

The Determinants of Value Creation in the Nigerian Banking Industry: Panel Evidence

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Abstract

This paper seeks to identify the determinants of value creation in the Nigerian banking industry. The data for the study are secondary (cross-sectional and time-series) data. All the 21 universal banks listed on the Nigerian Stock Exchange (NSE) are selected for the study. The secondary data are analysed using the Ordinary Least Squares Method. It is found that in the Nigerian banking industry, profitability and dividend policy have significant relationships with the creation of shareholder value while financial policy does not. It shows that giving the pursuit of the profitability objective a greater attention than other objectives may not necessarily be counter-productive. The study recommends, among other things, that industry regulators and practitioners in the Nigerian banking industry seeking to create value for shareholders should focus on the improvement of profitability and the development and adoption of sound dividend policies as better determinants of shareholder value.

Keywords: Profitability, Dividend Policy, Financial Policy, Banking Industry, Shareholder Value, Value Creation, Determinants.

1. Introduction

Organizations seek to improve performance and create value in terms of additional wealth for their shareholders and increased satisfaction to their customers and other stakeholders. To achieve this objective, they employ different types of performance management systems. As a result, recent decades have seen a plethora of new management approaches for improving organizational performance. Koller (1994:87) however observes that while many of these performance management systems have succeeded, many others have not. He argues further that “the cause of failure was often performance targets that were unclear or not properly aligned with the ultimate goal of creating value”. In their own opinion, Echebarria-Miguel and Barrutia-Legarreta (1999: 113-36) describe the unsuccessful performance management systems as ‘fractional approaches to business realities’. That is why they are no longer effective in a world where the organisational environment has become progressively more complex.

Therefore, in order to approach business realities with more appropriate and realistic measures, a new management concept has emerged. That is: *Value Creation* - a renewed approach to business management which pursues the creation of shareholder value through the delivery of value to customers and business associates (Echebarria-Miguel and Barrutia-Legarreta, 1999: 113-36).

In order to create value, therefore, the management of the organization needs to know how to identify, select and segment the markets in which to compete; define the kind of value to be proposed on the market; and create and supply such value (Echebarria-Miguel and Barrutia-Legarreta, 1999: 113-36). The implication of this is that the firm seeking to create value must generate return in excess of the cost of capital over a period of time (Favaro, 1998). In other words, the firm must earn a positive economic profit such that when expenses and a capital charge are deducted from the revenue generated, the balance will be greater than zero. In summary, value creation occurs when the company generates more wealth for their shareholders than they could not have been able to generate for themselves (Van Horne, 2002). The civilian government inaugurated in 1999 inherited a fragile and vulnerable banking system, which was characterized, by low capitalization and inability to effectively support the real sector and stimulate economic growth. The banks, in fact, became risky, with many having suffered financial distress and bank failure as a result of non-performing loans.

The post consolidation assessment of the Nigerian banking industry has also shown that as from October, 2008, some of the consolidated banks had begun to show serious signs of liquidity strain and had to be given some level of financial support in the form of Expanded Discount Window (EDW) by the Central Bank of Nigeria (CBN). This suggests that the consolidation exercise of 2005 may not have yielded the expected results as most of the problems, which existed in the industry before the consolidation exercise, are still there.

The existence of all these problems could only mean that Nigerian banks have been operating below the anticipation of stakeholders (shareholders, customers, employees, etc.). In other words, they have not been creating any significant value for their shareholders.

Several studies have been conducted which focus on the determinants of profitability and performance of the banking industry in Greece (Varelas, Karpetis and Konokarpeti, 2004; and Athanasoglou, Brissimis and Delis 2005), the United States of America (Berger, Hanweck and Humphrey, 1987; Angbazo, 1997; and Gilson, 1998), European Union (Goddard, Molyneux and Wilson, 2004), Tunisia (Naceur and Goaid, 2001 and Naceur, 2003) and Colombia (Barajas, Steiner and Salazar, 1999), and Malaysia (Katib, 2000). None of these studies, however, examines the concept or issue of creation shareholder value. On the other hand, although, the studies of Naceur (2003), Boston Consulting Group (2003, 2005, 2007, and 2008) dwell on the creation of shareholder value, they did not take Nigeria into consideration.

Researches related to the Nigerian banking industry (e.g. Nwosu and Nwosu, 1998; Uche and Ehikwe, 2001; Beck, Demirgüç-Kunt and Levine, 2004; Brownbridge, 2005; Jat, 2006; Aburime, 2008a; Aburime, 2008b; Aburime 2008c) have linked characteristics of individual banks, industry level factors and macroeconomic factors to profitability of Nigerian banks, none of these specifically links profitability, dividend policy, financial policy, industry-level factors and macroeconomic factors to the creation of shareholder value in the Nigerian banking industry. The existence of this gap is the primary reason for this study. This study therefore aims at studying the determinants of value creation in the Nigerian banking industry between 2000 and 2009.

The rest of this paper is structured as follows: section 2 presents the relevant literature, sections 3 discusses the methodology, section 4 deals with the data description and analysis, section 5 discusses the findings of the study and section 6 presents the recommendations and policy issues.

2. Review of Literature

The creation of value for the shareholders of a company has recently become a widely accepted objective of the firm. The economic justification for creating shareholder value (CSV) as the over-riding objective of the firm primarily comes from an assumption embedded in most of the finance literature that all the markets in which the firm operates are perfectly competitive. Therefore, in order to properly evaluate a firm's corporate strategy, there will be a conceptual and operational framework.

2.1 The Significance of Value

A variety of ideas of value have been put forward in the accounting literature, including the value at which an asset is carried on a balance sheet, the price at which buyers and sellers trade in an open market, and the present value of future cash flows. Although value is always calculated in terms of money, Smith (1776), Seligman (1905), Barlow and Maul (2000), Young (2001), Qureshi and Briggs (2003), and Faccio, Masulis and McConell (2005) have identified the many properties of value to include cognition, society, politics, emotion, use and exchange.

For that reason, value can simply be defined as the quality that renders something desirable or valuable or useful; the amount of money needed to purchase something; or what must be given or done or undergone to obtain something. Consequently, the creation of value by a firm translates to increase or enhancement of the worth of its stakeholders. To the stakeholder, this may mean greater appreciation, more power or stronger political relationship, improvement in social standing or greater contentment. In this study, however, the focus is on the factors, which determine the creation of value for the shareholders of a firm.

Based on this foregoing argument, value creation can, therefore, be defined as the increase in the financial worth of shareholders, as measured by ratio of market value of shares to the book value of shares, engendered by the performance of an organization (Pandey, 2002 and Fruhan, 1979).

In the opinion of Hailemariam (2001), Valez-Pareja (2001) and Fernandez (2002), a firm creates value for its shareholders when the firm's return on assets is greater than its cost of capital or the required return to equity. Therefore, by definition, value creation is the increase in shareholders' wealth coming as a result of the firm's operational efficiency.

The general hypothesis in most finance literature is that all the markets in which the firm operates are perfectly competitive. This hypothesis is the 'economic justification' for the creation of shareholder value (CSV) as the principal goal of the firm (Booth, 1998:2). Although earnings figures are very important in their own rights, real corporate performances as compared to market benchmarks are the fundamental drivers of stock market values. Therefore, the key question to answer is whether the funds put into the care or protection of managers yields a higher return than the owners can get in another place. In other words, the creation of shareholder value is the increase in equity market value, the shareholder value-added, the shareholder return and the required return to equity. That is, when it surpasses shareholders' 'expectations'.

2.2 Determinants of Value Creation

A firm's value is influenced by many factors. These include the financial risk of the organization (Bartram, 2000: 279-342); resource combination and exchange (Moran and Ghoshal, 1997: 55); entrepreneurial judgment and organizational capability (Ghoshal, Hahn and Moran, 1997: 57); firm's consumption sequence (Hellwig, 1998: 141-47) and financial strategy, (Slater and Zwirlein, 1996: 253-66). Organizations can also create value through their intangible assets, (Bounfour, 2000: 111-24; Pierrat and Martory, 2000);

Many authors have also identified the different determinants of the value created by an organization to include: the classical accounting variables such as return on equity, volume of fixed assets, financial structure or growth opportunities (Pariante, 2000); debt, growth opportunities and contractual structure (de-Andres-Alonso, Azozfra-Palenzuel and Rodriguez-Sanz, 2000); performance improvement, organic growth, making successful acquisitions and capital allocation improvement (BCG, 2005); and growth rate, operating profit margin, income tax rate, working capital, fixed capital investment, cost of capital and value growth duration (Rappaport, 1987). According to BCG₂ (2005), however, "pushing profitability above the cost of equity is the key to value creation".

Penrose (1959), Ramezani, Soenen and Jung (2001), Fuller and Jensen (2002), García-Herrero (2003), Fairfield, Ramnath and Yohn (2005), Aghion and Stein (2006), Chander and Aggarwal (2007), Glushkov (2007), Levesque and Minniti (2007), Lockett, Wiklund and Davidsson (2007), Gong, Louis and Sun (2007), Martin (2007), Fama and French (2007) and Sadka and Sadka (2008) in their own studies link the creation of shareholder value to various growth potential indices of firm, which include growth in sales revenue, growth in assets, growth in retained earnings and the organic growth of the organization.

In order to determine, empirically, the main determinants of value creation process, Caby and others (1996) and Ben-Naceur and Goaid (2001) have combined the measures of value creation with the value drivers in order to know empirically the main determinants of the value creation process. Naceur and Goaid (2003) identify three determinants of value creation as profitability, dividend policy and financial policy.

In this paper, we are concerned only with the factors that are internal to the firm that is profitability, dividend policy and financial policy. These are discussed in the following sections.

2.2.1 Profitability as a determinant of value creation

Profitability is seen by many as a very important value driver which can be improved by achieving relevant economies of scale. However, profitability itself is a function of performance (Rappaport, 1986) and a prerequisite for value creation and the strongest determinant of Total Shareholder Returns (BCG, 2005). Therefore, when banks add growth to their profitability they will be able to significantly increase their market capitalization. Therefore, to examine the impacts of profitability on the creation of shareholder value, the relevant profitability and efficiency ratios were taken into consideration. It is important to note these ratios have been used over the years to evaluate the profitability and efficiency of the Nigerian banking industry.

The specific impact of profitability on the creation of shareholder value is not categorical in literature. For example, BCG (2005) reported that profitability is a prerequisite for value creation and the strongest determinant of Total Shareholder Returns.

This supports an earlier view by Wong (1996) and is also supported by study Goddard *et al.* (2004), Williams and Rajaguru (2007), Correa (2008) and Flamini (2009). However, Guorong, Tang, Law, Sze, (2003) see a higher profitability as a reflection of riskier lending practices associated with substantial loan loss provisions which could be an indication of inefficiency in the banking sector. Also Heffernan and Fu (2008) have little faith in profitability as a determinant of value creation. This position is supported by Pasiouras and Zopounidis (2008) and Makni, Francoeur and Bellavance (2009).

2.2.2 Dividend policy as a determinant of value creation

The relevance or irrelevance of dividend as a determinant of value creation has been heavily contested in literature. The contest is not yet over, even now. For example, Graham and Dodd (1934), Lintner (1956), and Gordon (1959), among others, had argued that the motive to pay dividends is to increase the market prices of shares of the companies making the dividend payment. The premise for this 'bird-in-hand' theory is that the market price of a share is a function of the present value of the estimated cash flows realizable from the shares that is: the estimated cash dividends receivable over the shareholding period and market price realizable upon the disposal of the shares. However, empirical evidence as put forward by Ross (1977), Bhattacharya (1979), Hakansson (1982) and Miller and Rock (1985), and recently by Koerniadi and Tourani-Rad (2008), shows that if the payment of dividends is taken as a positive signal by the market that the firm is expecting to have higher future cash flows, then the value of the firm will increase.

This theory was first challenged by Walter (1956) on the grounds that the decision to pay dividend is a function of the profitability of investment opportunities available to the firm. This 'dividend irrelevance' theory has been widely supported in literature. For instance, Miller and Modigliani (1961) opined that the value of the firm is unchanged by the firm's dividend policy. Also, Khoury (1983) did not see dividend as continuing to be relevant as an active variable in decision making. Therefore, to examine dividend relevance in the creation of shareholder value and, in particular, its signalling impact, all the relevant dividend and stock market ratios have been taken into consideration.

2.2.3 Financial policy as a determinant of value creation

Modigliani and Miller (1958) show that in the absence of taxes, agency costs, or information irregularity, splitting the firm's net operating cash flows into fixed cash flows for debt and residual cash flows has no effect on the value of the firm. More recently, capital structure theories have focused on the tax advantages of debt (starting with Modigliani and Miller, 1963), the use of debt as an anti-takeover device, agency cost of debt (Jensen and Meckling, 1976 and Myers, 1977), the advantage of debt in restricting managerial discretion (Jensen, 1986), the effect of debt on investors' information about the firm and on their ability to oversee management (Harris and Raviv, 1991), the choice of debt level as a signal of firm quality (Ross, 1977 and Leland and Pyle, 1977) and recently the capital structure determinants of venture capital-backed firms (VC-backed firms) prior to the venture capital investment event by Balboa, Marti and Tresierra (2009).

The positive impact of financial policy on value creation has been established by Pandey (2002: 637). He argued that "the primary motive of using financial leverage is to magnify the shareholder's return under favourable economic conditions". Pandey (2002) concludes that financial leverage, on the one hand, increases the shareholders' return and on the other hand, increases their risk.

Also, the study by Syriopoulos, Tsatsaronis, and Roumpis (2007) confirmed the relevance of debt and dividends in terms of firm value creation by showing a negative relationship between firm value and both leverage and dividend payments in the presence of growth opportunities. Iquiapaza, Souza, and Amaral (2007) attempt to investigate the relevance of the pecking order propositions, through a new methodology. They confirmed statements about the methodological flaws in literature and the validity of the Pecking Order Theory as a theory that is able to explain the firm's capital structure. The findings of La Rocca, La Rocca and Cariola (2007) are also very relevant in that they explain earlier contradictory results on capital-structure determinants.

Thus financial leverage is a double-edge sword: it increases return as well as the risk. A trade-off between return and risk must then be struck to determine the appropriate level of debt financing. Therefore, in order to examine the relevance of debt and especially, the proposition of Ross (1977) who proved that an increase in the use of debt will represent an unambiguous signal to the marketplace that the firm's prospects have improved, relevant leverage (financial structure) ratios have been taken into consideration in this study.

3. Methodology

The secondary data for this study were collected from the Nigerian Stock Exchange and Annual Reports and Accounts of the all the banks and included the various bank-specific determinants of shareholder value (profitability ratios; leverage ratios and shareholders' ratios) in the Nigerian banking industry. The data set in this group was entirely quantitative in nature and measured on the ratio scale. The data were analysed using the Multiple Regression method. They were prepared and presented in a stack form for panel analysis since they were both cross sectional and time series in nature.

The determinants of shareholder value were measured using selected ratios - profitability ratios; stock market ratios; and financial policy/structure (leverage) ratios as independent variables while the dependent variable is shareholder value as measured by the ratio of the market value of shares to the book value of shares $\left(\frac{MV}{BV}\right)$. For the purpose of this study however, profitability ratios are return on net interest margin, yield on earning assets, return on equity and efficiency ratio; dividend ratios are dividend per share, dividend cover and dividend yield; while financial policy ratios are debt ratio, capital gearing ratio and debt-equity ratio (Wood and Sangster, 2005).

Based on this, the mathematical model defining the relationship between the dependent and independent variables is given as follows:

$$SVC_{jt} = f(P_{jt} + DP_{jt} + FP_{jt}) \dots (1)$$

Where:

$$j = 1, 2, \dots, 21 \text{ banks; and } t = 1, 2, \dots, 10 \text{ years}$$

SVC_{jt} = shareholdervalueofbankjattimet;

P_{jt} = Profitabilityofbankjattimet;

DP_{jt} = dividendpolicyofbankjattimet;

FP_{jt} = financialpolicyofbankjattimet;

The econometric models of the relationships can be stated as follows:

$$SVC = \left(\frac{MV}{BV}\right)_{jt} = \alpha_0 + \beta_1 P_{jt} + \beta_2 DP_{jt} + \beta_3 FP_{jt} + \varepsilon_{jt} \dots (2)$$

Where:

α_0 = aconstant;

β_{1-3} = variablecoefficients;

ε_{jt} = anerrorterm; and

Otherparametersareasdefinedinequation1

The analysis of the data based on the regression models formulated was carried out using *EViews 5.0*. *EViews 5.0* is a statistical package widely used in econometrics.

4. Data Description and Analysis

The data collected were from the 21 deposit money banks selected for the study (see appendix I) and the results of the regression analyses were presented in appendix II

4.1 Results of the Analysis

The computer outputs of the *EViews 5.0* are presented in appendix II and the Correlation Matrix are presented in appendix III.

4.1.1 Profitability

Based on the computer output, the shareholder value created for each bank as a result of profitability can be determined by the equation:

$$SVC = \left(\frac{MV}{BV}\right)_{jt} = 15.18 + 210.36NIM_{jt} - 130.98YEA_{jt} + 3.38ROE_{jt} + 16.13ER_{jt}$$

With $\alpha = 0.05$ and $p - values < 0.05$, all the independent variables are statistically significantly related to the creation of shareholder value. Therefore, we conclude that there is a significant relationship between profitability and value creation in the Nigerian banking industry.

4.1.2 Dividend policy

Based on the computer output, the shareholder value created for each bank as a result of dividend policy can be determined by the equation:

$$SVC = \left(\frac{MV}{BV} \right)_{jt} = 12.93 + 42.74DPS_{jt} + 0.97DC_{jt} - 207.29DY_{jt}$$

With $\alpha = 0.05$ and $p - values < 0.05$, all the independent variables are statistically significantly related to the creation of shareholder value. Therefore, we conclude that there is a significant relationship between dividend policy and value creation in the Nigerian banking industry.

4.1.3 Financial policy

Based on the computer output, the shareholder value created for each bank as a result of financial policy can be determined by the equation:

$$SVC = \left(\frac{MV}{BV} \right)_{jt} = 20.22 - 0.16DR_{jt} - 4.20CGR_{jt} + 0.12DER_{jt}$$

With $\alpha = 0.05$ and $p - values > 0.05$, none of the independent variables is statistically significant. Therefore, we conclude that there is no significant relationship between financial policy and value creation in the Nigerian banking industry.

5. Findings

Our finding based on profitability agrees with the earlier position taken by BCG (2005) that profitability is a pre-requisite for value creation. This finding, however, negates the findings of Guorong, Tang, Law, and Sze(2003), Goddard *et al.*(2004), Pasiouras and Zopounidis (2008) and Makni, Francoeur and Bellavance (2009). Their findings support the view that profitability is not statistically significant in the determination of shareholder value.

Based on dividend policy the finding contradicts the dividend irrelevancy arguments of Miller and Modigliani (1961), Walter (1956) and Khoury (1983). They all argue that the value of the firm is unaffected by dividend policy under perfect market conditions. The finding is, however, consistent with the 'bird-in-hand' theory of Graham and Dodd (1934) as supported by Lintner (1956) and Gordon (1959) among others whose main argument is that the motive to pay dividends is to increase the market prices of shares of the companies making the dividend payment. It is also consistent with the findings of Ross (1977); Bhattacharya (1979); Hakansson (1982), Miller and Rock(1985) and Koerniadi and Tourani-Rad (2008) whose line of argument is that the value of a company increases because dividends are taken as signals that the firm is expected to have higher future cash flows.

Our finding based on financial policy agrees with previous studies on the traditional pecking order theory and therefore, in line with recent literature statements about the methodological flaws and the validity of the pecking order as theory capable of explaining the firm's capital structure as put forward by Iquiapaza, Souza, and Amaral (2007). Our finding, however, is found to contradict the proposition of Ross (1977) who proved that an increase in the use of debt will represent an unambiguous signal to the marketplace that the firm's prospects have improved. This is supported by Pandey (2002) and Syriopoulos, Tsatsaronis, and Roumpis (2007) all of whom conclude that financial leverage is a significant determinant of value creation.

6. Recommendations and Policy Issues

Based on the findings above, government policy or programme should be aimed at improving or creating shareholder value through the improvement of profitability (using these ratios) in the Nigerian banking industry. In addition, giving the pursuit of the profitability objective a greater attention than other objectives may not necessarily be counter-productive since all the profitability measures are significantly related to the creation of shareholder value. Therefore, policy makers and industry regulators and practitioners should encourage the pursuit of the profitability objective and do more to build the policies around other performance improvement indices in addition to profitability.

Secondly, individual banks within the industry that really seek to create value for their shareholders may wish to take advantage of the positive correlation between dividend per share and shareholder value. On these bases, any government policy that seeks to improve the lot of the shareholders of banks in Nigeria should focus on the development and adoption of sound dividend policies by the banks in the industry.

Thirdly, industry regulators and practitioners seeking to create value for shareholders should make efforts to develop and deepen the non-securities arm of the capital market in order to facilitate and encourage borrowing on long-term basis. In addition, this approach to the creation of shareholder value will require policies that make borrowings cheap and compel a reasonable balance between risk and return in the conduct of banking business in Nigeria.

Fourthly, future policies should focus on the strategies that favour growth, expansion and performance improvement which position the banks for competition and other challenges in the industry.

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Appendix I: Banks selected for the study

	Name	Type of Institution	Old Name	Date Reregistered
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Listed on the NSE

Included in the Study				
1	Access Bank Plc	Universal Bank	Access Bank Plc	1/17/1990
2	Afribank Nigeria Plc	Universal Bank	AfribankPlc	1/3/2006
3	Diamond Bank Nigeria Plc	Universal Bank		12/31/1990
4	Ecobank Nigeria Plc	Universal Bank		4/24/1989
5	Fidelity Bank Plc	Universal Bank		1/2/2006
6	First Bank of Nigeria Plc	Universal Bank	First Bank Plc	1/29/1979
7	First City Monument Bank Plc	Universal Bank	First City Monument Bank Plc	11/11/1983
8	First Inland Bank Plc	Universal Bank		1/2/2006
9	Guaranty Trust Bank Plc	Universal Bank		1/17/1990
10	Intercontinental Bank plc	Universal Bank	INTERCONTINENTAL BANK LIMITED	10/2/1989
11	Oceanic Bank International Nigeria Plc	Universal Bank		1/31/2006
12	Platinum Habib Bank Plc	Universal Bank		5/2/2001
13	Skye Bank Plc	Universal Bank		1/3/2006
14	Spring Bank Plc	Universal Bank		1/3/2006
15	Stanbic - IBTC Bank Plc	Universal Bank	IBTC - Chartered Bank Plc	1/2/2006
16	Sterling Bank Plc	Universal Bank	NAL Merchant Bank Ltd	1/25/1999
17	Union Bank of Nigeria Plc	Universal Bank	Union Bank Plc	1/2/2006
18	United Bank For Africa Plc	Universal Bank		1/2/2006
19	Unity Bank Plc	Universal Bank		1/2/2006
20	Wema Bank Plc	Universal Bank	Agbomagbe Bank Limited	1/18/1965
21	Zenith Bank Plc	Universal Bank	Zenith International Bank Ltd	9/13/2004

Not Listed on the NSE

Not included in the Study				
1	Citibank Nigeria Limited	Universal Bank	Nigerian International Bank Ltd	10/11/2004
2	Equitorial Trust Bank Plc	Universal Bank		1/2/2006
3	Standard Chartered Bank Nigeria Plc	Universal Bank		12/1/2004

Appendix II: EViews Results of the Regression Analyses**Profitability and Value Creation**

Dependent Variable: SVC?

Method: Pooled Least Squares

Date: 07/16/11 Time: 23:15

Sample: 2000 2009

Included observations: 10

Number of cross-sections used: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.33058	2.556549	5.996592	0.0000
NIM?	206.1442	53.66907	3.841025	0.0002
YEA?	-128.6067	26.41050	-4.869529	0.0000
ROE?	3.271067	1.523911	2.146495	0.0330
ER?	15.91877	5.911288	2.692945	0.0077
R-squared	0.730399	Mean dependent variable		20.94324
Adjusted R-squared	0.613431	S.D. dependent variable		19.52268
S.E. of regression	18.38212	Sum squared residual		69270.02
F-statistic	7.685080	Durbin-Watson stat		1.741153
Prob (F-statistic)	0.000009			

Dividend Policy and Value Creation

Dependent Variable: SVC?

Method: Pooled Least Squares

Date: 07/16/11 Time: 23:28

Sample: 2000 2009

Included observations: 10

Number of cross-sections used: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.70311	1.281664	9.911416	0.0000
DPS?	41.78792	2.361787	17.69335	0.0000
DC?	0.695223	0.287419	2.418850	0.0164
DY?	-181.1298	23.24216	-7.793159	0.0000
R-squared	0.609400	Mean dependent variable		20.95390
Adjusted R-squared	0.603711	S.D. dependent variable		19.51746
S.E. of regression	12.28652	Sum squared residual		31097.49
F-statistic	107.1311	Durbin-Watson stat		1.858266
Prob(F-statistic)	0.000000			

Financial Policy and Value Creation

Dependent Variable: SVC?

Method: Pooled Least Squares

Date: 07/16/11 Time: 23:36

Sample: 2000 2009

Included observations: 10

Number of cross-sections used: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.75322	2.817802	5.945494	0.0000
DR?	4.065230	2.587355	1.571191	0.1177
CGR?	-11.89604	15.52005	-0.766495	0.4443
DER?	-0.057703	0.202183	-0.285398	0.7756
FIC?	0.000989	0.002842	0.347776	0.7284
BR?	5.220067	2.973893	1.755298	0.0807
R-squared	0.017889	Mean dependent variable		20.95390
Adjusted R-squared	-0.006182	S.D. dependent variable		19.51746
S.E. of regression	19.57770	Sum squared residual		78190.38
F-statistic	0.743163	Durbin-Watson stat		0.598159
Prob(F-statistic)	0.591975			

Appendix III: The Correlation Matrix

	<i>SVC</i>	<i>ROA</i>	<i>DY</i>	<i>CGR</i>
<i>SVC</i>	1.000			
<i>ROA</i>	-.239	1.000		
<i>DY</i>	-.538	.521	1.000	
<i>CGR</i>	.377	.271	.113	1.000

60 sample size

± .254 critical value .05 (two-tail)

± .330 critical value .01 (two-tail)