIVIDEND POLICY AND PERFORMANCE OF COMPANIES LISTED

Raluca Georgiana MOSCU[1], Ligia DUDU[2]

[1] *Faculty of Finance, Banking and Accountancy, Bucharest – UCDC, e-mail: moscu.raluca@yahoo.com*
[2] *Faculty of Finance, Banking and Accountancy, Bucharest – UCDC, e-mail:prodanligia@yahoo.com*

Abstract *Dividend policy is a key element in financial management, task and responsibility for company managers in terms of profit distribution based on the decision of the General Assembly of Shareholders. Policy dividends provide a favorable signal regarding the financial condition of the company (a company providing dividends is a company that has the financial ability to honor its obligations to investors, providing current income and future shareholders) as a company that it rewarded investors with dividends annually, will announce whether or decrease their investment profits will negatively affect the market price of the shares.*

Key words:

performance, dividends, earnings per share

1. Introduction

In the present study we analyzed the link between the dividend policy and the performance of listed companies, tested in other international studies in the field (*Jensen & Meckling, 1976; Fama & Jensen, 1983; Howatta et.al., 2009; Hardin & Hill, 2008; Naceur et al., 2006; Adaoglu, 2000*). *Graham & Dodd (1934)* argued that "the sole purpose of profit is to be distributed as dividends and companies that pay higher dividends must sell their shares at higher prices". Rising dividends directly influence proportion to the company's growth and profitability. Theory "bird in the hand" refers to a principle perfectly valid for all investors, saying that better now than never, Gordon claiming that the distribution of dividends resolves uncertainty for investors, if they have a preference for a certain level income now rather than the prospect of a higher income, but less sure, at some point in the future.

2. Literature review

Discussions on dividend policy generated a literature vast, but the problem seems to be stagnant at the same point where *Black (1976)* called it "a puzzle" whose pieces do not fit, many other theories of dividend policy being identified by researchers in the field, theories summarized in the following:

Tabel 1 A summary of the main theories on dividend policy

Model	***General concepts***	***Determinants of dividend policy***	***Sign theoretically expected***	***Sign empirically observed***
Dividend strategic variable for managers	Companies tend to pay dividends stable. The current dividend is determined according to the latest dividend. (*Linter, 1956 Marsh & Merton, 1987*)	Current profits Previous dividend	Positive Positive	Positive Positive
The signaling through dividends	The decision to change the company manager pay dividends convey information about future cash -flows of the company on the stock market. (*Ross, 1977 Kalay, 1980*)	Current profits Future Incomes	Positive Positive	Positive Positive

Net profit per share is one of the explanatory variables important for company managers, as this indicator provides an overview of how the company evolves. *Howatta et al. (2009)* found that changes in dividends per share and change in earnings per share is performed in the same direction and moreover, a significant variation in earnings per share will lead to a change in the same direction dividends, regardless of investor expectations regarding dividend policy, unless the company uses residual dividend policy. *Adaoglu (2000)* demonstrated in his study performed on companies listed in Turkey, a positive relationship between the size of the profit per share and the dividend distribution rate, achieving a positive regression coefficient equal to 0.52.

Hypothesis: There is a positive relationship between dividend policy and company profits.

3. Regression model

Econometric analysis is based on estimating regression models using Eviews program.

$$DIVIDEND\ POLICY = \alpha_i + \beta_1 \times PERFORMANCE + u_{it}$$

where, *DIVIDEND POLICY* - dividend rate (*RDIV*) or dividend per share (*DIV*), *PERFORMANCE* – independent variable earnings per share (*EPS)*, β_k – regression coefficients, α – coefficient expressing the influence of factors not included in the model and ε_{it} - error.

4. Presentation and interpretation of empirical results

The following are the results of testing regression models used to identify the magnitude and direction of the link established between earnings per share and the rate of dividends or dividend per share of companies listed on the Bucharest Stock Exchange in 2014

Table 2 Results of regression equations regarding the correlation between dividend policy and performance

Dependent variables	MODEL 1	MODEL 2
	DIV	RDIV
Independent variable	*Coef* *t-stat*	*Coef.* *t-stat*
X(EPS)	0.535* (12.90)	0.020* (2.572)
R^2	0.43	0.029
F-statistic	166.49	6.62
P (F-statistic)	0.00	0.01

*, **, and *** means *p-value* of 1%, 5%, and 10%.

From the empirical analysis performed on companies listed on Bucharest Stock Exchange in 2014, identified a positive correlation between earnings per share and dividend per share. There is a positive correlation between earnings per share and size of the dividend per share, which can be explained in terms of the theory of signal as the result of the strategy that maintains investor interest, by allocating a dividend, to persuade them not or sell shares may also be a strategy to attract potential investors. The correlation can be explained in terms of the theory of agent managers voluntarily distributing dividends when corporate performance increase, to respect the rights of minority shareholders.

5. Conclusions

Table 3 presents some theoretical results, the empirical validation of the impact and results of performance of companies listed on Bucharest Stock Exchange in 2014 the dividend policy.

Table 3 Results of theoretical and empirical validation of the impact of dividends on corporate performance

Theoretical Hypoteses	**Empirical Validation**	**Correlation sign for BSE companies**
There is a positive relationship between earnings per share and dividend policy.	Howatta et.al. (2009); Hardin & Hill (2008); Naceur et al. (2006); Adaoglu (2000); Goergen, Silva & Renneboog (2005).	+

From the analysis observed a positive correlation between earnings per share and the size of the dividend, which can be explained in terms of the theory of signal (*Kalay, 1980*), to maintain the interest of current shareholders by distributing dividends, and promoting a strategy for attracting potential investors. The correlation can be explained in terms of the agent theory (*Jensen & Meckling, 1976; Fama & Jensen, 1983*), the General Meeting of Shareholders (AGM) voting to distribute dividnends when performance increases, protect and enhance the rights of minority shareholders *(Howatta et.al (2009); Hardin & Hill (2008); Naceur et al.(2006); Adaoglu (2000); Goergen, Silva & Renneboog (2005)).*

References

- Adaoglu, C., 2000, *Instability in the Dividend Policy of the Istanbul Stock Exchange (ISE) Corporations: Evidence from an Emerging Market*, Emerging Markets Review 1, pp. 252-270.
- Fama, E., Jensen, M., 1983, *Separation of Ownership and Control*, Journal of Law and Economics, 26, pp. 301-325.
- Goergen, M., Silva, L. C., Renneboog, L., 2005, *When do German Firms Change Their Dividends?* Journal of Corporate Finance , XI (2), pp. 375-399.
- Graham, B., Dodd, D., 1962, *Security Analysis: Principles and Techniques*, New York: McGraw-Hill.
- Hardin, W. G., Hill, M. D. 2008, *REIT Dividend Determinants: Excess Dividends and Capital Markets*, Real Estate Economics, 36(2), pp.349–69.
- Howatta, B., 2009, *Dividends, earnings volatility and information*. Applied Financial Economics, 19(7), pp.551 – 562.
- Jensen, M., Meckling, W., 1976, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, Journal of Financial Economics, 6, pp.305-360.
- Kang, B.S., 2009, *Country Influences on Corporate Dividend Policy, Evidence from Australia, France, the U.K., and the U.S.*, Country Influences on Corporate, vol.10, nr.3, pp. 19-32.
- Lintner, J., 1956, *Distribution of Income of Corporations Among Dividends, Retained Earnings and Taxes,* American Economic Review, pp. 97-113.
- Naceur, S.B, Goaied, M., Belanes, A., 2006, *On the determinants and dynamics of dividend policy*, International Review of Finance, vol. 6, no. 1-2, pp. 1-23