The Relationship between Working Capital and Dividend Policy in Listed Companies in Tehran Stock Exchange, Iran

Samira Sedaghati, Maryam Bokharayan[*]

Department of Management, Aliabad Katoul Branch, Islamic Azad University, Aliabad Katoul, Iran

[*]Corresponding Author Email: m.bokharayan@gmail.com

ABSTRACT: The aim of study was to investigate the relationship between working capital and dividend policy in listed companies in Tehran Stock Exchange. The research method was descriptive-correlation type. Data of 126 companies for the period 2007 to 2013 were used for analysis. Pearson correlation was used to analyze the data. The results showed that there was a significant and positive relationship between working capital and benefit division policy.

Keywords: Audit, Working Capital, Dividend Policy.

INTRODUCTION

The issue of dividend profit policy and follow it with profit payout ratio has always been as one of the most controversial financial issues so that in the present century and more than five decades have attracted economists interest and the subject has been theoretical models and experimental studies (Helen et al., 2002). A number of conflicting theoretical models that all lacking strong empirical support are ongoing efforts to explain the behavior of dividend profit of corporations companies (Imani, 1998).

Empirical evidence shows a link between factors such as product market competition, company size, the amount of retained profit, working capital and investment opportunities with the dividend policy. Identify and explain the determinants of dividend policy are considered as one of the main concerns of the economic stakeholders (Jahankhani & Ghorbani, 2005).

While, awareness of these factors present a clear picture of liquidity distribution of companies provide the possibility of estimating the future behavior. The willingness of companies is to increase their market share performance, which this will be generated with regard to sales and profit. Thus, this study seeks to answer the question whether there is a significant relationship between working capital and dividend policy.

METHODOLOGY

The research method was descriptive-correlation ion was all companies listed in the Tehran Stock Exchange between the period 2007 to 2013 126 companies were selected randomly as sample based on Morgan Table. Companies that meet the following criteria were participated in this study.
A) The company has been a member of the exchange prior to 2007.
B) Financial statements are prepared and presented to the stock exchange for the period 2007 to 2013.

C) Having not trading interruption during the research and (the interruption of trading is that the symbol trading has been not stopped for more than three months).
D) The financial statements for the fiscal year ended 19 March.
Independent variable was working capital (NTC[1]) that is obtained from the difference between current assets and current liabilities divided by total assets.

And the dependent variable dividend policy (DIV) will be calculated by dividing paid profit on net profit. SIZE Control variables: size of the company, which is the natural logarithm of sales at the end of the year, LEV: the ratio of total debt divided by the sum assets, GROWTH: investment opportunities growth that is the ratio of tangible assets to total assets, ROA: the ratio of profit before interest and taxes to total assets at the end of the year. Regression model was used to achieve the objectives of the study.

$$DIV_{i,t} = \beta_0 + \beta_1 NTC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GROWTH_{i,t} + \beta_5 ROA_{i,t} + \pounds_{i,t}$$

F Fisher test, t-significance test and Hausman test was used for statistical analysis of regression. Also, Limer F-test, Durbin-Watson test, white test and Fisher test was used to choose between methods of panel data and combined data, autocorrelation test, heterogeneity of variance test and the stability of the variables, respectively.

RESULTS

Table (1) shows descriptive statistics of research variables.

Table 1. Descriptive statistics of variables.

Variables	Mean	Median	Maximum	Minimum	Standard deviation
NTC	-0.21	-0.24	0.79	-2.7	0.37
DIV	0.29	0.26	0.99	-0.99	0.28
SIZE	12.99	12.9	18.49	8.7	1.29
LEV	0.65	0.644	3.06	0.09	0.26
GROWTH	0.24	0.21	0.89	0	0.17
ROA	0.12	0.12	0.65	-0.38	0.14

The results of Kolmogorov - Smirnov test showed normal distribution of the data ($p > 0.05$). Pearson correlation was used to investigate the relationship between working capital and dividend policy. The results are presented in Table 2. Durbin-Watson test results indicated the absence of autocorrelation between residuals (it should be between 1.5-2.5). The results of the coefficient of determination showed that the independent variables and control can predict 26% of the dependent variable changes. The results show that the estimated coefficient of working capital ratio variable was 4% and regard to the significance level of the coefficient ($p \leq 0.05$), it should be stated that there was a significant and positive relationship between working capital and dividend policy. There was not significant relationship between control variables in this model with the dependent variable.

Table 2. Results analysis.

Variables	Coefficient	t statistic	Sig.
C	0.31	1.004	0.31
Working capital	0.04	3/46	0.000[*]
Company size	0.002	0.12	0.89
Investment opportunities growth	-0.004	-0.04	0.96
Debts ratio	-0.14	-1.32	0.18
Return ration on assets	0.19	1.58	0.11
Adjusted R-squared		0.27	
F-statistic		3.41	
Prob(F-statistic)		0.000	
D.W		2.13	

[*]Significant at $p \leq 0.05$

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[1] Net trade cycle

DISCUSSION AND CONCLUSION

The aim of this study was to investigate the relationship between working capital and dividend policy in Tehran Stock Exchange. The results showed that there was a significant and positive relationship between the working capital and dividends policy. Given that the working capital is achieved from the difference between current assets and current liabilities and positive working capital represents the excess of current assets over current liabilities. The positive difference can indicate the appropriate status of the company in relation to cash or assets with high liquidity that this can empower company executives in paying the dividends This finding were consistent with the results of Anvari-rostami et al. (2013), Namazi and Rezai (2013), He (2009) and Grullon and Michaely (2008). For example, Anvari-rostami et al. (2013) examined the impact of the competitive structure of the market on their dividend policies. Results showed that the substitution of products and market size has a positive and significant relationship with dividend profit and there was no significant relationship between other dimensions of competition and dividend profit.

The general hypothesis of the study showed statistically positive but non-significant relationship that was tested using the competition score. Among the control variables, only profitability showed significant relationship with the dividend policy. He (2009) performed study as agency costs, competition in product market and dividend profit policy in Japan. Their results showed that companies are operated in concentrated industries have greater dividends. Also, the effect of agency costs is less concentrated on dividend policies in the industry.

Generally, the results of research indicated that competition in the product market can be considered as one of the company's corporate governance mechanisms. According to the results of the study, it is suggested that investors who are looking to receive dividends should analyze the components of working capital because, as the results showed, this important is positive factor on dividend profit. Increase working capital represents the excess of current assets to current liabilities that this leads to increase liquidity of companies that it would be effective upon payment of dividends. Therefore, they should consider operating working capital.

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