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The Influence of Dividend Payments on Company Performance: The Case of Istanbul Stock Exchange (BIST)

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Abstract
The aim of this study is to analyze the relation between dividend policies and financial performances of the companies operating in Istanbul Stock Exchange (BIST). The study uses data of 172 companies outside of financial sector for the period of 2008-2011. In the study firms are divided into two groups: the ones regularly paying dividends and the ones that don't make regular dividend payments. The tests were conducted in order to understand whether there is a difference between accounting and market based financial performances of these two groups or not. Empirical analyses used multiple regression, T test methods as well as descriptive statistics. The results of analysis showed that dividend payments had influence on companies' performances. Furthermore, there was a positive and statistically meaningful relation between the dividend per share rate (DPS) within groups and market based performance indicator Tobin's q while there was a statistically meaningless relation between accounting based performance indicators ROA and ROE and dividend per share rate. These results are of supporting quality for the dividend relation developed by Myron Gordon and John Lintner (GL).
Keywords: Dividend Payments, Firm Performance, Dividend Per Share, BIST

1.Introduction

The most commonly accepted aim of a firm is to maximize the value of the firm and the wealth of its stock holders (Ali and Chowdhury, 2010: 52). In general, there are three types of financial decisions that could have an impact on the value of the firm. These are investment decisions, financing decisions and dividend decisions. (Uddin and Chowdhury, 2005). These three decisions are linked to each other in series. Investments made by a firm determine the future gains and potential dividend amount of the firm. The policy of dividend distribution determines the equity capital rate within the capital structure of the firms; therefore, capital cost is being influenced as well. The aim of these interrelated decisions is maximizing the wealth of the stock holders. (Fong et al., 2007: 98).

After determining their optimal capital structures, the firms must decide how much of the equity capital would be provided by the increase of the capital and how much of it would be provided by not distributing the dividends and leaving them inside the firm by doing so. The policy of dividend distribution of the firm determines how the net profit obtained would be distributed among stock holders and undistributed dividends (Akgüç, 1997: 777). In addition, firms' liquidity conditions, future investments, the stability of their profits, financing opportunities, fund needs, the expectations of their stock holders, the provisions of laws and their master contracts all have influence on dividend policy.

Finance literature continues to discuss the subject of whether dividend distribution policy influences firms' market values and if any, what kind of influence it has. In terms of measurability, nevertheless, some assessment models related to the influence dividend distribution policy has on firms' market values have been developed. There are two main approaches in this issue (Büker et al. 2011: 340). The first one is the unrelated dividend approach argued by Miller and Modigliani (MM) in 1961. MM asserted that the value of the firm is not influenced by the dividend policy in ideal conditions (Miller and Modigliani, 1961). MM argued that investors would not pay high prices for stocks with higher dividends when they do not need dividend to obtain cash (Brealey et al., 2001: 446). According to MM, in short, the market price of the stocks does not change after the investment and dividend payment. Since, the decrease in the stock price by way of borrowing or new stock export provides for the dividend payments (Ceylan and Korkmaz, 2011: 226). The second approach, on the other hand, is the dividend relation developed by Myron Gordon and John Lintner (GL). According to this approach which can be summarized as "a bird in the hand is worth three in the bush," dividend policy has an influence on the business value depending on the choices of the investors. Having said that, the investors usually prefer to get dividend today rather than wait for their future capital gains. The reason for that is that the dividend gains are more risk-free than the capital gains from the perspective of the investors (Aydın et al. 2010: 471). According to GL, in case the company conducts an auto-financing process without distributing dividend, the period required to

obtain a gain would be extended and the expected returns of stock holders (equity cost) would increase. The increase in the expected returns of the stock holders is interpreted as a decrease in stock prices. So, high dividend distribution is recommended since it would reduce the equity cost (Pekkaya, 2006: 192).

Different results are observed when empirical researches measuring the relation between dividend policies and firm performance are analyzed, Gordon (1959); Stevens and Jose (1992); Uwuigbe et al. (2012); Waithaka et al. (2012); Gul et al. (2012); Ajanthan (2013) established a positive relation between dividend payments and firm performance in their studies. Loughlin (1982); Easton and Sinclair (1989); Kato and Loewenstein (1995); Lee (1995), on the other hand, established a negative relation between dividend payments and firm performance. Apart from these, authors such as Nissim and Ziv (2001); Pekkaya (2006); Khan (2012) argued that firm's performance is not influenced by its dividend policy, and there are some other studies concluding with mixed results between dividend payments and firm performance. All these results led to discussions in terms of the kind of influence dividend payments have on firm performance and resulted with an increase in the numbers of studies in this particular subject.

The aim of this study is to analyze the relation between dividend policies and financial performances of the companies operating in Istanbul Stock Exchange (BIST). The study uses data of 172 companies outside of financial sector for the period of 2008-2011. In the study firms are divided into two groups: the ones regularly paying dividends and the ones that don't make regular dividend payments. The tests were conducted in order to understand whether there is a difference between accounting and market based financial performances of these two groups or not.

This study consists of five sections. Second section found right after the introduction summarizes the studies measuring the relation between dividend policies and financial performance. Third section develops hypotheses after defining the variables and the methodology of the study. And forth section consists of t-test and multiple regression results. And a general assessment of the study has been put forth in the last section.

2. Literature Review

Many studies are observed to be present concerning the dividend policies when reviewing the literature. But majority of these studies is focused on the factors determining dividend payments. Moreover, there is scarcely any empirical study measuring the influence of dividend payments on financial performance. This section will lay down the summaries of the studies analyzing the relation between dividend payments and firm value, firm's financial performance or its profitability.

In their study conducted with the firms which are being traded in American Stock Exchange and New York Stock Exchange, Nissim and Ziv (2001) analyzed whether the changes in dividend payments of a firm influence the future profitability of the firm or not. According to the results of the analysis, a positive relation was determined between the changes in dividend payments and future gains. Similarly, Abrahamsen (2010) found positive and statistically quite meaningful relations between dividend payments and firm performance in his study concerning the influence of dividend payments of the firms operating in Norway on firm performance.

Uddin (2003) studied the influence of dividend payments on market performance of 137 firms which were being traded in Dhaka Stock Exchange at Bangladesh in the period of 2001-2002. According to the analyses, the values of the firms have been observed not to be influenced by their dividend policies. Similarly, Khan (2012) studied the relation between dividend payments and stock prices of the firms operating in pharmaceutical and chemical industries which were being traded in Karachi Stock Exchange (KMKB) in the period of 2001-2010. According to the study using the data of 25 firms belonging to the KMKB 100 index, there were no statistically meaningful relation between stock prices and dividend payments. Pekkaya (2006), on the other hand, analyzed the influence of dividend distribution on the market value of 19 firms which were being traded in Istanbul 30 index. The result of the analysis showed a meaningful and positive relation between auto-financing and value of the firm. But dividend distribution amount was observed to be influencing value of some of the firms negatively while it influenced others positively.

Amidu (2007) studied the influence of dividend distribution policies on financial performances of the firms located in Ghana. According to his study in which data belonging to the period of 1997-2004 was used, a positive and statistically meaningful relation between ROA and ROE and dividend payments was determined. These results show that dividend payments have effect on the profitability of the firm. On the other hand, there was no statistically meaningful relation established between Tobin's q and dividend payments.

Murekefu and Ouma (2012) studied the relation between dividend payments and performances of the firms being traded in Nairobi Stock Exchange in Kenya. They utilized regression method in their studies using the data belonging to the period of 2002-2010. The result of their studies showed that dividend payments had a positive effect on firm performance. Similarly, Uwuigbe et al. (2012) analyzed the influence dividend payments have on

the performances of 50 Nigerian firms in their study covering the period of 2006–2010. The result of the analysis showed positive and statistically meaningful results between Return on Equity (ROE) and Dividend Per Share (DPS). Moreover, a positive relation has been found between DPS and firm size which was analyzed as a control variable.

Gul et al. (2012) studied the relation between dividend policies and stock holders' wealth of the firms in Pakistan. The result of the study, which covered the period of 2005-2010 and used the data of 75 firms, showed that firms' market performances increase in case the dividend payments increase. Similarly, Zakaria et al. analyzed the influence of dividend distribution policies on the volatility of stocks of the firms operating in construction industry in Malaysia in the period of 2005-2010. The results of the analyses showed a positive relation between dividend per share and the volatility of stocks.

Rehman and Hussain (2013) studied the influence of dividend payments on the performances of the firms stocks of which were being traded in Pakistan's Karachi Stock Exchange. At the end of their empirical analyses, they argued that dividend payment was quite an important factor in determining the firm performance. Waithaka et al. (2012), on the other hand, studied the influence of dividend policies on the stock prices of the firms in Kenya. According to the results of the analysis, the stock prices were increasing as the divided per share increased.

Ajanthan (2013) analyzed the relation between dividend policies and performances of the firms operating as restaurant and hotel businesses while being traded in Colombo Stock Exchange in Sri Lanka. The result of the analysis established a positive and statistically quite meaningful (R=0,725) relations between dividend per share and firm performance.

3. Methodology

The aim of this study is to analyze the relation between dividend policies and financial performances of the companies operating in Istanbul Stock Exchange (BIST). The study uses data of 172 companies outside of financial sector for the period of 2008-2011. In the study firms are divided into two groups: the ones regularly paying dividends and the ones that don't make regular dividend payments. The tests were conducted in order to understand whether there is a difference between accounting and market based financial performances of these two groups or not. All the data used in empirical analyses were obtained from the databases of BİST (www.borsaistanbul.com) and Public Disclosure Platform (www.kap.gov.tr). Empirical analyses used multiple regression, T test methods as well as descriptive statistics. Durbin-Watson d statistic has been used to test if there is an autocorrelation of first degree between the error terms of the sample. Additionally, variance inflation factors (VIF) method has been used to determine multicollinearity.

Two different performance indicators were used in the studies measuring the influence of dividend payments on financial performance of the firms. Authors such as Baptista et al. (2011) and Lam and Lee (2008) used accounting based criteria as financial performance indicators (Return on Assets-ROA and Return on Equity-ROE). Authors such as Chen et al. (2005) and Ehikioya (2009), on the other hand, utilized market based performance indicator (Tobin's q). The present study used accounting based (ROA and ROE) and market based (Tobin's q) financial performance indicators as dependent variables. Dependent and independent variables used in the study are as below

Table 1: Descriptions of Variables Used in Analysis

Variables	Description
Dependent Variables	
Return on Assets (ROA)	The ratio of net profit after tax to total assets
Return on Equity (ROE)	The ratio of net profit after tax to total equity capital
Tobin's q (Q)	Market value to the book value of total assets.
Independent Variables	
Dividend Per Share (DPS)	Distributed Dividend/Number of Shares
Regular Dividend Distribution (RDD)	1 if a dividend payment has been made every year in the period of 2008-2011, 0 if otherwise
Control Variables	
Size of firm (SIZE)	Natural logarithm of total assets
Leverage (LEVERAGE)	The ratio of total liabilities to total assets
Liquidity (CURRENT)	The ratio of current assets to current liabilities

Below regression models and hypotheses have been developed based on dependent and independent variables introduced in Table 1 as well as considering the studies of Aghigbe and Madura (1996); Mooradian and Yang (2001); Amidu (2007); Fong et al. (2007); Agyei and Yiadom (2011); Uwuigbe et al. (2012); Murekefu and Ouma (2012); Rehman and Hussain (2013); Ajanthan (2013) found in literature.

Model I: $(ROA)_{it} = \beta_{it} + \beta 2\ DPS_{it} + \beta 3\ RDD_{it} + \beta 4\ SIZE_{it} + \beta 5\ LEVERAGE_{t+}\ \beta 6\ CURRENT_{it} + e_{it}$
Model II: $(ROE)_{it} = \beta_{it} + \beta 2\ DPS_{it} + \beta 3\ RDD_{it} + \beta 4\ SIZE_{it} + \beta 5\ LEVERAGE_{t+}\ \beta 6\ CURRENT_{it} + e_{it}$
Model III: $(Q)_{it} = \beta_{it} + \beta 2\ DPS_{it} + \beta 3\ RDD_{it} + \beta 4\ SIZE_{it} + \beta 5\ LEVERAGE_{t+}\ \beta 6\ CURRENT_{it} + e_{it}$
H_1: There is a positive relation between dividend payments and ROA.
H_2: There is a positive relation between dividend payments and ROE.
H_3: There is a positive relation between dividend payments and Q.

Table 2: Descriptive Statistics

VARİABLES	ROA	ROE	Q	DPS	RDD	SIZE	LEVERAGE	CURRENT
Minimum	-,532	-4,775	,15	,00	0	15,63	,02	,07
Maximum	,532	,270	28,32	16,34	1	25,74	1,29	29,95
Median	,029	,062	1,210	,000	,000	19,56	,4830	1,555
Mean	,0306	,0070	1,940	,293	,090	19,80	,4764	2,436
Std. Dv.	,099	,425	2,523	1,106	,291	1,680	,240	2,839
Observation	688	688	688	688	688	688	688	688

Table 2 shows the results of descriptive statistics concerning dependent and independent variables used in the analyses. As seen in Table 2, the average ROA was calculated as 3%, ROE as 07% and Tobin's q as 2,52 concerning the firms which were being traded in BIST and analyzed in the scope of the study. The dividend per share (DPS), on the other hand, was determined as 29%. This rate was calculated as 43% for Nigeria by Uwuigbe et al. (2012), 26% for United Kingdom by Gill et al. (2010), 52% for Pakistan by Rafigue (2012) and 30% for Ghana by Amidu and Abor (2006).

4. Empirical Results

Empirical analyses used multiple regression, T test methods as well as descriptive statistics. Table 3 shows the results of T-test. In Table 3 firms are divided into two groups: the ones regularly paying dividends and the ones that don't make regular dividend payments. The tests were conducted in order to understand whether there is a difference between accounting and market based financial performances of these two groups or not.

Table 3: The Comparison of the Ones Making Regular Dividend Payments and the Ones Who Don't

Variables	The ones regularly paying dividends			The ones that don't make regular dividend payments			Mean Difference	T-TEST
	Firm Number	Mean	STD. Error	Firm Number	Mean	STD. Error		
ROA	16	0,057	0,097	156	0,027	0,099	0,0292	2,241
ROE	16	0,033	0,346	156	0,004	0,433	0,0290	0,519
Q	16	2,357	3,902	156	1,897	2,337	0,459	3388*

** Correlation is significant at the 0.01 * Correlation is significant at the 0.05

As seen in Table 3, 16 firms made regular dividend payments while 156 firms didn't in the period of 2008-2011. In other words, 9% of the firms included in the sample distributed dividends to their shareholders every year regularly. In his study analyzing the factors determining dividend payments, Forte (2006) found that 4% of the firms included in the analysis in United Kingdom, 4.5% in Germany, 12% in Italy and 4.5% in France did make regular dividend payments in the period of 2001-2005.

When T-test results found in Table 3 are analyzed, the ROA, ROE and Q values were 5.7%; 3.3% and 2.35% respectively for the firms who made regular dividend payments while these rates consisted of 2.7%; 0.4% and 1.89% respectively for the firms who didn't make regular dividend payments. The firms which distribute

dividends every year have higher ROA and ROE compared to the ones which didn't although it was not statistically meaningful. In addition, the market performance indicator (Q) of the firms which distribute dividends every year is higher and statistically meaningful at the level of 5% compared to the ones which didn't distribute dividends. In other words, it may be argued that the regular payment of dividend has a positive influence on the firms' market performances.

Table 4: Model Summary (ROA)

Model	R2	Adjusted R2	Std. Error of the Estimate	F	Sig.	Durbin-Watson
ROA	,251	,245	0,8653	45,559	0,000	1,841

Table 5: Results of Regression Analysis (ROA)

MODEL ROA	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Standard Error	B			Tolerance	VIF
Constant	**-,222**	,042		-5,328	**,000*****	-	-
DPS	-,001	,003	-,014	-,429	,668	,998	1,002
RDD	,009	,011	,027	,809	,419	,983	1,017
SIZE	**,015**	,002	,251	7,377	**,000*****	,946	1,057
LEVERAGE	**-,131**	,017	-,315	-7,617	**,000*****	,643	1,555
CURRENT	**,008**	,001	,221	5,296	**,000*****	,633	1,579

***, ** and * indicate significance at the level of 1%, 5% and 10% respectively

Table 4 and 5 show results of multiple regression analysis indicating the relation between firms' dividend payments and ROA related to above developed model. When the results of regression found in Table 5 is analyzed, total size of the firms (SIZE), leverage ratio (LEVERAGE) and current ratio (CURRENT), all of which used as independent variables, are observed to have influence on the dependent variable of return on assets (ROA). There is a positive and statistically meaningful relation between SIZE and CURRENT, and ROA. In other words, the increase of total size of the firms and current ratio influence their profitability in a positive way. There are negative and statistically meaningful relations between the other independent variable LEVERAGE and ROA. That is to say, ROA decreases as liability usage in the assets' financing increases. No statistically meaningful relation was determined between DPS and RDD which were main independent variables and ROA.

Table 6: Model Summary (ROE)

Model	R2	Adjusted R2	Std. Error of the Estimate	F	Sig.	Durbin-Watson
ROE	,109	,103	0,4037	16,771	0,000	1,850

Table 7: Results of Regression Analysis (ROE)

MODEL ROE	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Standard Error	B			Tolerance	VIF
Constant	**-,772**	,194		-3,979	**,000*****	-	-
DPS	-,003	,014	-,008	-,229	,819	,998	1,002
RDD	-,031	,053	-,021	-,580	,562	,983	1,017
SIZE	**,052**	,009	,204	5,496	**,000*****	,946	1,057
LEVERAGE	,001	,007	,009	,203	,839	,643	1,555
CURRENT	**,008**	,001	,221	5,296	**,000*****	,633	1,579

***, ** and * indicate significance at the level of 1%, 5% and 10% respectively

Table 6 and 7 show results of multiple regression analysis indicating the relation between firms' dividend payments and ROE related to above developed model. When the results of the analysis is observed, firms' total

sizes (SIZE), leverage ratio (LEVERAGE) and current ratio (CURRENT) are seen to be influential on return on equity (ROE). Model II has similar results with Model I. SIZE and CURRENT had a negative relation with ROE while there was a positive relation between LEVERAGE and ROE. Similarly, a statistically meaningless relation was determined between DPS and RDD which were main independent variables and ROE. As a conclusion, H1 and H2 hypotheses arguing that there is a positive relation between dividend payments and ROA and ROE are rejected.

Table 8: Model Summary (Q)

Model	R2	Adjusted R2	Std. Error of the Estimate	F	Sig.	Durbin-Watson
Q	,057	,050	2,45963	8,246	0,000	1,671

Table 9: Results of Regression Analysis (Q)

MODEL Q	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Standard Error	B			Tolerance	VIF
Constant	**3,234**	1,182		2,735	**,006*****	-	-
DPS	**,215**	,085	,094	2,527	**,012****	,998	1,002
RDD	**,634**	,326	,073	1,947	**,052***	,983	1,017
SIZE	**-,142**	,057	-,094	-2,466	**,014****	,946	1,057
LEVERAGE	**2,493**	,487	,237	5,118	**,000*****	,643	1,555
CURRENT	**,082**	,042	,092	1,979	**,048****	,633	1,579

***, ** and * indicate significance at the level of 1%, 5% and 10% respectively

Table 8 and 9 show results of multiple regression analysis indicating the relation between firms' dividend payments and Q related to above developed model. When empirical results are analyzed, the dividend distribution policies of the firms are observed to have influence on their market performance. A positive and statistically meaningful relation was determined between dividend per share (DPS) ratio as well as regular dividend distribution (RDD) and Q. In other words, the market performances of the firms are influenced positively in case firm's dividend per share ratio increases and the firm regularly distributes the dividend. In conclusion H3 hypothesis is agreed upon. These findings are of supporting quality for the dividend relation developed by Myron Gordon and John Lintner (GL). Control variables of SIZE, LEVERAGE and CURRENT, on the other hand, influence firms' market performance (Q). LEVERAGE and CURRENT had a positive relation with Q while there was a negative relation between SIZE and Q.

Durbin-Watson d statistics have been used in the model to test if there is autocorrelation of the first degree. Durbin-Watson d statistics usually show no autocorrelation around 1.5 and 2.5 (Kalaycı, 2009: 267). Variance Inflation Factor (VIF) has been used to test multicollinearity and to support regression model's results. Other method used to determine multicollinearity problem is tolerance value of the variables. In cases where VIF value is under 10 and tolerance value is not very close to 0, model is considered to be free from multicollinearity problem (Gujarati, 1995). All three models have pretty good VIF and tolerance values. There are no multicollinearity problems and autocorrelation in the model and this shows soundness and reliability of the model.

5. Conclusion

The aim of this study is to analyze the relation between dividend policies and financial performances of the companies operating in Istanbul Stock Exchange (BIST). The study uses data of 172 companies outside of financial sector for the period of 2008-2011. In the study firms are divided into two groups: the ones regularly paying dividends and the ones that don't make regular dividend payments. The tests were conducted in order to understand whether there is a difference between accounting and market based financial performances of these two groups or not.

Generally, unrelated dividend (MM) and dividend relation (GL) approaches were assumed in the studies concerning the influence of dividend policy on the firms' market value. MM argues that firm's market value is not influenced by its dividend policy; GL, in contrast, argues that dividend policy affects the business value depending on the preferences of the investors.

When the results of the analysis is examined, the market performance indicator tobin's q ratio (Q) of the firms which make regular dividend payments was found to be 2.35 while this rate was 1.89 for the firms which don't

make regular dividend payments. In addition, market performance indicators (Q) of the firms which make regular dividend payments were higher and statistically meaningful at the level of 5%. In other words, it may be said that investors show more demand for the firms which make regular dividend payments and therefore, influencing the market performance of the firms in question in a positive way.

When the results of the regression analysis are analyzed, there were no statistically meaningful relations between ROA and ROE which are accounting based performance indicators and DPS and RDD. The firm size (SIZE) included in the model as a control variable had a positive and statistically quite meaningful relation with ROA and ROE. If we look at the studies measuring the relation between firm size and performance, the present study has found results in the same direction with Jonsson (2007); Serrasqueiro and Nunes (2008); Lee (2009); Stierwald (2009), Saliha and Abdessatar (2011), Shubita and Alsawalhah (2012) while the same results were in the opposite direction with the ones found by Banchuenvijit (2012). And when the last model was analyzed, DPS and RDD were observed to have a positive and statistically meaningful relation with Tobin's q. In other words, the market performances of the firms are influenced positively in case firm's dividend per share ratio increases and the firm regularly distributes the dividend. In conclusion, the dividend policies of firms are influential on their performance as suggested by the dividend relation approach developed by Myron Gordon and John Lintner.

If we look at the empirical studies measuring the relation between dividend distribution policies and firm performance, the present study has found results in the same direction with Gordon (1959); Stevens and Jose (1992), Uwuigbe et al. (2012), Waithaka et al. (2012), Gul et al. (2012); Ajanthan (2013) while the same results were in a different direction with the ones found by Loughlin (1982), Easton and Sinclair (1989), Kato and Loewenstein (1995), Lee (1995); Khan (2012).

The limitations of this study consist of utilization of the data belonging to the period of 2008-2011, the inclusion of 172 firms outside the financial sector and the usage of 3 performance indicators. Future studies could analyze the influence of dividend distribution policies of the firms on their performances by making an industrial differentiation.

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