IMPACT OF DIVIDEND POLICY ON SHAREHOLDERS' WEALTH IN SELECTED BLUE CHIP COMPANIES OF JORDAN

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ABSTRACT

Dividend Policy is a policy uses to decide the amount of dividends paid by a company to its shareholders. A company has to take a decision whether to pay out earnings as dividends or to reinvest them. Divided policy is more commonly an instrument of wealth distribution to shareholders than it is an instrument of wealth creation to stakeholders. The present research examines the impact of dividend policy on shareholders' wealth in selected blue chip companies of Jordan. The study covers a period of five years from 2012 to 2016. Data was collected from various published annual reports and financial statements of selected companies. EPS has been used as a dependent proxy variable for shareholder's wealth where as dividend payout ratio, long term debt ratio; profitability, and liquidity have been used as independent proxy variable for dividend policy. The results highlighted that there is a significant impact of dividend policy on shareholders' wealth in selected companies.

KEY WORDS:

EPS, dividend payout ratio, long term debt ratio, liquidity, profitability.

INTRODUCTION:

When a company earns profits it can pay it back to its investors as dividends or it can retain it within the business as addition to shareholders equity account. This is known as retained earnings. It may however decide to apportion the surplus to both. Earnings are strictly the free cash flows available for distribution to investors after all expenses and taxes have been paid. If the firm decides to redistribute the earnings to the investors then the investors have the option of reinvesting it themselves or spending it. On the other hand, if the firm wishes to raise more capital for reinvestment then it can do so by raising equity or debt from the capital market. Dividend Policy is a policy uses to decide the amount of dividends paid by a company to its shareholders. A company has to take a decision whether to pay out earnings as dividends or to reinvest them. Divided policy is more commonly an instrument of wealth distribution to shareholders than it is an

instrument of wealth creation to stakeholders. The patterns of Dividend Policies vary across firms and even countries. A strong, sustainable dividend payout can be synonymous with good management. It shows to prospective investors and shareholders that the company is making sound financial decisions. It is one of the reasons why companies are stubborn to cut their dividend, as doing so signals that management has not been able to run the company efficiently. Typically, older and more mature companies will tend to have a higher dividend payout as they have the financial capabilities to payout more to shareholders. Also, some companies, especially new ones, will prefer to have a lower dividend payout ratio in order to retain earnings that can be utilized for future company growth. One argument to justify the payment of dividends is that dividends are cash in hand, while capital gains are cash in the bush. Capital gains to be received in the future should be riskier than the dividends received today (Gordon, 1963).

REVIEW OF LITERATURE

Rashid & Rahman (2008) in the research paper entitled, *"Dividend policy and stock price volatility: evidence from Bangladesh"* conducted a study on 104 non-financial firms listed in Dhaka Stock Exchange between the periods of year 1996 to year 2006 with the application of regression model. The regression results showed that the relationship between the share price and growth in assets was positive with the unstandardized beta coefficient of 1.48. **Asghar et al. (2011)** in the study entitled, *"Impact of Dividend Policy on Stock Price Risk: Empirical Evidence from Equity Market of Pakistan"* study the impact of dividend policy on stock price risk on Non-Financial Listed firms between the periods of 2005-2009 in Pakistan. The results showed that the correlation between earning volatility and share price was significant meaning thereby Pakistan companies have significant relationship between earning volatility and stock price. **Lam & Tam (2011)** evaluated the relationship between liquidity and stock returns on 769 listed companies on board of Hong Kong Stock Exchange. The findings revealed that liquidity was positively significant to stock return. **Zakaria et al. (2012)** in the research paper entitled, *"The Impact of Dividend Policy on The Share Price Volatility: Malaysian Construction and Material Companies"* highlighted that there is a significant positive relationship between the dividend payout of a firm and share price volatility. The study found out that the share prices will become more volatile when there is a higher dividend payout. However, **Hashemijoo et al. (2012)** investigated that there is a significant negative relationship between dividend payout and share price changes. It showed that decrease in the dividend payout causes an increase in the share price volatility. A sample of 84 companies from 142 consumer product companies listed in main market of Bursa Malaysia were examined in this study and using multiple regression for a period of six years from year 2005 to year 2010. The study of **Profilet & Bacon (2013)** found that the relationship between growth in assets and share price was negatively correlated with the coefficient of -0.17676. **Mokaya et al. (2013)** in the research paper entitled, "The Effect of Dividend Policy on Market Share Value in the Banking Industry; the Case of National Bank of Kenya" found the impact of dividend policy on the market value of shares of National Bank Kenya with the help of multiple regression. The result shows that there is a strong and positive correlation between dividend payout and market share value and showed that an increase in a dividend payout result an increase in share price.

BLUE CHIP COMPANIES

A blue chip company is a company which is nationally recognized, well-established and financially sound company. The name "blue chip" came about because in the game of poker the blue chips have the highest value. Blue chip stocks are seen as a less volatile investment than owning shares in companies without blue chip status because blue chips have an institutional status in the economy. These companies usually sell high-quality, widely accepted products and services. These companies operate profitably in the face of adverse economic conditions which help to contribute to their long record of stable and reliable

growth. Furthermore, these companies are large (international) corporations that have been in business for many years and are considered to be very stable. Presently, there is no formal requirement for being a blue chip. Any company which is financially strong and has a solid track record of producing earnings and only a moderate amount of debt is considered as Blue Chip Company. It also has a strong name in its industry with dominant products or services. In the present study, the following blue chip companies of Jordan are selected.

✱ Jordan Telecom Group
✱ Jordan Phosphate Mines
✱ Jordan Steel

OBJECTIVES OF THE STUDY

1. To discuss the concept of dividend and dividend policy in brief.
2. To evaluate the impact of dividend policy on shareholders' wealth in selected blue chip companies of Jordan.

HYPOTHESES OF THE STUDY

$H0_1$: There is no significant impact of dividend policy on shareholders' wealth in Jordan Telecom Group.

Ha_1: There is a significant impact of dividend policy on shareholders' wealth in Jordan Telecom Group.

$H0_2$: There is no significant impact of dividend policy on shareholders' wealth in Jordan Phosphate Mines.

Ha_2: There is a significant impact of dividend policy on shareholders' wealth in Jordan Phosphate Mines.

$H0_3$: There is no significant impact of dividend policy on shareholders' wealth in Jordan Steel.

Ha_3: There is a significant impact of dividend policy on shareholders' wealth in Jordan Steel.

RESEARCH METHODOLOGY

Analytical research design has been used in the present study. The study covers a period of five years from 2012 to 2016. Data was collected from various published annual reports and financial statements of selected companies. The variables incorporated in the present study are financial ratios. Various financial ratios under the categories of liquidity, profitability, management efficiency, solvency and market valuation have been calculated and analyzed. The present study employed a multiple regression technique to analyze the impact of dividend policy on shareholder's wealth in selected companies. Four independent variables viz. dividend payout ratio, long term debt ratio, profitability (ROE) and liquidity are taken into account in this research to examine the relationship between earnings per share and others independent variables.

Table 1: Research Model of the Study

Independent Variable	Dependent Variable
Dividend Policy	*Shareholders' Wealth*
Dividend Payout Ratio, Long Term Debt Ratio, Profitability, and Liquidity are used as proxy measures of dividend policy.	Earnings Per Share (EPS) is used as proxy measure of shareholder's wealth.

Regression Equation of the present regression model is:

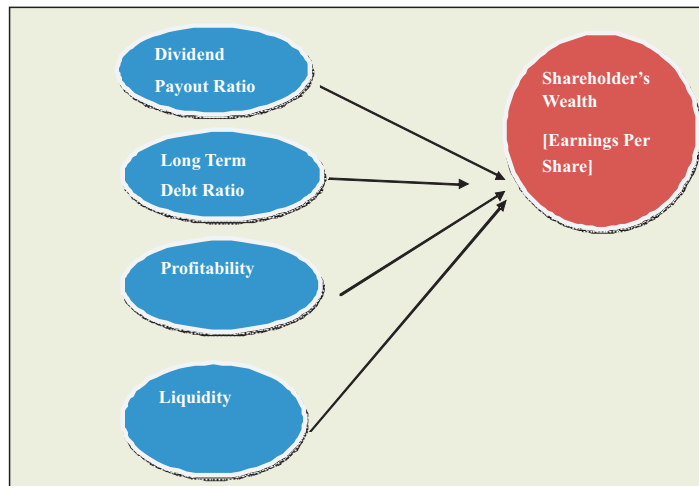$$EPSt = \beta0 + \beta1DPRt + \beta2LDRt + \beta3PRt + \beta4Lqt + e$$

Where,

EPSt = Earnings Per Share at time t (Shareholder's Wealth)

DPRt = Dividend Payout ratio at time t

3

LDRt = Long term debt ratio at time t

PRt = Profitability ratio at time t

LQt = Liquidity ratio at time t

β_0 = Intercept.

$\beta_1 - \beta_3$ = Coefficients of the explanatory variables.

e = stochastic error term at time t.

Fig.1: Research Model

HYPOTHESES TESTING

$H0_1$: **There is no significant impact of dividend policy on shareholders' wealth in Jordan Telecom Group.**

Ha_1: **There is a significant impact of dividend policy on shareholders' wealth in Jordan Telecom Group.**

Table 2: Model Summary- Jordan Telecom Group

Model	R	R Square	Adjusted R Square	Standard Error	Durbin Watson
1	0.692	0.479	0.412	1.8961	1.9067

Predictors: (Constant), Dividend Policy

Table 2 shows the linear regression analysis of dividend policy and shareholders' wealth. Adjusted R square shows the amount of variation in one variable (shareholders' wealth) that is accounted by another variable (dividend policy). The above table shows the value of adjusted R square is 0.412 which means 41.2 percent variation in shareholders' wealth is explained by the dividend policy and the rest of the variation (1-R2) is an unexplained variation in shareholders' wealth due to variables that has not been considered in this model.

Table 3: Multiple Linear Regression Analysis- Jordan Telecom Group

Independent Variables	Regression Coefficients	Standard Error	t-statistics	P Value
(Constant)	0.857124	0.674245	-1.56148	0.0000
Dividend Payout Ratio	-0.288064	0.842416	4.87408	0.0004
Debt Equity Ratio	0.317638	0.513327	-9.34039	0.0001
Profitability	0.240868	0.478508	11.22366	0.0063
Liquidity	0.309504	0.831472	-5.96438	0.0031
Dependent Variable: Earning Per Share (EPS)				

Source: Output of SPSS_20

Table 3 shows the results of multiple linear regression analysis. EPS is dependent variable whereas dividend payout ratio, long term debt ratio, profitability, and liquidity are independent variables. Firstly, dividend payout ratio has negative impact on EPS since the unstandardized beta coefficient is -0.288064. It indicates that for every one unit change in current ratio, there will be -0.288 unit change in EPS. However, its regression coefficient is statistically significant at 5% level of significance ($P<0.05$). Secondly, the unstandardized beta coefficient of long term debt equity ratio is 0.317638 which indicates that one unit change in debt equity ratio will bring 0.31 unit change in EPS. Further, its regression coefficient is statistically significant at 5% level of significance ($P<0.05$). Thirdly, profitability has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient value of profitability ratio is 0.240868 which highlights that for one unit change in profitability, there will 0.24 unit changes in EPS. The regression coefficient of profitability is statistically significant at 5% level of significance ($P<0.05$). Fourthly, liquidity has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient of liquidity ratio is 0.309504 which highlights that for one unit change in liquidity, there is 0.30 unit change in EPS. The regression coefficient of liquidity is statistically significant at 5% level of significance ($P<0.05$). Hence, it can be said that there is significant impact of dividend policy on Earning per share in Jordan Telecom Group.

$H0_2$: There is no significant impact of dividend policy on shareholders' wealth in Jordan Phosphate Mines.
Ha_2: There is a significant impact of dividend policy on shareholders' wealth in Jordan Phosphate Mines.

Table 4: Model Summary- Jordan Phosphate Mines

Model	R	R Square	Adjusted R Square	Standard Error	Durbin Watson
2	0.559	0.312	0.298	1.2798	2.0478

Predictors: (Constant), Dividend Policy

Table 4 shows the linear regression analysis of dividend policy and shareholders' wealth. Adjusted R square shows the amount of variation in one variable (shareholders' wealth) that is accounted by another variable (dividend policy). The above table shows the value of adjusted R square is 0.298 which means 29.8 percent variation in shareholders' wealth is explained by the dividend policy and the rest of the variation (1-R^2) is an unexplained variation in shareholders' wealth due to variables that has not been considered in this model.

Table 5: Multiple Linear Regression Analysis- Jordan Phosphate Mines

Independent Variables	Regression Coefficients	Standard Error	t-statistics	P Value
(Constant)	1.054128	1.096123	-2.94632	0.0000
Dividend Payout Ratio	0.034127	1.165263	12.54136	0.4798
Long term Debt Ratio	-0.079814	1.141089	5.967435	0.2859
Profitability	0.296301	0.472278	19.87465	0.0082
Liquidity	0.196684	0.631472	-1.85308	0.5631
Dependent Variable: Earning Per Share (EPS)				

Source: Output of SPSS_20

Table 5 shows the results of multiple linear regression analysis. EPS is dependent variable whereas dividend payout ratio, long term debt ratio, profitability, and liquidity are independent variables. Firstly, dividend payout ratio has positive impact on EPS since the unstandardized beta coefficient is -0.034127. It

indicates that for every one unit change in current ratio, there will be -0.034 unit change in EPS. However, its regression coefficient is statistically insignificant at 5% level of significance (P>0.05). Secondly, the unstandardized beta coefficient of long term debt equity ratio is -0.079814 which indicates that one unit change in debt equity ratio will bring -0.07 unit change in EPS. Further, its regression coefficient is statistically significant at 5% level of significance (P>0.05). Thirdly, profitability has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient value of profitability ratio is 0.296301which highlights that for one unit change in profitability, there will 0.29 unit changes in EPS. The regression coefficient of profitability is statistically significant at 5% level of significance (P<0.05). Fourthly, liquidity has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient of liquidity ratio is 0.196684 which highlights that for one unit change in liquidity, there is 0.19 unit change in EPS. The regression coefficient of liquidity is statistically insignificant at 5% level of significance (P>0.05). Hence, it can be said that there is no significant impact of dividend policy on Earning per share in Jordan Phosphate Mines.

H0$_3$: There is no significant impact of dividend policy on shareholders' wealth in Jordan Steel.

Ha$_3$: There is a significant impact of dividend policy on shareholders' wealth in Jordan Steel.

Table 6: Model Summary- Jordan Steel

Model	R	R Square	Adjusted R Square	Standard Error	Durbin Watson
3	0.772	0.595	0.557	1.25314	1.9863

Predictors: (Constant), Dividend Policy

Table 6 shows the linear regression analysis of dividend policy and shareholders' wealth. Adjusted R square shows the amount of variation in one variable (shareholders' wealth) that is accounted by another variable (dividend policy). The above table shows the value of adjusted R square is 0.557 which means 55.7 percent variation in shareholders' wealth is explained by the dividend policy and the rest of the variation (1-R2) is an unexplained variation in shareholders' wealth due to variables that has not been considered in this model.

Table 7: Multiple Linear Regression Analysis- Jordan Steel

Independent Variables	Regression Coefficients	Standard Error	t-statistics	P Value
(Constant)	1.762304	1.453614	6.64213	0.0456
Dividend Payout Ratio	-0.330844	1.053548	-4.96154	0.0054
Debt Equity Ratio	0.224795	0.986478	-5.50436	0.0000
Profitability	0.281496	0.808764	11.96852	0.0041
Liquidity	0.219660	1.157899	-17.7708	0.0014
Dependent Variable: Earning Per Share (EPS)				

Source: Output of SPSS_20

Table 7 shows the results of multiple linear regression analysis. EPS is dependent variable whereas dividend payout ratio, long term debt ratio, profitability, and liquidity are independent variables. Firstly, dividend payout ratio has negative impact on EPS since the unstandardized beta coefficient is -0.330844. It indicates that for every one unit change in current ratio, there will be -0.330 unit change in EPS. However, its regression coefficient is statistically significant at 5% level of significance (P<0.05). Secondly, the unstandardized beta coefficient of long term debt equity ratio is 0.224795 which indicates that one unit

change in debt equity ratio will bring 0.22 unit change in EPS. Further, its regression coefficient is statistically significant at 5% level of significance (P<0.05). Thirdly, profitability has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient value of profitability ratio is 0.281496 which highlights that for one unit change in profitability, there will 0.28 unit changes in EPS. The regression coefficient of profitability is statistically significant at 5% level of significance (P<0.05). Fourthly, liquidity has significant positive relationship with Earning per share at 5% level of significance. The unstandardized beta coefficient of liquidity ratio is 0.219660 which highlights that for one unit change in liquidity, there is 0.219 unit change in EPS. The regression coefficient of liquidity is statistically significant at 5% level of significance (P<0.05). Hence, it can be said that there is significant impact of dividend policy on Earning per share in Jordan Steel.

CONCLUSION

The present study has investigated the impact of dividend policy on shareholders' wealth in selected blue chip companies of Jordan namely Jordan Telecom Group, Jordan Phosphate Mines, and Jordan Steel. The study covers a period of five years from 2012 to 2016. Data has been collected from various published annual reports and financial statements of selected companies. EPS has been used as a dependent proxy variable for shareholder's wealth where as dividend payout ratio, long term debt ratio, profitability and liquidity have been used as independent proxy variable for dividend policy. The analysis of the data revealed that Dividend payout ratio has significant negative impact on EPS in Jordan Telecom Group and Jordan Steel. However, its impact is positive and statistically insignificant in Jordan Phosphate Mines. So far impact of long term debt equity ratio on EPS is concerned; it has statistically significant and positive impact on EPS in Jordan Telecom Group and Jordan Steel. But, long term debt equity ratio has insignificant and negative impact on EPS in Jordan Phosphate Mines. Nevertheless, profitability has significant positive relationship (P<0.05) with Earning per share at 5% level of significance in all selected companies. Similarly, liquidity has significant positive relationship (P<0.05) with Earning per share in all selected companies except Jordan Phosphate Mines. In nutshell, it can be said that dividend policy has significant impact on shareholder's wealth in Jordan Telecom Group and Jordan Steel. However, the impact of dividend policy on shareholder's wealth in Jordan Phosphate Mines is insignificant.

SUGGESTIONS AND RECOMMENDATIONS

1. The study recommends that strict adherence to interest of shareholders in choosing dividend policies will maximize shareholders' value by management. The decision taking authority in a company lies in the hands of managers. Shareholders as owners of the company are the principals and managers are their agents. Thus, there is principal-agent relationship between shareholders and managers. Therefore, managers must act in the best interest of shareholders as consistent with shareholders' wealth maximization objectives of the firm.

2. This research emphasis on blue chip companies of Jordan with a sample of three companies selected for analysis. However, in the future the sample size could be increased. This study includes only four independent variables for analysis. The number of independent variables could be increased in the future, so that the result may become more robustness.

3. This study took into consideration a period of five years from 2012 – 2016. There is need for further studies to carry out similar study for a longer time period of 10 – 15 years.

4. Shareholders' wealth is the dependent variable in this research. However, earnings per share are used as the measurement of shareholders' wealth. It is recommended to use other measurement as the measurement of shareholders' wealth instead of earnings per share such as Economic Value Added (EVA), Earnings before Interest and Tax (EBIT) and Market Value Added (MVA). Different result will be obtained by

using different measurement and comparison can be made to identify the best measurement for shareholders' wealth.

5. This study has been done on blue chip companies of Jordan only and therefore, it is difficult to generalize the findings to other companies of Jordan. It is suggested that further studies should be done to determine the effect of a firm's dividend policy on the financial performance.

6. Managers should take keen interest on financial performance variables namely, cash flow, sales growth and market to book value since they have a significant impact on dividend payout. This study can be repeated with a wider population by including the banks and insurance companies across other countries. Nevertheless, this paper further recommends that this study can be done on different economies to make the findings relevant to various countries with different economic levels.

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