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Dividend Policy and Sustainability of Shareholders' Value: Case of Qatari Companies

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Abstract

Since decades, several theories have evolved on dividend decisions and their potential impact on firms' overall wealth and performance that led to diverse results. These researches led to formulation of various financial theories and models that became applicable to the corporate world. From this standpoint, though this paper is of serious academic research, it has profound implications for policy decisions of listed companies on Qatar stock exchange. The purpose of this paper is to examine the degree of relationship between dividend policy and market price of shares in terms of shareholders wealth; between dividend policy and earning per share in terms of shareholders wealth; and between dividend policy and performance of firm in terms of profitability. This research applied multiple regression using E-Views for a period of 6 years from 2012–2017. A sample of 30 firms listed in Qatar stock exchange has been selected by including the firms which have been paying dividends for 6 years consecutively or with the gap of 1 year at maximum and are following stable dividend policy. The findings reveal that there exists a strong positive correlation between the dividend policy (in terms of dividend per share and dividend yield) and share price, a relatively positive correlation between dividend policy (in terms of dividend per share and dividend yield), and earnings per share return on equity. All this suggests towards a strong relevance of firms' dividend policy decisions.

Keywords: Dividend Policy, Shareholders Wealth, Firm Performance, Returns on Equity, Share Price Earning Per Share

Introduction

The primary financial goal of any business enterprise is to maximize its shareholders' wealth. This function of maximizing shareholders' wealth underlines the assumption that managers operate in the best interests of its shareholders which is a consequence of optimal investments made by them leading to optimal returns to the shareholders' on those investment. In addition, these returns lead to increased capital gains in the form of increase in investors' share prices, as well as dividends, which are made possible when the firm generates adequate distributable profits (Gejalakshmi, 2017). In other words, financial managers aim mainly to maximize the wealth of their shareholders and thus make fundamental decisions to improve their firms' market value (Ward 1993; Bishop et al., 2000).

Dividend policy denotes "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000). Among all the studies done on the subject, studies on the dividend policy have attempted to answer the following two key questions:

- Does the dividend policy affect the value of the firm?
- What are the factors that determine the dividend policy?

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Literature Review

The empirical studies on the determinants and impact of dividend policy are mostly based on the numerous theoretical explanations given in the diverse competing theories. However, the outcomes broadly vary across the countries and the time periods. Therefore, time to time the empirical examination of factors affecting the dividend policy and its impact have been warranted. Among the early studies on this issue, Lintner (1956) argued that firms target their desired payout ratio, and it is determined by the current earnings and past dividends of the companies. Considering certain unrealistic assumptions like (a) absence of corporate tax, (b) absence of agency cost, (c) absence of asymmetric information, and (d) absence of transaction costs and so on. But, irrespective of the unrealistic assumptions made, several researchers opined that dividend policy of a firm is one of the vital facets of corporate financial management and might have significant implications for firm value. Over the years of their painstaking research, by relaxing all these unrealistic assumptions as discussed earlier taken by Miller and Modigliani, a large amount of research has been carried out on firms' dividend policy. This research has led to number of theories such as tax clientele theory, signaling theory, agency theory, firm life cycle theory and so on, to explain the dividend payout ratio of the companies.

Dividend decisions taken by managers involve the distribution of corporate earnings such as determining the size of cash payments to shareholders or retaining internally generated earnings for reinvestment (investment policy) and, again as a part of retention strategy, using low-cost capital and lowering the leverage ratio (capital structure choices), which influence common share prices and eventually shareholders' wealth (Glen et al., 1995; Lease et al., 2000; Brealey and Myers 2003). Over more than five decades ago, Graham and Dodd supported investors' preference for dividends because of the surety of immediate dividends compared to the uncertainty of future capital gains.

Gordon (1959) stated that the ordinary shareholders favor immediate profits over future profits, which decreases uncertainties and increases positive prospects; thus, it affects stock prices positively. On the basis of dividend announcements, investors, shareholders, and potential investors forecast the position of company in the context of profitability. When there is an increase in dividend payments, it is a good sign for company, it increases its goodwill and its reputation in the mind of customer and share price increases (Al-Hasan, Asaduzzaman, & Karim, 2013). According to Chen (2003), the choice to pay a cash dividend is considered one of the preferred decisions for the investors because they desire the fluidity of the money. Also, Tsoukalas and Sil (1999) found that the stock price will increase if the company chooses to keep the profit in the company and reinvest it. In this context, a link is observed between the dividend or retention decision and the stock price in the market. Ben dab's (2009) study aimed at determining the impact of the financial structure and the dividend decision on market value for 60 companies listed on the Qatar exchange from 2006 to 2008. The study found that the financial structure and dividend policy significantly affect a company's market value. Priya and Nimalathasan (2013) found that dividend payout had a substantial impact on all the firms' performance except for return on investment (ROI) and return on equity (ROE). Besides, earnings per share (EPS), price earnings ratio (P/E), and market value to book value (PB) had significant correlation with ROA; P/E ratio had substantial correlation with ROE; EPS and market price to book value (PB) were significantly correlated with ROE of the listed firms of hotels and restaurants in Sri Lanka. Kumaresan (2014) presented that there existed a positive relationship between return on equity, dividend per share and dividend payout, and shareholders' wealth of the firms while there was a negative relationship between retention ratio and shareholders' wealth of listed firms in hotels and travel sector of Sri Lanka. Iqbal et al. (2014) found that the DP, firm size, and firm growth had significant positive impact on shareholders' wealth of the selected manufacturing industries (textile, sugar and chemical) of Pakistan. Khadija et al. (2017) established the impact of dividend policy on shareholders' wealth and firm performance in Pakistan. The study commends the implementation of stable, effective, managed, and target-oriented dividend policy by firm's financial managers along with effective guiding framework governed by capital market regulatory bodies to uplift firms' performance and shareholders wealth in Pakistan. Works of Mokaya, Nyangara, and James (2013) also found positive relationship of dividend policy and shareholders wealth. However, dividend payout ratio and long-term debt ratio are negatively significant with earnings per share. On the other hand, growth in assets and liquidity are positively insignificant with earnings per share. Additionally, dividend relevance theories by Walter (1963) and Gordon (1962, 1963), showed that firms which pay dividend to their shareholders create a more positive impression in the latter's minds. Their studies revealed that firms that did not pay dividend are viewed with the increased level of uncertainty in the eyes of investors compared to those that pay dividend and thereby resulting in the increase of their firms' share price. Also, clientele effect highlights another aspect of the dividend relevance theory. It suggests that due to the changes in dividend policies, firm's share price reacts to changes in dividend policies. Consequently, investor takes decision on the basis of firm's dividend polices. Whenever firms change their dividend policies, investors make their investment decisions accordingly (Black & Scholes, 1974).

According to "information content of dividends hypothesis" Miller and Modigliani (1961), changes in dividend increase the stock returns as they provide the information about the company's future profitability. But, many of the studies did not support this hypothesis, e.g. DeAngelo, DeAngelo, and Skinner (1996). Nissim and Ziv (2001) analyzed the relationship between changes in a dividend policy and changes in firm's performance in terms of profitability. Their study gives the strong indication that both variables are positively related to each other. Kioko (2006) identified the relation between dividend policy and performance of the firm. He found that there is a positive linkage between changes in dividend and future profitability. Kioko (2011) further studied these variables and found positive impact of both on each other. Ouma (2012) also found the same results. Salman (2013) conducted a research on dividend policy to check its influence on shareholders' wealth in Pakistani sugar industry. His findings showed the positive relationship between explanatory and dependent variable. Shah and Mehta (2016) tested a relationship between dividend payments and share prices and found positive relationship between both variables. Swarnalatha and Babu (2017) also found the positive association between dividend policy and share prices. Widyastuti (2016) conducted a study to investigate the influence of dividend policy on firm's value and showed positive relationship between both variables. Ozuomba, Anichebe, and Okoye (2016) explored the effect of dividend policies on wealth maximization and found significant relationship among variables. On the other hand, Miller and Modigliani (1961) were of the view that the dividend policy is irrelevant in computing the value of the firm or shareholder's wealth in a perfect market. In contrast to the above studies, Osamwonyi and Lola-Ebueku (2016) conducted a study on dividend policy and firm's earning, and found a negative relationship of variables.

Thus, in spite of several research conducted over the decades, there has been no consensus on any particular theoretical explanations of the dividend policy. In this context, Black (1976) opined "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". Therefore, the research on the dividend policy has been increasing by manifolds to explain the conflicting issues like: Why companies pay dividends? Moreover, what are the factors that determine the payment policy of the companies? Does dividend policy impact shareholders wealth and firm performance?

Earnings Per Share & Dividend Payout Ratio

A share price is the price of a single share of a number of sellable stocks of a company. Share price is often thought of and evaluated in terms of cash flows. It is also known to be extremely important to managers and analysts because of the key information it conveys about future prospects (Ehrhardt, 2013). Many of the studies found that changes in dividend play an important role in share prices, company performance, and stock returns (Asquith and Mullins, 1983; Pettit, 1972). According to Chaabouni (2017), dividends are having a signaling effect as dividend payment gives the information about company to the market. In actual, they give signal to the market. As the company's dividend has been announced, it increases the firm share prices. On the basis of dividend announcements, investors, shareholders, and potential investors predict the position of company in the context of profitability. When there is an increase in dividend payments, it is a good sign for company, it increases its goodwill and its reputation in the mind of customer and share price increases. Another study has been conducted by Khan (2012) to determine the impact of dividend policy on share prices of pharmaceutical and chemical companies of Pakistan. She analyzed that return on equity, retention ratio, and cash dividend have significantly positive association with stock market prices. She also presented that earning per share and dividends exhibit insignificantly negative association with share prices.

Mokaya et al. (2013) study the determination of the effects of dividend policy on the market share value in banking industry of Kenya by using National Bank Kenya. This study tested the working of the hypothetical model using ANOVA, while multiple regressions measure the data to test model in explaining the relationship between dividend payout and market share value. The result showed a strong and positive correlation between dividend payout and market share value. It is also evident from the study that an increase in a dividend payout results in an increase in share price. Majority of the respondents indicated that they considered payment of dividends as an important factor in the value of shares, implying that an increase in a dividend payout causes an increase in share price. Similar results were also found by Murekefu and Ouma, on 41 companies listed in Nairobi Securities Exchange. In their study, they had found out strong positive relationship between dividend payout and firm performance as well. In other words, firm performance also represents shareholders' wealth. However, according to the study of Hashemijoo et al. (2012), there is a significant negative relationship between dividend payout and share price changes. Besides that, the study of Ilaboya & Aggreh (2013) was based on companies listed in the Nigerian Stock Exchange Market. Their finding showed that dividend payout imposes a negative and insignificant influence on share price volatility.

The study by Emamgholipour et al. (2012), to determine the relationship between capital structure and firm performance evaluation measures with the evidence from Tehran Stock Exchange, revealed that by reducing the debt ratio, profitability of the firm can be increased by the management; hence, it will increased the amount of the company's financial performance measures as well as increased the shareholders' wealth. In order words, there is a positive relationship between ROE and shareholders' wealth. Masum (2014) study has proved the same result as Emamgholipour et al. (2012) did which is positive correlation between return on equity and share price. In contrast, Arowoshegbe & Emeni (2014) stated that there is a negative relationship between debt ratio (DR) and return on equity ratio (ROE). In their research, they examined the relationship between shareholders' wealth and the debt-equity mix of quoted companies in Nigeria. However, according to Kabajeh et al. (2012), whose study consisted of all the Jordanian insurance public companies listed in Amman Security Exchange from the period between year 2002 and year 2007. Hence, it shows that there is no relationship with share price. Based on the result of the study, there is no relationship between the return on equity ratio (ROE) and market share prices.

An Overview of Qatar's Economy

Qatar is one of the smallest Gulf Countries in terms of population and geographical area but at the same time, it is world's second largest gas reserves representing more than 5% of the world total. The prosperity of natural resources together with the rising and diversifying economy means huge access to investment opportunities and incentives. The Qatari government has adopted a policy that aims at diversifying income resources and developing economic infrastructure. Specifically, the government stretched the exploration projects in oil and gas sectors and offered numerous incentives to attract foreign investors to carry out similar projects. The economy is one of the most fast-growing economies in the world offering the international community a variety of world-class and cutting-edge products and services. With its vibrant and open economy, the Qatar government is committed to international standards and practices. The country is focusing on establishing business presence in the world community in order to leverage on globalization basis. According to Qatar country report (2015), the country was ranked as the richest country in the world in terms of Gross Domestic Product (GDP) per capita and Purchasing Power Parity (PPP) per capita, indicating it as a rewarding country for investments that had the potential to attract more capital investments.

Qatar Stock Exchange (QE)

Qatar Exchange (QE) was created on June 19, 2009, and is the successor of Doha Securities Market. It is an international exchange based out of Qatar, offering liquidity and a diverse product range, operating according to international best practices. The new entity has built on the achievements of Qatar Exchange and the leading position of NYSE Euronext in the global markets. The two shareholders of QE are Qatar Holding and NYSE Euronext. This partnership has paved the way for Qatar to take a prominent role in global capital markets. NYSE Euronext provided state-of-the-art technology and business services to QE. Furthermore, QE and NYSE Euronext work together to enhance liquidity, transparency, product range and participation in the market. In 2014, Qatar Stock Exchange was reclassified by Morgan Stanley Capital International (MSCI), Standard & Poor's (S&P) and Dow Jones Indices from a frontier risky market to an emerging market. In spite of this elevation of status, there has been very limited research related to Qatar Stock exchange.

Contributions of This Study

Numerous researches have attempted to study dividend policy. Irrespective of these studies, the issue of what settles on corporate dividend policy is still ambiguous. Thus, the presence of divergent views makes dividend policy decision as critical for an organization as it signals the strength and gives information about an organization's potential of development. Potential investors and shareholders decide to invest in the company by investigating its capacity of paying dividends. Since management prosperity can be determined by the shareholders' wealth, management needs to completely comprehend dividend policy.

In spite of the fact that dividend policy is imperative to all firms, less research is conducted to check effect of dividend policies on shareholders' wealth and firm performance of firms in Qatar. In this study, an endeavor is made to examine dividend policies of firms listed in Qatar Stock Exchange.

Hypotheses

H0: There is no significant association between dividend policy and market price of share (shareholder's wealth).

H1: There is a significant association between dividend policy and market price of share (shareholder's wealth).

H0: There is no significant association between dividend policy and return on equity (firm performance).

H1: There is a significant association between dividend policy and return on equity (firm performance).

H0: There is no significant association between dividend policy and earning per share (shareholder's wealth).

H1: There is a significant association between dividend policy and earning per share (shareholder's wealth).

Data and Methodology

A sample of 30 firm listed in Qatar Stock exchange has been selected by including the firm which have been paying dividends. This study covered the time period between 2012 and 2017. Data have been taken on annual basis. This study applied multiple regressions using E-Views or Mintab for the given period.

Study Model

To find the association between dividend policy, shareholders wealth, and performance of the firm, the following models have been developed:

$$d(SP)i,t = \beta 0 + \beta 1\ d(DPS)i,t + \beta 2DYi,t + ei,t \qquad (1)$$

In this model, share price is the dependent variable which is used to measure shareholders' wealth; and dividend policy is used as independent variable. Two proxies (dividend per share and dividend yield) are used to measure dividend policy.

$$EPSi,t = \beta 0 + \beta 1d(DPS)i,t + \beta 2DYi,t + ei,t \qquad (2)$$

In this model, earning per share is the dependent variable which is used to measure shareholder's wealth; and dividend per share and dividend yield are used to measure dividend policy.

$$d(ROE)i,t = \beta 0 + \beta 1d(DPS)i,t + \beta 2DYi,t + ei,t \qquad (3)$$

In this model, return on equity is the dependent variable which is used to measure firm performance; and dividend per share and dividend yield are used to measure dividend policy.

Results

Table 1: Descriptive Statistic

	Mean	Median	Maximum	Minimum	Std. Dev.
EPS	4.51600	3.42000	14.69000	-0.09000	4.23664
ROE	10.85300	12.71500	33.58000	-0.38000	7.47126
SP	55.91133	39.84500	197.00000	0.50000	46.12609
DY	2.92200	2.93000	6.67000	-0.09000	2.16772
DPS	4.07167	4.00000	8.50000	0.04000	2.25070

Table 1 presents the summary of descriptive statistics. For the earnings per share, the findings of mean value and standard deviation which are 4.516 and 4.236, respectively, show how there is very minute dispersion in the sample firms. For return on equity, the mean value and standard deviation read as 10.85 and 7.47, respectively, which shows dispersion. The share price has the mean value and standard deviation as 55.91 and 46.13, respectively, which shows dispersion. The mean and standard deviation of dividend yield are 2.92 and 2.17, respectively. The mean and standard deviation of dividends per share are 4.07 and 2.25, respectively.

Table 2: Correlation Analysis

	EPS	ROE	SP	DY	DPS
EPS	1.00				
ROE	0.55	1.00			
SP	0.85	0.34	1.00		
DY	0.65	0.39	0.53	1.00	
DPS	0.66	0.31	0.72	0.49	1.00

The value of correlation coefficients between two variables is 49%. This shows a good positive relationship where positive increase in one, positively increases the other one also.

Table 3: Dependent Variable d(SP)*

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-9.2936286	12.47309	-0.74509	0.46265175
d(DPS)	12.4714677	2.994049	4.165419	0.00028533
DY	4.93679073	3.108663	1.588075	0.12391244

Table 3 shows the regression for share price. It shows that for each unit increase in dividend per share, the unit price increases by 12.47 units whereas for each unit increase in dividend yield, the share price will increase by 4.93 units.

Table 4: Dependent Variable EPS*

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-1.3579492	1.135706	-1.19569	0.24221449
d(DPS)	0.84778315	0.272616	3.109812	0.00438218
DY	0.82890443	0.283051	2.928459	0.00684203

Table 4 shows the regression for earnings per share. It illustrates that for each unit increase in dividend per share, the earnings per share only goes up only by 0.84 units. Also, for the unit increase in dividend yield, the earnings per share only go up by 0.82 units.

Table 5: Dependent Variable d(ROE)*

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	5.55954423	2.779939	1.99988	0.05566617
d(DPS)	0.52084814	0.667299	0.780532	0.44186727
DY	1.08580964	0.692843	1.56718	0.12871925

Table 5 shows the regression for return on equity. It shows how that for each unit increase in dividend per share, the return on equity increases by 0.52 units. Also for each unit increase in dividend yield, the return on equity will also increase by 1.08 unit.

Annexures

The objective of this research is to investigate the influence of dividend policy on the firms' performance. A total of 30 companies were sampled for common constant effect model. This research also helped us understand the impact of dividend policy on shareholders' wealth and firm performance of companies listed on the Qatar Stock Exchange.

Annexures 1

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.7502776							
R Square	0.56291647							
Adjusted R S	0.53053991							
Standard Err	31.604286							
Observation	30							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	2	34732.436	17366.218	17.3865448	1.4048E-05			
Residual	27	26968.4341	998.830893					
Total	29	61700.8701						
	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-9.29362862	12.4730893	-0.74509437	0.46265175	-34.88629386	16.2990366	-34.8862939	16.2990366
X Variable 1	12.4714677	2.99404887	4.16541889	0.00028533	6.328186892	18.6147486	6.32818689	18.6147486
X Variable 2	4.93679073	3.10866284	1.58807532	0.12391244	-1.441658544	11.31524	-1.44165854	11.31524

Annexures 2

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.7552917							
R Square	0.57046555							
Adjusted R S	0.53864818							
Standard Err	2.8776483							
Observation	30							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	2	296.941307	148.470653	17.9293766	1.1104E-05			
Residual	27	223.583213	8.28085975					
Total	29	520.52452						
	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-1.35794917	1.13570559	-1.19568767	0.24221449	-3.68822455	0.97232622	-3.68822455	0.97232622
X Variable 1	0.84778315	0.27261554	3.10981223	0.00438218	0.28842226	1.40714405	0.28842226	1.40714405
X Variable 2	0.82890443	0.28305143	2.92845874	0.00684203	0.24813087	1.409678	0.24813087	1.409678

Annexures 3

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.41527446
R Square	0.17245288
Adjusted R S	0.11115309
Standard Err	7.04380378
Observation	30

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	279.161796	139.580898	2.81327049	0.0776608
Residual	27	1339.60963	49.6151716		
Total	29	1618.77143			

	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	5.55954423	2.7799392	1.9998798	0.05566617	-0.14441985	11.2635083	-0.14441985	11.2635083
X Variable 1	0.52084814	0.6672985	0.78053246	0.44186727	-0.84833529	1.89003157	-0.84833529	1.89003157
X Variable 2	1.08580964	0.69284309	1.56717972	0.12871925	-0.33578695	2.50740622	-0.33578695	2.50740622

List of Companies

1	Al Ahli Bank - (ABQK)
2	Al Kaleej Takaful - (AKHI)
3	Al Meera - (MERS)
4	Barwa - (BRES)
5	Cinema - (QCFS)
6	Comm. Bank of Qatar - (CBQK)
7	Doha Bank - (DHBK)
8	Doha Insurance - (DOHI)
9	Electricity and Water - (QEWS)
10	General Insurance - (QGRI)
11	Gulf International - (GISS)
12	Gulf warehousing Co - (GWCS)
13	Ind. Manf. Co. - (QIMD)
14	Industries Qatar - (IQCD)
15	Intl. Islamic Bank - (QIIK)
16	Investment Holding - (IGRD)
17	Islamic Holding - (IHGS)
18	Islamic Insurance - (QISI)
19	Mannai Corp. - (MCCS)
20	Medicare - (MCGS)
21	National Cement Co. - (QNCD)
22	Ooredoo - (ORDS)
23	Qatar Fuel - (QFLS)
24	Qatar Insurance - (QATI)
25	Qatar Islamic Bank
26	Qatar Islamic Bank - (QIBK)
27	Qatar Navigation - (QNNS)
28	Rayan - (MARK)
29	Widam Food Company - (WDAM)
30	Zad Holding Company - (ZHCD)

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