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The Effect of Re-Listing between First Market and Second Market on Dividend Policy in Amman Stock Exchange(ASE)

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Abstract
This study aimed at investigating the impact of re-listing between the first and second market on the dividend policy for the listed companies in the ASE. It also aimed at investigating whether these companies apply a clear dividends policy. The study used data available in the annual reports of the listed companies in the ASE. The study concluded there is a negative significant relationship between re-listing between the first and second market with dividend policy. The results also indicated there is a strong significant positive relationship between EPS, FIXA and ROA with dividend policy. These results suggest that companies classified in the first market do not prefer adopting a constant dividend policy because it accomplished its goal to reaching the market, hence reducing the percentage of distributed profits.
Keywords: Company Re-listing; Dividends Policy; Financial Performance.

Introduction:

The expansion of economic activity and the change in the business environment have led to necessity to match the international stock markets, since stock exchange is the largest and most important investment activities that enable large and small investor to achieve profits. The profit in the company is considered a debate focus between shareholders and managements, where such profits if turned to be dividends it would be considered a reward for the shareholders financing the company activities. Such profits, if against kept by the company, will be considered a source of internal financing the company.

Since the dividends policy is a strategic financial decision that influences the value of the company, therefore it will influence consequently the funding plans of the company. So the managements should adopt several important factors to determine the successful dividend policy that is based on necessary considerations for the company. Most investors seek to mutinies their wealth value through identifying successful investments and optimum dividends policy by the companies which they want to invest in. The important question in this case is: "are these companies able to determine an optimal policy for maximizing the investors' wealth and satisfying their needs?

To obtain the answer for such question it is very important to consider the affecting aspects on the dividends policy applied by these companies.

There are many theories that studied the dividends policy, classified into three categories:

- The first category is based on the neutrality of dividends policy, which means no impact of dividends decisions on the decisions on the market price of stocks. This view was adopted by Modiglliani and Miller (1961), which is the basic reference for financial studies related to the dividends policy.
- The second view is represented by the theory of high tax rate on investors, where if doesn't support the dividends since investors will bear more taxes on such dividends.
- The third view shows that the dividends policy is a financial decision of the management and it is considered an important strategic decision since dividends process is created the satisfy the needs of the shareholders.

For these views, this study investigates the dividends policy influenced by the classification of companies in the first and second markets at ASE. It also investigates the affecting factors on the dividends policy in Jordanian companies, because there is no clear and applied regularly policy in these companies. It also investigates the impact of share equity of dividends, the change in fixed assets and return on assets (ROA) on the dividends policy.

Objectives of the Study

1. Show the impact of company classification and drop from the first to the second market.
2. Identity whether there is a clear policy in the decision making process related to distribution profits on shareholders.
3. Study several variable that may influence the dividends policy in the Jordanian companies.

Importance of the Study

Many studies adopted the concept of and the factor affecting the dividends policy of the companies listed in the first and second market of stock exchanges. This study will investigate the impact of classifying the companies in the first and second markets on the dividends policy at ASE. It also investigates some variables that are necessary for measuring the dividends policy since such policy affects essentially the future and performance of the company.

This study differs than other previous studies in that it discusses the classification of companies of ASE, which was not investigated previously, upon the view of the researcher for the period of 2006-2013 in Jordan's business environment.

Theoretical Framework:

The profit distribution policy us shaped by the decision of company board of directors to distribute profits on shareholders or keep it as an addition to the capital for future investment to increase the value of the company. The company may distribute a part of the profit either cash-money or an increment of shares, while it keeps the rest for the next year.

The importance of dividends policy is clear through its influence on the attitudes of investors and their willingness to gain regular earnings or not. It also affects the structure of company capital and the financing approaches for its investments. The company may fund investments by self financing or by loans. The dividends policy also aims at maximizing the wealth of shareholders. where the optimal policy balances between distribution of present profits and the future growth which maximizes the price of the stock.

Luke (2011), showed that in the periods which the company achieves sequential profits by high rates it doesn't distribute profits on shareholders but little percentage. It tries to exploit these profits in the investment opportunities available for it to generate more profitability. The company seeks to satisfy the minimum needs of shareholders and obtain additional money. Luke also indicated a relationship between profit distribution policy (PDS) and the process of keeping profits suggesting that the latter is an important source of financing the activities.

Determinants of Dividend Policy:

In light of the dividend policy and the variations across firms and type of dividends, the question of how dividend policy is determined has been the subject of many studies. in generally have been initiated by Miller and Modigliani's (1961) irrelevancy theory.Miller & Modilgiani (1961) show that in a perfect capital market with rational behavior and perfect certainty and with investment and borrowing decisions given, dividend policy has no effect on the value of the firm. The value of the firm at the beginning of the period can be expressed as the dividends to be received during the period plus the firm's value at the end of the period, less the amount of external finance raised during the period, all expressed in present value terms. Manos, R,2001.

Most firms on Amman Stock Exchange have to defined clearly dividend policy. In order to solve any dispute expected to occur in the future between management and shareholders, due to the continuous change in the dividend policy of these companies, and the availability of profits means the existence of controversy between the management and the shareholders, on the one hand shareholders expect a dividend either the administration looks forward to internal financing.

Dividend policy include defining the policies adopted by the corporate management in determining the size of the amounts to be paid to shareholders over time.(Lease et al 2000)

However, Lintner, (1996) in his study of dividend policies, show that in the majority of cases, current dividend decisions are intimately related to previous decisions. also, the management takes the existing dividend decision as a question of whether or not to change the rate of dividend policy in the current period. However, other views suggest that the dividend rate should be related to current earnings and must reflect changes in business conditions.

According to Yegon (2014) Show that A difficult decision to determine the level of dividend policy to be paid to shareholders, and to decide whether or not to offer non-cash alternatives such as scrip dividends. Gordon (1963), in response to M and M's dividend irrelevance theory, proposed that the single discount rate that an investor uses to value the expected dividend, is an increasing function of the rate of growth in the profit . Gordon show his findings two assumptions, first, investors have an aversion to risk or uncertainty, second given the riskiness of a firm, uncertainty increases as to whether dividend payments will take place in the future. According to Foong et al (2007) the investments made by a company determine the future earnings and future probable dividends; and dividend policy influences the cost of capital. In making these interrelated decisions, the goal is to maximize shareholder wealth. appear from (McManus, Gwilym, and Thomas 2006), In the hierarchy theory, entrepreneurs look for the cheapest sources of activity financing in order to minimize risk and limit the costs of equity issue or payment of interest on credits and loans. If it is necessary to use the debt capital, debt securities are issued first, this is why there is a competition between decisions on reinvestment of achieved profit and payment of dividends to the shareholder.

Previous studies

Previous studies examined the relationship between dividend policy and corporate profitability in order to reach a better understanding about the theories of organizational dividend policy.

A large group of studies examined the company Profitability by study liquidity, leverage, profitability, growth, and ownership structure, market capitalization, dividend paying, share price, and earnings. study by Adadiran, & Alade (2013) this study aims to ascertaining the relationship between dividend policy and corporate profitability, Investment and Earning Per Shares. The study findings indicate that; there is a significant positive relationship between dividend policies of organizations and profitability, there is a significant positive relationship between dividend policy and investments and there is a significant positive relationship between dividend policy and Earnings Per Share. On other hand Study Skinner & Soltes (2011) this study examine whether dividend-paying firms have height earnings continual than non–dividend paying firms. The study result find evidence consistent with reported earnings of dividend-paying firms being more persistent than reported earnings of non–dividend payers.

Study Hashemijoo, et al, 2013, aims to examine the relationship between dividend policy and share price volatility . The results of this study showed significant negative relationship between share price volatility with two main measurements of dividend policy which are dividend yield and dividend payout. Moreover, a significant negative relationship between share price volatility and size is found. Based on findings of this study, dividend yield and size have most impact on share price volatility amongst predictor variables. Alam , and Hossin , 2012, this study examines the influence of liquidity, leverage, profitability, growth, and ownership structure, and market capitalization on the dividend rate. The study reveals that as per dividend irrelevance theory dividend policy has no influence on value of the firm for the reason of home made dividend ; according to dividend relevance theory, value of the firm is influenced by dividend policy because of certainty, information content and clientele effect; liquidity, availability of worthwhile projects, availability of alternative funds, profitability, growth, leverage, reaction of market to dividend reduction, ownership structure nature of the industry, tax clientele effect are the main determinants of dividend payout ratio. Study by Gupta, 2010, this study re-examines various factors that have a bearing on the dividend decision of a firm. Results of factor analysis indicate that leverage, liquidity, profitability, growth and ownership structure are the major factors. Regression on these factors shows leverage and liquidity to be the determinants of the dividend policy for Indian companies.

Other group of studies investigated the change of dividend decision to increase dividends**,** cost of capital**,** stock repurchases**,** management control**,** and performance**.** Study by Ajanthan 2013, The aims of this study is to find out the relationship between dividend payout and firm profitability among companies in the Colombo Stock Exchange (CSE). The findings indicated that dividend payout was a crucial factor affecting firm performance. Their relationship was also strong and positive. the results showed that dividend policy was relevant. It can be concluded, based on the findings of this research that dividend policy is relevant and that managers should pay attention and devote adequate time in designing a dividend policy that will enhance firm profitability and therefore shareholder value.

Gustavo et al,2002, this study find that their systematic risk significantly declines around the decision to increase dividends. This decline in risk results in an economically significant decline in their cost of capital. also this decline in the cost of capital can account for the positive price reaction to the dividend-increase announcement, even when the dividend change conveys information about a decline in the firm's growth prospects. also results indicate that dividend payout ratios of dividend-increasing firms do increase permanently, suggesting that these firms are able to maintain their higher dividends. Also Skinner 2008, examine the relation between earnings, dividends, and stock repurchases and provides evidence that repurchases often substitute for dividend payments. The study find that AAER firms have lower repurchases than non-AAER firms in the year prior to fraud, but find no difference in changes in repurchases during the fraud period. Also the study results find that equity issues and borrowing are associated with fraud.

On other hand Al- Malkawi,et al, 2010, This paper aims at providing the reader with a comprehensive understanding of dividends and dividend policy by reviewing the main theories and explanations of dividend policy including dividend irrelevance hypothesis of Miller and Modigliani, the empirical results for the agency costs explanation of dividend policy are mixed. The agency costs hypothesis posits that dividends mitigate the cash under management control, and therefore reducing the possibility that managers will use the funds in their own self-interest.

also Agyei and Yiadom, 2011, The main thrust of this study is to find out the relationship between dividend policy and performance of banks in Ghana. the results of the study, the average dividend paid by banks over the study period was height. Also, it is apparent that banks that pay dividend increase their performance. The results also reinforce earlier findings that leverage, size of a bank and bank growth enhance the performance of banks. The age factor presents mixed results.

A number of studies examined the, shareholder's wealth, corporate governance. and financial choices.

However, this studies have show that, Study Gul, et al, 2012, this paper examined the influence of dividend policy on shareholder's wealth. the result of study that the difference in average market value (AMV) relative to book value of equity (BVE) is highly significant between dividend paying companies and non-paying companies. Retained earnings have insignificant influence on market value of equity. There is significant influence of dividend policy on wealth of shareholder's, as far as the dividend paying companies are concerned. Lagged Price earnings ratio did not appear to have any significant influence on dependent variable, whereas lagged market value of equity has a significant impact on market price per share.

Allam, 2014, This study investigates the relation between corporate governance and dividend policy in Kuwait Stock Exchange (KSE). Using a group of parametric and non-parametric tests, the study had empirical evidence that there is a positive relation between corporate governance and dividend policy and it supported the hypothesis that indicates that increasing dividend policy is related to the quality of corporate governance and external financing constraints did not affect that relation. Al-Qaisi &Omet , 2010, The primary objective of this paper is to determine whether or not listed Jordanian companies have stable cash dividend policy. In addition, this paper compares the cash dividend policy of the various sectors in Jordan. the results indicate that listed Jordanian companies follow stable policies albeit at a lesser degree than companies which operate in advanced countries.

Sirait and Siregar, 2014, This study aims to examine the relationship between dividend payment and earnings quality by studding dividend-paying status, dividend size, dividend changes, and dividend persistence. The Findings show that dividend-paying status, dividend increase, and persistence in dividend payment have significant positive association with earnings quality. However, the authors do not find evidence that larger dividend size is an indicator of higher earnings quality. Overall, the results show that dividend-paying status, increase in dividend size, and persistence in dividend payment are indicators or signals of higher earnings quality.

This Study:

This differs than previous studies in that it depends on new variables consisting the impact of company classification in the first and second market on the policy of profit distribution to shareholders. This variable was not discussed by previous Arabic foreign studies.

Upon the knowledge of the researcher this topic is very important for investors and shareholders since it is related to the policy of profit distribution to the shareholders. So we hope to add a new bits to the literature.

Hypothesis Development:

The study is based on testing the following hypothesis:

h1: Does the classification of companies between the first and second market affect the dividends policy for all sectors of ASE?

h2: Do the following factors affect the dividends policy for the shareholders in all sectors of ASE?

- Earning Per Share (ESP)?
- Return on Assets (ROA)?
- Fixed Assets Value (FAU)?

Methodology:

The data for this study secondary data collected from annual reports and financial statement of all companies listed in Amman stock exchange. The analyzed using multiple regression by (Cross-Sectional). The model for the study as following;

$DPS_{it} = DM + B_1EPS_{it} + B_2ROA_{it} + B_3FIXA_{it} + ut$

Where ;

DM : Change from the first market to the second market in Amman stock exchange. 1 if firms change and 0 if otherwise.

DPS_{it}: Dividend per share for firm $_i$ at period $_t$.

EPS_{it} : Earnings per Share for firm $_i$ at period $_t$.

ROA_{it} : Return on Assets for firm $_i$ at period $_t$.

$FixA_{it}$: fixed assets for firm $_i$ at period $_t$.

Ut: The error term respectively.

There are five main variables in this study, which explain the dividend policy . first is the dividend-Policy (DPS), which is measured by a dummy variable and measured as follow. The second variable is Earning per share (EPS) which measured as follow. Third return on Assets (ROA) which measured as follow. Fourth variable Fixed assets which calculated as follow. And(D M) the movement in the market which measured as1 if firms change and 0 if otherwise.

The variables included in the model are measured as the following:

Dividend per share = $\frac{\text{net income attributed to sharholders}}{\text{total number sharhalders}}$

Earnings per share = $\frac{\text{net earnings}}{\text{number of shares}}$

Return on assets = $\frac{\text{operationg income}}{\text{total assets}}$

Fixed A = amount of total fixed assets. (industrial and services companies). These assets are purchased for a long-term use in the Companies.
Investment = amount of total investment (insurance and real state, and diversified) companies.
Total assets = amount of total assets.
the study add DM as a control variable, which has a value of 1 if the firm's change from the first market to the second market and 0 if otherwise.

Sample, Data and Measurement of Variables

The sample of this study includes all companies listed in the Amman Stock Exchange (ASE) with available data from 2006 to 2013.

Results and Analysis

Table (1)
Result for Model (1)

Dependent variable	Independent variable DM				
DPS	**Coefficient**	**Std.Err**	**T - value**	**F- Test**	**R^2**
	-.0434231	**.0183072**	-2.37**	5.63	0.0031

t values at 5% significance level
DM : Change from the first market to the second market.
DPS_{it}: Dividend per share for firm $_i$ at period $_t$.
EPS_{it} : Earnings per Share for firm $_i$ at period $_t$.
ROA_{it} : Return on Assets for firm $_i$ at period $_t$.
$FixA_{it}$: fixed assets for firm $_i$ at period $_t$.

Table 1 shows that DPS is inversely related to the change in the companies and its position in the market. The coefficient value was (-0.0434231) of significance level of (α≤0.05). It shows that the value of T was (-2-37). The analysis took into account the change of first and second markets and the change in companies from the first to the second market. The results indicate volatility in the policy of profit distribution over the shareholders. It also shows that volatile classification of companies of ASE between the first and second market affects negatively on the level of distributions. It shows that the change of company classification from the first to the second market leads the company to keep the profits. While the change of company classification from the second to the first market doesn't compel the company to distributed profits in this specific period on a regular base since it meets the terms of first market entry, with the suppose of stability of first and second markets factors.

The stable dividends policy which is applied by the companies is preferred by shareholders because they prefer to invest in these companies with stable policy of profit distribution that meets their ambitions and needs.

Table (2)
Result for Model (2)

Dependent variable	Independent variable EPS				
DPS	**Coefficient**	**Std.Err**	**T - value**	**F- Test**	**R^2**
	0.3639992	**0.1063103**	3.42*	11.27	0.5029

***t values at 1% significance level**
DM : Change from the first market to the second market.
DPS_{it}: Dividend per share for firm $_i$ at period $_t$.
EPS_{it} : Earnings per Share for firm $_i$ at period $_t$.
ROA_{it} : Return on Assets for firm $_i$ at period $_t$.
$FixA_{it}$: fixed assets for firm $_i$ at period $_t$.

Table 2 shows that dividends policy has a positive relationship with share equity of profits. This result is reasonable and expected where this variable was applied in the model of the study as a control variable for company profitability level. The coefficient value (α≤0.01) was (0.3639992), while T value was(3.42). This means a close relationship between the dividends policy and share equity of profits.

The results showed the increasing interests by shareholders in this variable. Since this variable reflects the profits value achieved by companies which can distributed part of it on shareholders such variable emphasizes the importance of disseminated information of profitability and dividends policy according to their ambitions.

Table (3)
Result for Model (3)

Dependent variable	Independent variable FIXA				
DPS	Coefficient	Std.Err	T - value	F- Test	R^2
	0.0454954	0.0175528	*2.59	6.72	0.0968

*t values at 1% significance level
DM : Change from the first market to the second market.
DPS_{it}: Dividend per share for firm $_i$ at period $_t$.
EPS_{it} : Earnings per Share for firm $_i$ at period $_t$.
ROA_{it} : Return on Assets for firm $_i$ at period $_t$.
$FixA_{it}$: fixed assets for firm $_i$ at period $_t$.

Table 3 shows that dividends policy has a strong and positive relationship with the variable of fixed assets. The coefficient value of fixed assets at (α≤0.01) was (0.0454954) while T value was (2.59). This variable shows that company which expands in developing its assets has ability to generate additional profits on the long range resulting from financing its assets and increasing the company value, hence making profit distributions over shareholders. It also shows that it is expected that the growth of shareholders rights will increase as a result of the growth of reinvested profits in fixed assets. It also shows that the company keeps these assets and expands it to generate additional profits.

Table (4)
Result for Model (4)

Dependent variable	Independent variable ROA				
DPS	Coefficient	Std.Err	T - value	F- Test	R^2
	.0085184	.0026461	*3.22	10.36	0.0011

*t values at 1% significance level
DM : Change from the first market to the second market.
DPS_{it}: Dividend per share for firm $_i$ at period $_t$.
EPS_{it} : Earnings per Share for firm $_i$ at period $_t$.
ROA_{it} : Return on Assets for firm $_i$ at period $_t$.
$FixA_{it}$: fixed assets for firm $_i$ at period $_t$.

Table 4 shows that dividends policy has a strong and positive relationship with the return on assets (ROA). The coefficient value (α≤0.01) was (0.0085184), while T value was (3.22). These results emphasize such relationship.

The results indicated that such variable can be used to identify the applied dividends policy over shareholders of the companies listed in ASE. It also showed that shareholders prefer quasi regular return that meets their desires and expectations.

Results and Recommendations:

- **Results:**
  1. The irregular adoption of dividends policy by the classified company in the first market leads them to change its classification to the second market. such results is attributed to that the companies seek presence in the first market of ASE and in the second market to facilitate funding its operations through reinvested profits. These companies also consider the irregular commitment to dividends policy a suitable choice for the management to increase its investments which generate more income to the company profits.
  2. The companies which were classified from first to second market depend mainly on keeping profits and prefer using it in financing operations and expansion to avoid financial hardship.
  3. Change of classification has a negative impact on the dividends policy of the listed companies of ASE. This results can be explained that companies classified in the first market don't prefer adopting regular dividend policy over shareholders because it accomplished its goal to reach such market, hence reducing the percentage of distributed profits.
  4. Shareholders prefer largely the regular monetary distribution of profits that meet their needs, instead of achieving capital profits resulting from the growth of distribution on the long range.

- **Recommendations:**
  1. Activate the demand on investments of ASE through increasing the knowledge of this market and its capability to grow and maintain the money and wealth, besides seeking the increase of investors base to avoid dominating ASE by big investors.
  2. Taking into account all variables that affect the dividends policy and disclosing such policy in the annual reports of companies, besides disclosing the importance of information related to such policy to increase credibility of presentation.
  3. Take into account reasonably the expectations of shareholders when determining the dividends policy that may achieve their goals and the company objectives. It also necessary to determine the justifications of keeping profits by management to reinvest and expansion.

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