



iJRASET

International Journal For Research in
Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 5 Issue: VI Month of publication: June 2017

DOI:

www.ijraset.com

Call:  08813907089

E-mail ID: ijraset@gmail.com

Study of the Impact of Financial Flexibility on Dividend Policy with Respect to the Life Cycle (A Study Case: Tehran Stock Exchange Listed Companies, Iran)

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Abstract: *The main purpose of this study is determination of the relation between financial flexibility and dividend policy under the moderating effect of lifecycle among the firms listed on Tehran's stock exchange between 2008 and 2015. . In this regard, entire information related to entire firms and companies listed on Tehran's stock exchange have been made use of. In addition, the databases of firms of Tadbirpardaz© and Rahavard Novin© have been used for calculation of dependent research variables. Nonetheless, data belonging to firms have been reviewed through investigation of journals, disks that are provided by the stock exchange organization and the website of Tehran stock services and also reports published by Tehran's organization of stock exchange. Results have shown that the variable of lifecycle has no statistically significant effects on dividend policy. Results of the study regarding effectiveness of lifecycle on the relationship between financial flexibility and paid dividends are also validated.*

Keywords: *financial flexibility, dividend policy, corporate life cycle*

I. INTRODUCTION

Financial flexibility is necessary as a criterion for evaluation of a firm's capability for liquidity assessment. In addition it can be claimed that financial flexibility is a determinant of optimal capital structure which indicates how much of the firm's resources are provided by internal and external sources. Financial flexibility results in increased firm value and is also positively related to stock price.

II. PROBLEM STATEMENT

Financially flexible firms are able to prevent financial and economic inflations at times of facing negative and unfavorable shocks. In addition, these firms are able to make investments with least expenses at times of facing suitable conditions (Gamba et al. 2008). Financial flexibility is defined according to phases of lifecycle of a firm including birth, growth and maturity. In order to signify the phases of birth, growth and maturity interpretations such as firm size, monetary assets, accumulated profits, operational cash flows and paid dividends are used. Therefore, financial flexibility is interpreted as a level of firm's capacity for equipping its financial resources for response activities. In this manner, firm value is also maximized. In fact a wise choice of type of financing not only eliminates firm's financial problems, but also improves the situation of the firm compared to its competitors (Piri et al. 2016). Lifecycle is one of the economic characteristics of every firm. According to the theory of lifecycle, firms adopt different financial and economic indexes during different life phases. In other words, a firm's financial and economic characteristics are influenced by its current lifecycle phase (Biksia, 2007).

According to the theory of firm lifecycle, not unlike any other living specie; commercial and economic organizations are born, then grown and then die. During the youth, organizations are highly flexible but also uncontrollable in most occasions. As organizations age, relations change and resultantly, control is increased but with the cost of less flexibility. Ultimately, organizations also use their controllability when they become too old.

Dividend policy is one of the most important current debates in financial literature. This is mostly because dividend indicates major cash payments of firms and is also one of the most important options or choices available for managers. Managers and owners must decide on the amount of firm's profits that will be divided and also on the amount that would remain in firm's account as accumulated profits. The profits that are divided between the stakeholders of a firm are referred to as dividend. This dividend is

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either in cash, stock or non-cash assets form. This type of profit is resulted from environmental rules and its amount can vary as well. The scope of this profit type can include maximum current profits, total accumulated profits and even spent shares and savings. Logically it is expected to obtain a more predictable dividend as profitability of the firm is sustained as continued. A firm's strategy for keeping and distributing profits and the manners of doing the former and latter is referred to as dividend policy (Khodamipoor et al. 2014).

Despite the fact that payment of dividend directly benefits the stakeholders, it can also affect firm's ability for accumulation of profits for exploitation of every growth opportunity (Picker et al. 2002). In addition the core factor that needs to be considered for by every investor at times of investment is return rate. In fact investors seek maximum interest with respect to risk considerations. Dividend is a component of stock return and plays a significant role in financial decisions of investors. One of the most elaborated upon research subjects of financial markets is explanation of behavior of normal stock returns. These research projects have yielded several models which have been subjected to several supports and criticisms. On the one hand, investors are continuously seeking instruments for prediction of returns of their stocks and elements effective on it. On the other hand, existence of such a requirement has resulted in creation of several models that tend to predict the future returns of stocks and elements effective on it. With respect to the great importance of financial flexibility and dividend in firms, in this research we have tried to investigate whether there exist any statistically significant relation between financial flexibility and dividend policy among firms listed on Tehran's stock exchange, while considering for lifecycle.

III. RESEARCH PURPOSE

Determination the effect of the relation between financial flexibility and dividend policy under the moderating effect of lifecycle among the firms listed on Tehran's stock exchange between 2008 and 2015.

IV. HYPOTHESE

A. The main hypotheses

- 1) Financial flexibility has a significant effect on dividend policy.
- 2) The variable of lifecycle adjusts the relationship between financial flexibility and dividend policy.

V. RESEARCH METHODOLOGY

The main purpose of this study is determination of the relation between financial flexibility and dividend policy under the moderating effect of lifecycle among the firms listed on Tehran's stock exchange between 2008 and 2015. The present research is considered as an applied study and its data are of post facto type. In addition it is a descriptive research and its data are subjected to correlation and regression analyses.

A. Research Tools

The applied data collection method in this study is library studying. These data are in two categories: 1- theoretic data and 2-data regarding prices and other approvals of committees. In order to complete the basic theoretic sections and reviewing the literature of study, post facto statistical data have been used. In this regard, entire information related to entire firms and companies listed on Tehran's stock exchange have been made use of. In addition, the databases of firms of Tadbirpardaz© and Rahavard Novin© have been used for calculation of dependent research variables. Nonetheless, data belonging to firms have been reviewed through investigation of journals, disks that are provided by the stock exchange organization and the website of Tehran stock services and also reports published by Tehran's organization of stock exchange.

B. Method of data analyses

Regression and correlation analyses have been used for analysis of data of this research. Considering the type of data and existing statistical analysis methods, the combined data method is used. Since not considering for certain variables in the model results in lack of efficiency in econometric models, method of combined data which uses time series based and cross sectional data has a better capability for showing the effects of these unconsidered variables. Combined data include the previous trends of variables and are ensuring in terms of considering for dynamicity of variables. Ultimately it can be stated that with respect to type of data, the software of EVIEWS and the method of Panel Data have been used for investigation of hypotheses.

VI. RESULTS OF TESTING THE HYPOTHESES

A. Testing the first main hypothesis

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Final test of first hypothesis:

Financial flexibility has a significant effect on dividend policy.

This hypothesis is investigated through the application of the following formula:

$$DPS_{i,t} = a_0 + a_1 LEV_{i,t} + \alpha_2 size_{i,t} + \alpha_3 ROA_{i,t} + \alpha_4 Qtobin_{i,t} + \epsilon_{i,t}$$

In the upper equation DPS stands for dividend policy, LEV indicates financial flexibility, ROA indicates asset return rates and Qtobin shows investment opportunity.

The adjusted determination coefficient shows that 48% of the changes in the dependent variable are anticipated by the independent variable. In addition considering the F statistic it can be stated that the designed model is generally significant and suitable for investigation of the research hypothesis. Nonetheless, results related to the Durbin-Watson statistic (between 1.5 and 2.5) also show that by adding the parameter of AR (1) to the model, the problem of autocorrelation is dealt with efficiently.

Results show that financial flexibility has a negative statistically significant impact (0.47) on dividend policy. In other words, as the debt ratio increases, fewer dividends are paid to stakeholders.

Prob	t-Statistic	Coefficient	variables
.0331	-2.1340	-0.4730	financial flexibility
.0001	-4.9908	-0.1396	Size
.0001	-6.2699	-1.4686	ROA
.0003	3.6331	.1515	Qtobin
.0001	5.4950	2.7937	C
.0161	2.4116	.0731	AR (1)
.5458			R square
.4865			Adjusted R square
1.9549			Durbin Watson
9.1962			F- Statistics
.0001			F- Statistics probability
DPS			dependent variable

B. Testing the second hypothesis

1) *second hypothesis: the variable of lifecycle adjusts the relationship between financial flexibility and dividend policy.*

For testing this hypothesis the following relation is used:

$$DPS_{i,t} = a_0 + a_1 LEV_{i,t} + \alpha_2 Age\ cycle_{i,t} + \alpha_3 LEV * lifecycle_{i,t} + \alpha_4 size_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 Qtobin_{i,t} + \epsilon_{i,t}$$

The adjusted determination coefficient shows that 48% of the changes in the dependent variable are anticipated by the independent variable. In addition considering the F statistic it can be stated that the designed model is generally significant and suitable for investigation of the research hypothesis. Nonetheless, results related to the Durbin-Watson statistic (between 1.5 and 2.5) also show that by adding the parameter of AR (1) to the model, the problem of autocorrelation is dealt with efficiently.

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Results show that multiplication of lifecycle by financial flexibility with a regression coefficient of 0.12 has significant effects on dividend policy. In other words, the variable of lifecycle adjusts the relationship between financial flexibility and dividend policy. In addition results have shown that the variable of lifecycle has no statistically significant effects on dividend policy.

Prob	t-Statistic	Coefficient	variables
.0001	-6.1934	-1.7093	financial flexibility
.3602	.9155	.0164	lifecycle
	5.7976	.1216	LEV* lifecycle
.0001	-5.8231	-0.2145	Size
.0001	-4.9240	-1.6267	ROA
.0003	5.3547	.1895	Qtobin
.0001	5.7291	3.4350	C
.0014	3.1972	.1060	AR (1)
.5075			R square
.4417			Adjusted R square
1.9502			Durbin Watson
7.7189			F- Statistics
.0001			F- Statistics probability
DPS			dependent variable

VII. CONCLUSIONS

As debts are increased, fewer dividends are paid to stakeholders. In fact financially flexible firms have fewer tendencies for sharing profits. The variable of lifecycle adjusts the relationship between financial flexibility and dividend policy. In addition results have shown that the variable of lifecycle has no statistically significant effects on dividend policy. Results of the study regarding effectiveness of lifecycle on the relationship between financial flexibility and paid dividends are also validated. During the phase of birth or emergence firms are newly founded and therefore they need a high amount of liquidity for financing and realization of growth opportunities. In these firms either no dividends are paid or only few dividends are paid. During the growth phase, most of financial resources are invested on generating assets. Capital expenses are high and the firm will have also more flexibility in terms of liquidity indices. During maturity phase, in most cases the firm is supplied by internal resources. The assets of a firm in maturity phase are respectively higher than in growth and birth phases and therefore, capital expenses are reduced as well. In addition the ratio of paid dividend is also higher in such firms. During the dying phase, there are either very few growth opportunities available or none. Indices of profitability, liquidity and commitment are reduced and this leads to reduced sales rate. In this case the firm becomes excessively cautious in hugely competitive environments.

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