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Dividends Policy, Retained Earnings and Share Prices Applied Study of Iraqi Stock Market

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Abstract:

Despite the abundance of research in the field of dividend policy and share price, but still it remains a puzzle which whether dividend policy affects the share price or not. This study attempts to empirically investigate the relationship between dividends, retained earnings and share prices. As it is well known that the main objective of corporation should be to maximize the value of the firm, as the value, price, of the firm`s common share depends on the policies that the management adopt about dividends and internal financing decisions. The study relies on secondary data, which was collected for a period of ten years (2005-2014) from the audited annual financial reports of four-companies sample of different industries that are listed in Iraqi`s stock. The firms included in the sample have many consecutive years of dividend payments and also have earnings information for the ten years mentioned. The study concluded that dividend policy is of a great importance because it affects the value of the company, as well as attracting the attention of external and internal users of accounting information; the study finds out that dividend per share (DPS) and dividend pay-out policy are related to return on equity (ROE). Meanwhile, earning per share (EPS) is negatively behaving with (DPS) and dividend pay-out ratio (DPR). Therefore, the study may advise the concerned firms to well-studied financial planning and policy so as to enhance their performance and efficiency.

Key words: Dividends policy, Retained earnings, Share price.

JEL Classification code: M41, G35, G1

الملخص:

على الرغم من وفرة الأبحاث المنشورة في مجال سياسة توزيع الأرباح وتأثيرها على سعر السهم، إلا أن هذا الأمر لازال يعد لغزا حول ما إذا كانت سياسة توزيع الأرباح تؤثر على سعر السهم أم لا، تهدف هذه الدراسة الى التحقق تجريبيا من العلاقة بين سياسة توزيع الأرباح، والأرباح المحتجزة مع أسعار الأسهم وذلك لان الهدف الأساس لإدارة الشركة هو تعظيم قيمتها السوقية من خلال تبني الإدارة للسياسات المناسبة لتوزيع الأرباح الى جانب إتخاذ القرارات الملاءمة للتمويل الداخلي.

اعتمدت الدراسة البيانات الثانوية التي تم جمعها لمدة عشر سنوات وللمدة من (2005-2014) من التقارير المالية السنوية المدققة لعينة من أربع شركات صناعية مختلفة والمسجلة في سوق العراق للأوراق المالية، وقد كان لهذه الشركات سنوات متتالية من توزيعات الأرباح ولديها ايضا بيانات عن الأرباح المتولدة خلال فترة العشر سنوات المذكورة.

وخلصت الدراسة الى ان توزيعات الأرباح لها أهمية كبيرة لانها تؤثر على قيمة الشركة، فضلا عن أهميتها في جذب إنتباه المستثمرين الخارجيين والداخليين، كما توصلت الدراسة الى أن مقسوم الأرباح لكل سهم (DPS) ونسبة مدفوعات الأرباح (DPR) ترتبط مع العائد على الملكية (ROE)، وفي الوقت نفسه فان ربح السهم (EPS) له علاقة سلبية مع كل من (DPS) و(DPR)، لذلك تنصح الدراسة الشركات المعنية بأتباع تخطيط وسياسة مالية مدروسة جيدا لتعزيز أدائها وكفاءتها.

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الكليمات المفتاحية: سياسة توزيعات الأرباح، الأرباح المحتجزة، سعر السهم.

پوختە:

سەرەڕای زۆری توێژینەوە دیارەکان لە بواری سیاسەتی دابەشکردنی قازانج و کاریگەرییەکانی لەسەر نرخی پشکەکان، بەڵام ئەم بابەتە هێشتا لایەنی شاراوەی هەیە کە ئایا سیاسەتی دابەشکردنی قازانج کاریگەری لەسەر نرخی پشکەکان هەیە یان نا. ئەم توێژینەوەیە ئامانجێتی لێکۆڵینەوەیەکی ئەزموونی بکات لە پەیوەندی نێوان سیاسەتی دابەشکردنی قازانج، قازانجی پاشەکەوتکراو لەگەڵ نرخی پشکەکاندا، لەبەر ئەوەی ئامانجی سەرەکی بەڕێوەبەرایەتی کۆمپانیا سەبارەت بە بڕیاری پالێشتی دارایی ناوخۆیی گونجاو، پەرەپێدانی بەهای بازارگەرییە لەڕێگەی گرتنەبەری سیاسەتی گونجاو بۆ دابەشکردنی قازانج. توێژینەوەکە پشتی بەو داتایانە بەستووە کە کۆکراوەی دە ساڵە لە ماوەی نێوان (2005-2014) کە نمونەیەکن لە ڕاپۆرتی دارایی ساڵانەی وردبینیکراوی چوار کۆمپانیای پیشەسازی جیاواز کە لە بۆرسەی عێراق تۆمارکراون، وە ئەم کۆمپانیایانە دابەشکردی قازانجیان ساڵ بەدوای ساڵ هەبووە و هەروەها داتای قازانجی بەدەست هێنراویان هەیە بۆ ئەو دە ساڵەی ئاماژەمان پێداو. توێژینەوەکە گەیشتە ئەو ئەنجامەی کە دابەشکردنی قازانج گرنگییەکی زۆری هەیە، چونکە کاریگەری لەسەر بەهای کۆمپانیاکە هەیە، وە لەسەروو گرنگییەکەیەوە کاریگەری هەیە لە ڕاکێشانی سەرنجی وەبەرهێنەرانی دەرەکی و ناوخۆیی. هەروەها توێژینەوەکە گەشتە ئەو دەرئەنجامەی کە دابەشکردنی قازانج بۆ هەر پشکێک (DPS) وە ڕێژەی پێدانی قازانج (DPR) پەیوەستە بە بەرهەمی سەرمایە(ROE) ، وە لە هەمان کاتتدا قازانجی پشک (EPS)لە پەیوەندییەکی نەرێنی دایە لەگەڵ هەردوو (DPS) و . (DPR) بۆیە توێژینەوەکە ئامۆژگاری کۆمپانیا پەیوەندیدارەکان دەکات کە پلان و سیاسەتێکی دارایی دراسەکراو و باش پەیرەو بکەن بۆ بەرزکردنەوەی ئەدا و کارایی کارکردنیان.

1. Introduction

The effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance, not only to the corporate officials, who must set the policy, but to investors planning portfolios and to economists seeking to understand and appraise the functioning of the capital markets (Miller & Modigliani, 1961). Researchers agreed that dividend policy means the practice that management of the firm follows in making dividend pay-out decisions, in other words, what percentage of profits should be distributed to shareholders and what percentage should be as retained earnings to be used in financing expansion activities of the firm (Lease, 2000; Garba et al. 2014; Munir et al. 2017).

The corporate choice to pay or not to pay a cash dividend to shareholders and the further choice to increase the dividend, reduce the dividend, or keep it at the same dollar amount represents one of the most challenging and perplexing areas of corporate financial policy (Keown, et al. 2005.The optimal dividend policy is that which increases the share prices of the company which in return increase the shareholder's wealth (Irtaza, et al. 2015). As far as dividend policy is concerned, the classical literature provides us with two viewpoints. First, based on the arguments put forward Miller and Modigliani (1961) dividends policy has no impact on the value of firms (irrelevant theory), which proposed that dividend payment decisions are irrelevant from the equity valuation perspective. Indeed, this view is supported by (Black, 1976) whom declared that the harder we look at the dividends image, the further it seems similar to a puzzle with pieces that just don't fit mutually.

In contrast, many researches had shown that there is dependency of dividend policy on the shareholders wealth. Lintner (1956), Gordon (1963) and Richardson *et al*. (1986) had stated that there is a relevancy between the dividend policy and the firm's value. Researchers also found the positive impact of dividend policy on shareholders wealth, (Fama,et al. 1969; Pettit, 1972; Travlos, 2001). Irrespective which argument is more relevant, it is interesting to note that the empirical evidence on

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whether dividend policy affects a firm's value offers contradictory advice to corporate managers (Baker et al. 2011),which in turn led to a lot of research papers about the effect of dividend policy on share price.

The remainder of this study is structured as follows: Section 2 reviews the research methodology. Section 3 presents the literature review. Section 4 reviews the theoretical foundation. Section 5 describes analysis results. Section 6 reports the empirical results. And Section 7 for conclusions and Recommendations.

2. Research Methodology

2.1. Problem statement

Though various empirical researches have been conducted on relative impact of dividend policy and retained earnings on share prices in different parts of the world, but in Iraqi stock market this type of studies has not received the necessary importance that is commensurate with the increasing growth witnessed by many companies quoted in the stock market.

Most studies that have been done concentrate on understanding the general aspects of the relationship between dividend, retained earnings and share price, rather than on the impact of individual variables such as, EPS, DPS, size, it therefore goes without referring to the gap existing in explaining the effects of these variables on the market price movements at (ISX).Understanding this effect will add to the available body of knowledge on behaviour of share prices, beside it will help investors to understand the reasons behind the fluctuating of this prices and motivate manager to maximize shareholder`s wealth.

2.2. Significance of the study

We can saw the dimensions of the importance of this study from many aspects, the relationship between dividend policy and retained earnings represent one of the most arguable and interesting topic in corporate finance. Reviews indicate that the impact of retained earnings and dividend pay-out decisions on share prices in Iraqi equity market has not been investigated in detail. Iraq is an important emerging market in Middle East and south Asia, so it is desirable to investigate this relationship across different level of growth in Iraqi stock market.

As well as, this research paper is remarkable in various aspects, such as it will pave the easy and possible way for investors and creditors to identify the nature of DPS, DPR and share price ratios fluctuating, along with helping them to make decisions regarding investment and forwarding loans and advances. Secondly, people from academia (future researchers) may benefit from this work and would be able to extend the research by including other variables and indicators. Thirdly, this study helps portfolio managers in the allocation and assessment of share price fluctuations. Lastly, this paper would help the regulators or any authorized people such as Iraqi Stock Exchange (ISX) and Iraqi securities commission (ISC), etc.,to understand the role of DPS, EPS, DPR and share price ratios in the financial market.

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2.3. Objectives of the Study

The present study has been undertaken with a main objective to examining the empirical relationship between dividends policy, retained earnings and share prices for the non- financial firms listed in the Iraqi Stock Exchange, the selected firms are related to the manufacturing sector in Iraq. The study will focus on the impact of specific intrinsic factors such as, dividend per share, earning per share, price earnings ratio, dividend pay-out, size of the firm on stock prices.
In addition to the above mentioned, there are another objectives:

(i) To evaluate the sustainability of dividend policy.
(ii) To find that whether retained earnings or dividend increase the wealth of shareholders
(iii) To examine the impact of return on equity on share prices.

2.4. Hypothesis of the study

Dividend policy and the amount of retained earnings depend on the realized profits. Many researchers studied and analyzed the relationship between distributed profits, retained earnings and their impact on share price. Among the variables that considered as proxy for profitability: earnings per share (EPS), price earnings ratio (P/E ratio), dividend per share (DPS), dividend pay- out ratio (DPR), AlTroudi & Milhem (2013); Joshi (2012); Salih (2010); and Pan (2007). As well as, literature has explored the relationship that exists between size of a firm and behaviour of dividend policy, (Fama & French, 2000; Al-Malkawi, 2007; Holder et al. 1998).

Considering all previously discussed theoretical arguments for dividend policy, retained earnings, and share price along with the empirical evidence. This in turn is now used as a guide to formulate research hypotheses given the key characteristics of firms listed in Iraqi Stock Exchange. The following suggested hypotheses would be tested":

1. There is a positive significant relationship between dividends per share with the stock price.
2. There is a positive significant relationship between dividend pay-out ratios with the stock price.
3. There is a positive significant relationship between retained earnings per share with the stock price.
4. There is a positive significant relationship between firm`s size with the stock price

3. Literature review

Decisions to pay dividend and its impact on valuation of shares is widely debated in the literature of corporate finance, (AlTroudi & Milhem,2013; Banerjee, 2017) had stated that one set of arguments put forth say that, dividend payment and increase in its amount, increases the valuation of the firm(e.g. Gorden,1963; Salih 2010) whereas another group has argued that dividend payments lead to decrease the wealth of shareholders by reducing share price, and hence decreasing firm value (e.g. Pettit, 1972), still the last group of researchers adopted the notion of irrelevance of dividend policy who think, dividend payment decisions have no impact on the valuation of the shares, therefore, firm value is not affected by corporate dividend policy (e.g. Miller & Modigliani, 1961; Baker *et al.*, 1985; Farrelly *et al.* 1986).

This section will cover the related studies of dividends policy, retained earnings and stock prices, which are discussed below:

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Irfan & Nishat (2000) used annual balance sheet data of listed firms in Karachi Stock Exchange (KSE) during 1981 to 2000, to identify the joint effect of six variables (dividend yield, pay-out ratio, size, asset growth, leverage, and earning volatility), the highly significant joint factors observed are pay-out ratio, size, leverage, and dividend yield. Together, these four factors explain one-fourth variation in share prices at KSE.

In another research related to the Jordanian listed corporates (1989-2000), Al-Malkawi (2007) He used a firm-level panel data set and found a strong prove and support for the agency costs hypothesis and are broadly consistent with the pecking order hypothesis while examining the determinants of corporate dividend policy. The results suggest that the proportion of stocks held by insiders and state ownership significantly affect the amount of dividends paid, size, age, and profitability of the firm seem to be determinant factors of corporate dividend policy in Jordan.

A further study for a time period from 2005 to 2010 was done by Al-Troudi & Milhem (2013) examine the empirical relationship between cash dividends, retained earnings and the share prices, after controlling for earnings per share and financial leverage in the context of Jordan. The results of their study show a positive and significant relationship between cash dividends, retained earnings, earnings per share, and share price while the share price is positively but non-significant associated with financial leverage.

Al- Kuwari (2009) investigates the determinants of dividend policies for firms listed on Gulf Co-operation Council (GCC) country stock exchanges, a panel data set of non-financial firms listed on the GCC country stock exchanges has been used between the years of 1999 and 2003. The results suggest that dividend payments related strongly and directly to government ownership, firm size and firm profitability, but negatively to the leverage ratio.

A country- wise research study of UAE assessed by Mehta (2012), He investigates the determinants of dividend pay-out for all firms except to banks and investment firms, which are listed on the Abu Dhabi Stock exchange for the period (2005-2009). This research analyses a range of determinants of dividend policy: profitability, risk, liquidity, size and leverage of the firm., the study provides evidence that profitability and size are the most important considerations of dividend pay-out decisions.

Another sub-continent case was conducted by Al-Masum (2014) who tested the effect of dividend policy decisions on share price for all the thirty commercial banks listed in Dhaka Stock Exchange for the period (2007 to 2011), he found positive relation between dividends and share prices after controlling the variables like EPS, ROE, and retention ratio, while the dividend yield and profit after tax have negative insignificant relation with share prices.

Malhotra & Tandon (2013) their study is undertaken with an attempt to determine the factors that influence share prices in the context of National Stock Exchange (NSE) 100 companies. A sample of 95 companies is selected for the period (2007-2012) and using linear regression model the results indicate that firms' book value, earning per share and price-earnings ratio are having a significant positive association with firm's share price while dividend yield is having a significant inverse association with the market price of the firm's stock.

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Meanwhile, in case of Iran, Abbasi & Ebrahimzadeh (2013) highlighted the relationship between dividend policy, cash flow and investment of one hundred firms that are listed on Tehran Stock Exchange during (2002-2008). They applied Wilcoxon test and the results showed that there is a significant relation between dividend payment policy and cash flow, operating income, leverage ratio, and tangible fixed assets.

A post Asian 1997 financial crisis case was studied by Lee et al., (2012) who investigated the relationship between dividend changes and future profitability of firms in Malaysia while using a total of 2,396 dividend changes of companies listed on Bursa Malaysia during (1998-2007). They found that dividend changes are strongly related to contemporaneous earnings changes, weakly related to one year ahead of earnings changes and largely unrelated to earnings changes beyond one year.

Also, Hooi et al. (2015) investigated the relationship between dividend policy and share price volatility of 319 companies that are listed on Kuala Lumpur stock exchange and they found that the claimed relationship between share price volatility and dividend policy instruments is true. In addition, dividend yield and dividend pay- out were found to be negatively related to share price volatility and were statistically significant. Firm size and share price were negatively related.

Therefore, the present study will look into the dividend payment approach of different Iraqi companies and would try to determine the implications of varying policies. The study will also try to find out the reasons as to whether investors pay attention to dividends or not when making investment decisions.

4. Theoretical Foundation

4.1. Dividend Policy Theories

There are three main alternative views related to dividends. These views are embodied in three theories of dividend policy: high dividends increase share value theory (or the so-called 'bird-in-the-hand' theory), low dividends increase share value theory (the tax-preference theory), and the dividend irrelevance theory. These are discussed in turn below beginning with dividend irrelevance theory

4.1.1. Dividend Irrelevance Theory

Much like their work on the capital-structure irrelevance proposition, Modigliani and Miller also theorized that, with no taxes or bankruptcy costs, dividend policy is also irrelevant.

This is known as the "dividend-irrelevance theory", indicating that there is no effect from dividends on a company's capital structure or share price. MM's dividend-irrelevance theory says that investors can affect their return on a share regardless of the share's dividend, meaning investors care little about a company's dividend policy since they can simulate their own (Miller & Modigliani 1961; Shapiro 1990; Miller & Rock 1985). M.M`s theory suggests that in a perfect world market (certainly no taxes, no transactions cost, and no other market imperfection the value of the firm is unaffected by the distribution of dividends.

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They argue that the firm`s value is determined solely by the earning power and risk of its assets (investments), and that the manner in which it splits earnings stream between dividend and internally retained (reinvested) fund. Gitman (2003)

4.1.2. Bird-in-the-Hand Theory

This theory is based on the logic that ' what is available at present is preferable to what may be available in the future'. Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger)**.**The bird-in-the-hand theory, however, states that dividends are relevant. Remember that total return (k) is equal to dividend yield plus capital gains. Gordon (1959) and Lintner (1962) took this equation and assumed that (k) would decrease as a company's payout increased. As such, as a company increases its payout ratio, investors become concerned that the company's future capital gains will dissipate since the retained earnings that the company reinvests into the business will be less (Investopedia).

The bird-in-the-hand may sound familiar as it is taken from an old saying: "a bird in the hand is worth two in the bush." In this theory "the bird in the hand' is referring to dividends and "the bush" is referring to capital gains. Gordon (1959).

4.1.3. Tax-Preference Theory

Another explanation of why dividend policy matters involves the tax effect; taxes are important considerations for investors. Capital gains are taxed at a lower rate than dividends.

As such, investors may prefer capital gains to dividends. This is known as the "tax Preference theory". According to this theory, investors may favour retention of fund over the payment of dividends because of tax- related reasons. The favourable treatment of capital gains over dividends may lead investors to prefer a low dividend payout to a high pay-out (Baker & Powell 1999).

Additionally, capital gains are not paid until an investment is actually sold. Investors can control when capital gains are realized, but, they can't control dividend payments, over which the related company has control.

4.2. Cash Dividend, Share Repurchase and Share Valuation

Finance theory suggests that management should return some or all of the excess cash to shareholders as dividends. There are two ways a corporation's management must choose the right form of the dividend distribution, generally as cash dividends or a share repurchase (Bodie et al 2009). Share that has been repurchased by a firm is called treasury stock.

If some of the outstanding stock is repurchased, fewer shares will remain outstanding. Assuming that the repurchase does not adversely affect the firm’s future earnings, the earnings per share on the remaining shares will increase, resulting in a higher market price per share. As a result, capital gains will have been substituted for dividends (Brigham & Houston, 2009). Share`s value is found in the same manner as the value of other financial assets- namely, as the present value of the expected future cash flow stream, the expected cash flow consists of two elements (i) the dividends expected in each year and (ii) the price investors expected to receive when they sell the share.

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The expected final share price includes the return of the original investment plus an expected capital gain. (Ehrhardt & Brigham, 2011; Ross, et.al. 2007) have studied the present value of common share and refers to the same value as equal to the discounted present value of the next period`s dividend plus next period`s price, to illustrate, let`s start with an individual who will buy the stock and hold it for one year, the value of the share will be calculated as follow:

$$P_{\circ} = \frac{Div_1}{1+R} + \frac{P_1}{1+R} \quad \text{----------} \quad (1)$$

Where:

Div_1 is the dividend paid at year`s end and $P_1$ is the price at year`s end. P_0 is the present value (PV) of the common share investment. The term in the denominator, R, is the appropriate discount rate for the share, (Ross et al, 2007). $P1$means that there must be a buyer at the end of year 1 who is willing to purchase the share for $P1$, this buyer determines price by:

$$P_1 = \frac{Div_2}{1+R} + \frac{P_2}{1+R} \quad \text{----------} \quad (2)$$

And at the third year, the process can be repeated as follow:

$$P_{\circ} = \frac{Div_1}{1+R} + \frac{Div_2}{(1+R)^2} + \frac{Div_3}{(1+R)^3} + \cdots = \sum_{t=1}^{\infty} \frac{Div_t}{(1+R)^t} \quad \text{----------} \quad (3)$$

Thus the value of a firm`s common share to the investor is equal to the present value of all the expected future dividends. The objection to applying present value analysis to share is that investors are too short-sighted to care about the long-term stream of dividends (Ross et al, 2007).

4.3. Definition of Retained earnings and Earnings Per Share

Profits generated by a corporation that is not distributed to shareholders (equity-holders) as dividends but are either reinvested in the firm's business (increase in the working capital) or kept as simple or compulsory reserves for specific goals (such as to pay off a debt or purchase capital assets) Gibson (2013).

The International Accounting Standard Board (IASB) in its International Financial Reporting Standard (IFRS-14) define earnings per share (EPS) to reflect the company's net after- tax earnings that belong to equity shareholders divided by the number of outstanding shares. The type of shares referred to in the computation of EPS is the ordinary shares or also known as common shares in which the number of preference shares is to be excluded (Seetharaman and Raj 2011).

Conducting a share repurchase right before the end of the firm's fiscal year is likely to have little effect on the overall earnings of the firm. However, the reduction in the number of shares outstanding will have an immediate impact on (EPS). If investors do not see through this, then the firm could, at least in the short run, increase its share price. Executives may also engage in this practice because their compensation contracts target certain levels or growth rates in EPS (Servaes &Tufano 2006).

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4.4. Size

Much previous research work assumed that there is a relationship between a firm`s size and its dividend policy. Large scale industries or firms tend to be more competitive, with access to capital, better credit rating, and more customers, which will enhance their profitability and increase their ability to pay higher dividends in comparison to small firms (Dickens et al., 2002), many writers support the same (Mehta 2012, Maladjian and El Khoury 2014). The firm`s size is measured by the natural logarithm of the book value of the company`s assets.

4.5. Risk

Although risk of the firm can be measured in different ways, it will be proxied by the P/E ratio defined as the market price per share divided by earning per share, Friend and Puckett (1964) and Fama and French (1998) put forward that a high P/E ratio suggests that investors are expecting higher earnings growth in the future. Hence, the P/E ratio implicit incorporates the perceived risk of a given firm`s future earnings. Although Mollah et al. (2002) found that firms listed on the Dhaka Stock Exchange paid a large dividend even though they are considered risky, majority of researchers have demonstrated a strong negative relationship between the level of riskiness and dividend payout ratio (Rozeff, 1982; Al-Kuwari, 2009; Maladjian & El Khoury, 2014). Since high P/Es may be linked with low risk, it might lead to higher payout ratios.

5. Analysis Results and Discussion

5.1. Data collection and analysis

This research paper is a quantitative in nature done to investigate the relationship among dividend policy, retained earnings and share price. It dealt with dependent and independent variables that concerning the aim of the study. This research depends upon the secondary data that were collected from the annual reports of four firms listed in the Iraqi Stock Exchange namely:

1. Iraqi For Tufted Carpets
2. Baghdad For Packing Materials
3. Modern Chemical Industries
4. Middle East For Producing & Marketing – Fish

The study covers a time period of ten years, from 2005 to 2014. Many techniques were used to perform statistical analysis such descriptive statistics, matrix correlation, ordinary least squares (OLS). The statistical package of econometrics views (EViews version 7) were used for the analysis purpose.

5.2. Descriptive statistics

Table 1 summarizes the descriptive statistics of variables for the sample; Mean and standard deviation are used to determine the fluctuations of each variable tested. Standard deviations of all variables are fluctuating from small value (Fin. L = 0.2526, DPR= 0.3156, and EPS = 0.4486) to large values (Risk = 39.797& RPS = 55.500) indicating that the adopted dividend policy, retained

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earnings and stock prices behaviours of the firms in the sample are too varied, meanwhile, the mean indicates that the growth rates of the firms is negatively behaving.

Table 1 - Descriptive Statistics

	ROE	Capital T	Fin-Lev	DebtEqu	Firm-Size	EPS	Risk	Growth	Liq-Ratio	DPS	DPR	RPS
Mean	0.5258	3.5404	0.6575	7.2076	22.1017	0.4462	31.908	-1.0413	8.77637	4.3092	0.3976	19.457
Median	0.3717	1.6045	0.7933	3.8479	21.6078	0.3150	17.660	-0.0797	2.65203	0.3436	0.2526	3.1663
Maximum	1.6245	20.105	0.9875	79.215	25.9625	1.7000	180.00	1.0000	112.674	66.389	1.0000	323.60
Minimum	-0.1106	0.6359	0.0820	0.0894	19.6346	0.0000	0.0000	-36.122	0.6328	-0.2441	-0.380	0.0000
Std. Dev.	0.4755	4.3001	0.2526	15.290	2.15209	0.4486	39.797	5.7216	20.634	12.485	0.3156	55.500
Skewness	0.7647	2.4248	-0.7510	3.5907	0.72643	1.1361	2.0465	-5.9782	4.1441	3.8533	0.1349	4.5420
Kurtosis	2.5076	8.8797	2.3860	15.539	2.10755	3.3897	7.1607	37.167	19.6488	17.729	2.3737	24.340
Jarque-Bera	4.3031	96.820	4.3886	348.01	4.84547	8.8588	56.776	2183.9	576.468	460.56	0.7750	896.56
Probability	0.1162	**0.0000**	0.1114	**0.0000**	**0.0886**	**0.0119**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	0.6787	**0.0000**
Observations	40	40	40	40	40	40	40	40	40	40	40	40

Sources: computed by the author

5.3. Correlation Matrix

The correlation matrix`s results show that the EPS is negatively correlated with DPS and DPR (- 0.0023) and (- 0.1644). The result of this research indicates that during the period of study most of the firms didn't increase or pay dividends even though the price of their share steadily increased in Iraqi stock exchange (ISX).

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Table 2 - Correlation Matrix:

	ROE	Capital T	Fin-Lev	DebtEqu	Firm-Size	EPS	Risk	Growth	Liq-Ratio	DPS	DPR	RPS
ROE	1.0000	0.7776	0.7397	0.6012	-0.5657	-0.0736	-0.2061	-0.0273	0.4067	0.5631	0.5691	0.4472
CAPTR	0.7776	1.0000	0.536	0.6657	-0.2550	-0.1028	-0.2676	0.0539	0.7776	0.4760	0.5657	0.3594
FINL	0.7397	0.5360	1.0000	0.4805	-0.7193	-0.0634	-0.1633	-0.1150	0.1807	0.3180	0.1827	0.2780
DEBTEQ1	0.6012	0.6657	0.4805	1.0000	-0.0531	-0.0752	-0.1728	-0.0222	0.5148	0.4444	0.3501	0.3363
FIRMSIZE1	-0.5657	-0.2550	-0.7193	-0.0531	1.0000	-0.2160	-0.1295	0.0508	0.1168	-0.1710	-0.1222	-0.2473
EPS	-0.0736	-0.1028	-0.0634	-0.0752	-0.2160	1.0000	0.2743	-0.4578	-0.0655	-0.0023	-0.1644	0.0869
RISK1	-0.2061	-0.2676	-0.1633	-0.1728	-0.1295	0.2743	1.0000	-0.0119	-0.1152	-0.1725	-0.2628	-0.1342
GROWR	-0.0273	0.0539	-0.1150	-0.0222	0.0508	-0.4578	-0.0119	1.0000	0.0696	0.0319	0.0978	-0.0480
LIQRATIO	0.4067	0.7776	0.1807	0.5148	0.1168	-0.0655	-0.1152	0.0696	1.0000	0.3209	0.2630	0.0127
DPS	0.5631	0.4760	0.3180	0.4444	-0.1710	-0.0023	-0.1725	0.0319	0.3209	1.0000	0.3398	0.8632
DPR	0.5691	0.5657	0.1827	0.3501	-0.1222	-0.1644	-0.2628	0.0978	0.2630	0.3398	1.0000	0.3590
RPS	0.4472	0.3594	0.2780	0.3363	-0.2473	0.0869	-0.1342	-0.0480	0.0127	0.8632	0.3590	1.0000

Sources: computed by the author

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Table 3A: Regression Analysis

Dependent Variable: Dividend Per Share (DPS)

Method: Ordinary Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-22.50846	53.39056	-0.421581	0.6763
ROE	19.25864	8.615321	2.235395	**0.0330**
CAPTR	-0.420175	1.195285	-0.351527	0.7277
FINL	-4.880489	15.82004	-0.308500	0.7598
DEBTEQ1	0.100128	0.195194	0.512965	0.6117
FIRMSIZE1	0.879451	1.947195	0.451650	0.6548
EPS	3.952066	5.440954	0.726355	0.4733
RISK1	-0.020535	0.053461	-0.384110	0.7036
GROWR	0.224834	0.385789	0.582790	0.5644
LIQRATIO	0.040390	0.177968	0.226952	0.8220

R-squared	**0.376995**	Mean dependent var	4.309298
Adjusted R-squared	0.190094	S.D. dependent var	12.48567
S.E. of regression	11.23645	Akaike info criterion	7.888521
Sum squared resid	3787.736	Schwarz criterion	8.310741
Log likelihood	-147.7704	F-statistic	2.017082
Durbin-Watson stat	2.649845	Prob(F-statistic)	**0.072476**

Source: computed by the author

Table 3B: Regression Analysis

Dependent Variable: Dividend Payout (DPR)

Method: Ordinary Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.451734	1.121352	0.402847	0.6899
ROE	0.379902	0.180946	2.099535	**0.0443**
CAPTR	0.060542	0.025104	2.411606	**0.0222**
FINL	-0.712913	0.332265	-2.145612	**0.0401**
DEBTEQ1	-0.000365	0.004100	-0.089118	0.9296
FIRMSIZE1	0.005109	0.040897	0.124917	0.9014
EPS	-0.062869	0.114275	-0.550156	0.5863
RISK1	-0.000402	0.001123	-0.357628	0.7231
GROWR	-0.000251	0.008103	-0.030972	0.9755
LIQRATIO	-0.007868	0.003738	-2.104909	**0.0438**

R-squared	**0.569918**	Mean dependent var	0.397659
Adjusted R-squared	0.440894	S.D. dependent var	0.315616
S.E. of regression	0.235997	Akaike info criterion	0.162324
Sum squared resid	1.670840	Schwarz criterion	0.584544
Log likelihood	6.753522	F-statistic	4.417129
Durbin-Watson stat	2.383339	Prob(F-statistic)	**0.000961**

Source: computed by the author

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Table 3C: Regression Analysis

Dependent Variable: Retained Earnings Per Share (RPS)

Method: Ordinary Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-44.46071	237.9958	-0.186813	0.8531
ROE	30.29461	38.40399	0.788840	0.4364
CAPTR	9.829448	5.328148	1.844815	**0.0750**
FINL	-43.27011	70.52004	-0.613586	0.5441
DEBTEQ1	0.589622	0.870106	0.677644	0.5032
FIRMSIZE1	2.076767	8.679891	0.239262	0.8125
EPS	20.12713	24.25381	0.829854	0.4132
RISK1	0.000738	0.238308	0.003096	0.9975
GROWR	0.198140	1.719709	0.115217	0.9090
LIQRATIO	-1.972035	0.793319	-2.485803	**0.0187**

R-squared	0.373489	Mean dependent var	19.45764
Adjusted R-squared	0.185535	S.D. dependent var	55.50063
S.E. of regression	50.08805	Akaike info criterion	10.87776
Sum squared resid	75264.37	Schwarz criterion	11.29998
Log likelihood	-207.5552	F-statistic	1.987133
Durbin-Watson stat	2.614519	Prob(F-statistic)	**0.076760**

Source: computed by the author

6. Empirical Results:

Dividend per share (DPS) is negatively behaving (-22.50) meanwhile R^2 stands on 37.69%. While the dividend payout ratio (DPR) is positively behaving (0.45) and its R^2 indicates that 56.99% of determination. Retained earnings per share (RPS) is awkwardly showed negatively path at (- 44.46) with R^2 stands at 37.34%. Durbin-Watson statistics for the aforesaid variables stands on two digits which indicates the absence of autocorrelation among the variables and positively related to RPS at 7.68% which is very weak. The empirical results reported in Table 3 demonstrated that the null hypothesis of a = 0 is rejected at a 5% significant level, implying that ROE is Granger causes DPS or DPR, i.e. there is unidirectional causality from ROE to DPS and DPR amounts.

On the other hand, the null hypothesis a = 0 is not rejected implying that DPS and DPR are not Granger causes of ROE. These results show there is unidirectional causality of CAPTR is Granger causes DPS, and final also causes DPS. Earnings per share Granger causes firm size and growth rate Granger causes DPR.

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Table 4: Pairwise Granger Causality Tests

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Null Hypothesis:	Obs	F-Statistic	Probability
ROE does not Granger Cause DPS	39	12.9180	**0.00097**
DPS does not Granger Cause ROE		0.38136	0.54076
CAPTR does not Granger Cause DPS	39	15.2642	**0.00040**
DPS does not Granger Cause CAPTR		0.02869	0.86644
FINL does not Granger Cause DPS	39	4.35393	**0.04407**
DPS does not Granger Cause FINL		0.54920	0.46345
FIRMSIZE1 does not Granger Cause EPS	39	0.17852	0.67516
EPS does not Granger Cause FIRMSIZE1		4.50157	**0.04082**
GROWR does not Granger Cause EPS	39	19.4826	8.9E-05
EPS does not Granger Cause GROWR		8.00171	**0.00759**
ROE does not Granger Cause DPR	39	5.46834	**0.02504**
DP R does not Granger Cause ROE		0.11970	0.73137
GROWR does not Granger Cause DPR	39	6.24940	**0.01712**
DPR does not Granger Cause GROWR		0.28096	0.59933
LIQRATIO does not Granger Cause FIRMSIZE1	39	7.31718	**0.01037**
FIRMSIZE1 does not Granger Cause LIQRATIO		0.38634	0.53815
FINL does not Granger Cause FIRMSIZE1	39	1.05920	0.31026
FIRMSIZE1 does not Granger Cause FINL		4.61821	**0.03843**
FINL does not Granger Cause GROWR	39	0.44747	0.50781
GROWR does not Granger Cause FINL		13.2890	**0.00084**
CAPTR does not Granger Cause LIQRATIO	39	7.81287	**0.00827**
LIQRATIO does not Granger Cause CAPTR		19.1280	1.0E-04
FINL does not Granger Cause LIQRATIO	39	0.62885	0.43297
LIQRATIO does not Granger Cause FINL		5.65876	**0.02279**
DEBTEQ1 does not Granger Cause LIQRATIO	39	48.6621	3.5E-08
LIQRATIO does not Granger Cause DEBTEQ1		6.17380	**0.01775**

Source: computed by the author

7. Conclusion and Recommendations

Dividend policy is so important since it has an impact on the company (firm) value and the interest of the internal and external users of information. This study investigates the dividend policy, retained earnings per share and stock price of sample companies listed on Iraqi Stock Exchange for the period 2005–2014. The results show that dividend per share (DPS) and dividend pay-out policy are related to ROE. Meanwhile, EPS is negatively behaving with DPS and DPR. Therefore, this study may advise the concerned firms to a well- studied financial planning and policy so as to enhance their performance and to show the needful efficiency. It is concluded from the data analysis which carried out in this research paper that dividends decision is an important element for every firm that influences its capital structure and shares price.

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