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The Effective Factors on Dividend Policy in Automobile Companies

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ABSTRACT

Our main purpose of the study is to investigate the effective factors on dividend policy in automobile companies. The research method is practical and its research design is semi-empirical and is performed based on a post-event approach (via past information). To do so, three hypotheses have been provided. The variables of board independence, the number of board members, and type of audit and dividend policy are regarded as independent and dependent variables, respectively. Spatial domain of the research is the automobile companies listed on Tehran stock exchange and the time domain is during 2008 to 2012. There have been 28 companies in this paper. A multiple regression model is applied to test the hypotheses using SPSS 18. The results demonstrate that the board independence has influence on dividend policy and the number of board members and type of auditor has no effect on dividend policy.

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INTRODUCTION

One of the common subjects in financial management is dividend policy. The news related to dividend and dividend changes compared to last year are essential for shareholders. In this regard, the researches come to a conclusion that there is a significant relation between shareholders characteristics and dividend policy of listed companies on Tehran stock exchange (Abdeh tabrizi, Abdollah Pour, 2008). Severe maximization of cash distribution is the common subject which every business unit should bear in their mind as their most important duty (Aharouni *et al*, 2009). If business units are unsuccessful in its profitability and cash planning and they have not power to repayment the debts and commitments at date of maturity and don't distribute dividends at a right time, hence, they are not enabled to reach their goals and their activities are called into question (Najjar & Taylor, 2008). Regarding to the amount of dividend is one of the effective and important factors on peoples' decision-making, dividend policy has more vital role among effective factors on decision-makings as a determinant in dividend policy. Izadi nia and Alinaghian (2011) demonstrated that investment opportunities and firm profitability has influence on dividend payment.

So far, there is no clear evidence that why companies distribute some of their earnings as dividends and why dividends are important for shareholders and this subject remained as a dividend enigma in financial literature (Rezaei *et al*, 2010). Miller and Modigilianni (1961) stated that dividend management cannot increase (decrease) the wealth of beneficiaries in an effective and complete market. According to the Rational Expectation Theory, shareholders have special expectations from companies about dividend (Jang Wang *et al*, 2012). If earnings announcement is according with the market expectations, the prices would not change, but shareholders feel unexpected changes in dividend ask themselves what is the mean of managers about these changes? The companies have various dividend policies, but, regardless of special policy of each company, managers try to regulate the dividend amount in way that to avoid the negative effects of dividend on shareholders according to the future information (heidari, 2002). Also, Logit and Probit models results indicate that individual ownership and internal ownership and profitability had negative, positive and significant relation with decisions related to dividends, respectively.

The subject of dividend is questionable in terms of theory of Agency Costs. According to the theory, agency costs are formed by potential conflicts which exist between the interests of managers and shareholders. Hence, when managers sell some their shares to investors who are not involved in the company's management, the agency costs would be increased (Rozef *et al*, 2004). Al-Gharbeh *et al*, (2013) results indicate that the institutional ownership provides motivations related to shareholders control for increasing firm values by reducing the use of investments in inefficient productivity. Dividend distribution is debatable in terms of two aspects. In one side, it is an effective factor on future investments and decreases internal resources and increases the need for external resources, and on the other side, many shareholders want cash dividend distribution, hence,

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the managers should always balance their various interests and profitable opportunities investment with considering maximization of wealth. So, dividend distribution decisions made by firms' managers are sensitive and important. Girapoun *et al*, (2012) demonstrate that the quality of corporate governance has clear influence on corporate vital decisions such as dividend payment.

It is clear that various factors can influence on dividend policy. Some of these factors can be corporate governance mechanisms, and it seems less considered in this field. Most companies are different in corporate governance structure, hence, it can influence on dividend policy of these companies in different ways. What we seek for, in fact, is whether significant relation between corporate governance mechanisms and dividend policy of the automobile companies listed on Tehran stock exchange.

2. Methodology:

2.1. Research method:

The research design is semi-empirical and is performed based on a post-event approach (via past information). On the other hand, the current research is descriptive-correlation and quantitative based on data nature. It is also practical in terms of goals of the research.

2.2. Research hypotheses:

- Board independence has significant influence on dividend policy of automobile companies.
- The number of board members has significant influence on dividend policy of automobile companies.
- The type of audit has significant influence on dividend policy of automobile companies.

3.2. Research statistical population and sample:

The statistical population of the current research covers all automobile companies listed on Tehran stock exchange during 2008 to 2012. 28 companies are determined as statistical samples based on this formula.

2.4. Data collecting method:

In this research, financial information were obtained from financial statements and descriptive notes related to the studied companies with the help of Tehran stock exchange CD's, stock exchange website, and Tadbir Pardaz and Rah Avard Novin software.

2.5. Research model:

In this investigation, the conceptual model is:

$$DIV_{it} = \beta_0 + \beta_1 IND_{BOARD_{it}} + \beta_2 SIZE_{BOARD_{it}} + \beta_3 AUDIT_{it} + \beta_4 SIZE_{it} + \beta_5 EPS_{it} + \beta_6 PROFIT_{it} + \beta_7 RISK_{it} + \beta_8 GROWTH_{it} + \varepsilon_{it}$$

DIV_{it}: Dividend policy; $SIZE\_BOARD_{it}$: Board size; $AUDIT_{it}$: Type of auditor; $SIZE_{it}$: Firm size; EPS_{it}: Earnings per share; $PROFIT_{it}$: Profitability; $RISK_{it}$: Firm risk; $GROWTH_{it}$: Firm growth.

2.6. Operational definition of the research variables:

Table 1: Research variables.

Dependent variable	
Name of variable	Way of measuring
Dividend policy	Dividend distribution to earnings per share
Independent variable	
Name of variable	Way of measuring
Board independence	Non-executive members in board of direction (Moradi *et al*, 2012)
The number of Board members	Based on available people in Board of direction
The type of auditor	If audit organizations audit financial statements (1), otherwise (0)
Control variables	
Name of variable	Way of measuring
Firm size	Natural logarithm of total assets
Earnings per share	Profit after tax of company divided by the total number of shares
Profitability ratio	Net profit after tax divided by net sale
Firm risk	In this research, Beta criterion is used to measure the firm risk. To define Beta coefficient and determine computational relations, the specified line should be examined. This line determines the relation of ROA with market index return. The general quotation of line indicates a regression line which is shown here: $r_i = \alpha_i + \beta_i r_m + e_i$ Where, r_i is dependent variable and indicates ROA, r_m is independent variable and demonstrates market index return. Beta is the slope of regression line in the above equation and demonstrates ROA changes versus market changes. Beta coefficient is calculable for a share (Rasouli zadeh, 2005): $\beta_i = \frac{\mathrm{cov}(r_i, r_m)}{\sigma^2(r_m)}$
Firm growth	(current year sale- previous year sale) divided by previous year sale

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2.7. Data analysis method:

In this research, descriptive and inferential statistics is used to data analysis. Descriptive statistics deal with central indexes and distribution of each variable. To test the normalization of ROA variables, Kolmogorov and Smirnov test (K-S) is used. Next, multiple linear regression has been applied to (1) determining the effect of each independent variables on dependent variables and (2) accepting or rejecting each of hypotheses.

3. Research results:

3.1. Variables descriptive statistics:

Table 2: Central indexes and distribution of the research variables.

Variable	Min.	Max.	Average	SD
Dividend policy	0.0062	0.8547	0.1529	0.182
Board independence	0.23	0.91	0.52	0.25
Number of board members	3.11	9.26	4.43	1.012
Type of auditor	0	1	0.71	0.244
Earnings per share	0.11	12.62	2.73	1.868
Profitability to debt ratio	-0.55	15.58	7.18	1.454
Firm risk	-0.075	1.457	0.752	0.391
Firm growth	0.19	38.25	19.11	3.257

3.2. Normality examination:

Null hypothesis and opposite hypothesis are:

H_0= Data for dependent variable follows normal distribution.

H_1= Data for dependent variables not follows normal distribution.

Table 3: Kolmogorov and Smirnov test results.

Index	Amount
Kolmogrov-Smirnov Z	3.116
Sig.	0.132

According to the table 3, significance level is 0.132 for dividend policy variable which is more than 0.05, so null hypothesis means that data are normal for the dependent variable.

3.3. Research hypotheses test:

Table 4: Multiple linear regressions of research hypotheses.

Variable	B	SE	BETA	T	Sig.
Fixed	0.299	0.165	-	2.135	*0.009
Board independence	0.358	0.111	0.362	2.196	*0.004
Number of board members	0.216	0.155	0.201	1.498	0.059
Type of audit	-0.224	0.200	-0.175	-1.226	0.062
Firm size	0.066	0.273	0.085	1.962	*0.033
Earnings per share	0.122	0.167	0.106	2.044	*0.012
Profitability ratio	0.341	0.224	0.419	1.421	0.062
Firm risk	0.077	0.182	0.092	2.332	*0.007
Firm growth	-0.025	0.315	-0.044	-2.145	*0.009

* 5% error level

Table 5: Explanation and significance of whole model.

R		DW	ANOVA	
Coefficient of determination	Adjusted coefficient of determination		F	Sig.
0.533	0.524	1.623	6.248	**0.000

** 1% error level

Regarding the table 4, since Durbin-Watson statistic test value is determined among 1.5 to 2.5, lack of correlation between errors is not rejected and regression can be used. The adjusted coefficient of determination is equaled with 0.542 and it indicates that 52.4% of all dividend policy changes are depend on independent variables of this equation. Due to F value test is significant (6.248) in error level less than 0.01, it can be concluded that combined research regression model which composed of independent, control and dependent variables, is a suitable model and independent and control changes can determine dividend policy. The impact coefficient of board independence (0.358), the number of board members (0.216) and the type of auditor (-0.224) indicates the positive, positive and negative of these variables on dependent variable (dividend policy variable), respectively. Regarding t statistics significant level of board independence and the number of board members, H0 hypothesis is rejected with 95% confidence due to its error level is less than 5%. It can be stated that board independence and the number of board members has direct influence on dividend policy. On the

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contrary, according to the t statistics of type of auditor, H0 hypothesis can't be rejected with 95% confidence due to its error level is not less than 5%; it can be stated that the type of auditor has not influence on dividend policy.

4. Conclusion and recommendation:

The main purpose of the study is to investigate the effective factors on dividend policy in automobile companies. The research results demonstrate that the board independence and the number of board members have direct impact on dividend policy. These results are consistent with Abde Tabrizi and Abdollah pour (2008), Rezaei *et al*, (2010), Mousavi Shiri *et al*, (1997), Jeiran pour *et al*, (2012), Logit and Probit (2010) and Ji An Jon (2013) findings. These findings are also consistent with Khezri and Ghorbani (2009), Fakhari and Yosef Ali tabar (2010), rezaie *et al*, (2010), Jeiran pour *et al*, (2012), Kovalseky *et al*, (2007), Basil Najar (2010) and Vahhab *et al*, (2008). According to the obtained results, it can be suggested to investors that in forming their portfolios, not only the dividend, but also take enough attention to the rate of corporate governance, that's why the opportunistic managers have used dividends as a tool for concealing the weakness in corporate governance. Discovering the relationship, it is necessary for exchange officials to codify regulations and legal requirements in order to execute the corporate governance principles of the listed companies on stock exchange. Of course, active management and efficient labor market have central roles in monitoring and controlling the managers, hence, it is essential to create such a market. Ultimately, it is obligatory to establish the organizations which calculate the corporate governance indexes, because these indexes not only are useful for companies' ratings, but also helpful for accountants, policy-makers and the public judgment about companies.

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