

**The Role of Financial Reporting Quality in mitigating
the Restrictive Effect of Dividend Policy on Capital
Investment Expenditure: An empirical study**

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Abstract:

Purpose - The purpose of the current study is to provide new evidence on the role of financial reporting quality in mitigating the restrictive effect of dividend policy on capital investment expenditure in some Egyptian listed companies. Based on the presented results of the recent studies about the restrictive effect of dividend policy on capital investment expenditure in the imperfect market. Yet in imperfect markets, external funding constraints that stem from information asymmetry can force firms to forgo valuable capital investment projects in order to pay dividends.

Methodology- based on a cross-sectional sample of 35 firms on the year 2014, a cross-sectional regression model estimated to test the study question.

Findings – The current study results show that high-quality financial reporting significantly mitigates the restrictive effect of dividend policy on capital investment expenditure.

Keywords; Financial Reporting Quality, Dividend policy, capital investment expenditure.

Introduction:

The capital investment expenditure is one of the most significant aspects of managerial decisions and the most important one of business investment decisions. Since it is more complex and usually involve high expenditure, any decision in this regard will have a long-term impact on the economic value of the company. It is, therefore, important to make a careful study by the top level management before making any capital investment expenditure decision (**Lal 2000**).

Due to this importance, an extensive empirical literature testing the capital investment expenditure and its constraints as the major business investment decisions in the companies.

Study background:

Although an extensively large body of accounting, economics, and finance literature focuses on a broad range of topics related to investment in general, early investment research focused on determinants of investment and two main views were developed.

As a first view, Modigliani and Miller (1958) found that specific conditions lead to the inconsistency of financial structure when performing real investment decisions which will maximize shareholders' wealth.

Miller and Modigliani (1961) in their work reached their "dividend irrelevance theorem", which explained that the investment decision has priority over the dividend payment. A dividend payout decision is merely a residual which is the second-order decision made after the investment decision (**Hanif 2014**).

An important conclusion for the dividend irrelevance theorem is that it presents a strict independence between a firm's dividend and investment

decisions. This result is labeled as the “separation principle” by Fama and Miller 1972 (**Hanif 2014**).

Within the second view, Meyer and Kuh (1957), Dhrymes and Kurz (1967); and Peterson and Benesh (1983) stress that financing constraints especially dividend policy decisions are the main determinants contributing to capital investment expenditure decisions. Fazzari and Athey (1987) support the prior theoretical finding using interest rate and cash flow information within their empirical study.

Another stream of literature provided evidence on the dividend irrelevance theorem by examining the separation principle, which contended that capital investment decisions are independent of dividend policy. But early studies investigated the relation between capital investments and dividend policy provide mixed evidence.

While some studies failed to reject the hypothesis that capital investment decisions are independent of dividend decisions, which meant providing support for the separation principle (**Fama 1974; Smirlock and Marshall 1983**), other studies found that dividend policy has a significant negative effect on capital investments, inconsistent with the separation principle (**Dhrymes and Kurz 1967; Peterson and Benesh 1983**).

Recent studies provide evidence consistent with firms’ dividend policy having a significant negative effect on their capital investment expenditure (**Grabowski and Mueller 1972; McCabe 1979; Anderson 1983**). As Abor and Bokpin (2010, p.180) puts it:

This is predicated on the assumption that Modigliani and Miller’s ideal world does not exist. Financial markets are

not perfect given taxes, transaction costs, bankruptcy costs, agency costs, and uncertain inflation in the market.

According to Bierman and Hass (1983), managers usually take the dividend payout level into consideration of determining the firm's financing sources and the uses of these funds (**Abor and Bokpin 2010**). Considering future investment opportunities and the internal cash generation potential of the firm, both capital structure and dividend policy are chosen to secure that sufficient funds are available to undertake all profitable investments without using new equity (**Black, 1976**).

So, one of the most important constraints of investment decision ,in general, and capital investment expenditure, in particular, is dividend policy. Dividend policy is an important corporate issue and may be closely related to, and interacts with most of the firm's financial decisions especially capital investment expenditure.

Dividend policy is a matter of interest to investors because it provides a source of income and further importantly it gives the investors an insight about the company's performance. Allen and Michaely (1994) reached that setting a proper dividend policy is a critical responsibility for the managers since it has a larger impact on the company's share price and it also can affect the capital investment expenditures, asset pricing, capital structure, mergers and acquisitions, and capital budgeting (**Ardestani et. al. 2013**). Since in real markets "imperfect markets" dividend policy can affect capital investment expenditure, a stream of studies tests this constrained relationship of dividend policy on capital investment expenditure to answer the question of how dividend policy can constrain capital investment expenditure.

Suppose a firm that has assets in place and also an investment opportunity, finance theory would recommend this firm to evaluate this investment opportunity and take each positive-NPV project, despite whether internal or external funds are used to fund it (**Myers and Majluf 1984**). For other firms, however, financial factors seem to matter in the sense that external financing source is not an ideal substitute for internal funds. To give a base for such an "imperfection" it is appealed to problems in real capital markets, particularly asymmetric information problems (adverse selection and moral hazard problems), which make it very expensive, even impossible, for providers of external financing to assess the quality of firms' investment opportunities. As a result, the cost of new debt and equity may differ largely from the opportunity cost of internal finance generated through cash flow and retained earnings (**Fazzari et al., 1988**).

Thus due to these capital market imperfections, internal funds are a low-cost source of financing for firms compared to external financing source. So, Firms' managers try to use the internal funds to suffice their financial needs which will result in a situation in which capital investment expenditure and dividend policy compete for the internal funds available with the firm. In other words, implementing new capital investments would decrease the funds available within the firm for dividend payments and vice-versa. This way, dividend and capital investment decisions become competitive and are hence interdependent (**Sanju et. al. 2011**).

This competition between capital investment projects and dividends for internal funds will influence firms with limited internal funds to choose between pursuing capital investments and paying dividends

(**Ramalingegowda et al. 2013**). Thus for firms that face severe information asymmetry, their capital investment expenditure is likely to be restricted by their dividend policy.

Under this scenario, many researchers put many variables to control and mitigate this constraining effect of dividend policy on investment decisions. The current study largely follows (**Ramalingegowda et al. 2013; SahnehandHamidian 2014; Jozam and Shafii 2015**) in depositing the financial reporting quality to mitigate the restrictive effect of dividend policy on capital investment expenditure.

A flourishing stream of studies suggests that financially constrained firms with low financial reporting quality have restricted access to external capital for its investments. A growing body of accounting research concludes that higher financial reporting quality decreases the negative effects of financing constraints on investment by mitigating information asymmetry (e.g., **Biddle et al. 2009; Lara et al. 2009; Biddle and Hilary 2006; Verdi 2006; Bushman et al. 2007; Hope et al. 2009**).

Fazzari et al. (1988) find that firms which have financing-constrained rely on internally generated cash flows to finance their new capital investments.

Given the information content of dividends, managers are hesitant to lower dividends in order to avoid the anticipated negative market reaction. Brave et al. (2005) survey shows that keeping the dividend in certain level is a priority on the level with capital investment expenditure. Firm' Managers display a strong desire to avoid dividend cuts, except in unusual circumstances. However, beyond maintaining the level of dividends per share, dividend policy is a second-order concern; that is, increases in

dividends are recognized only after capital investment and liquidity needs are satisfied.

But under Agency theory's view, Jensen and Meckling (1976) represent the conflict between managers and shareholders that arises when managers choose actions that are not in the best interest of shareholders in order to maximize their own benefit. This moral hazard problem is caused by the existence of information asymmetry between managers and shareholders and can result in managers choosing investments with negative net present value.

With missing strong control from shareholders, managers can opportunistically utilize financing resources to achieve their goals which enhance their own profit at the expense of providing regular returns to shareholders (**McDermott 2012**).

So, models of moral hazard use this intuition to show that managers may invest in negative net present value projects when there is a divergence in principal-agent incentives. Moral hazard can lead to either over- or under-investment depending upon the availability of funds. On one hand, managers' natural trend to over-invest will generate surplus investment ex-post if firms have available resources to invest (**Biddle et al. 2009**).

Because the owner knows the manager's natural trend and understands the opportunities which secretly increase risk, the current and potential investors evaluate their decisions accurately, by capital rationing which can limit this distortion, increase productive efficiency, and allow the owner (investor) to make more accurate capital investment decisions (**Han et al. 2008**).

Statement of research problem:

Following (**Ramalingegowda et al. 2013; Sahneh and Hamidian 2014; Jozam and Shafii 2015**), the current study directly investigates how financial reporting quality plays an important role in mitigating the restrictive or negative effect of dividends on capital investment expenditure in companies listed on the Egyptian stock exchange.

Financial reporting quality can facilitate investors' monitoring, increase the quality and quantity of information flow, lower price of external financing, and enhance market efficiency and resources allocation (**Sun 2005**).

High-quality financial reporting decreases information asymmetry by producing more information about the value of the firm's new capital investment projects, thereby decreasing the effect of adverse selection problem (**Bushman and Smith 2001**).

Further, high-quality financial reporting mitigates moral hazard problems by facilitating contracting and monitoring. Optimal contracts between managers and investors will provide a rationale for adequate disclosure of private information, therefore, alleviate the miss-valuation problem (**Healy and Palepu 2001**).

Alternatively, higher financial reporting quality could control managerial incentives to join under-valuable activities or investments. This could be realized, for example, if higher financial reporting quality facilitates writing better contracts with determined mechanisms that limit ineffective investment and/or enhances investors' ability to monitor and control managerial investment decisions (**Biddle et al. 2009**).

So the main question of this study may be stated that

Is financial reporting quality mitigating the restrictive effect of dividend policy on capital investment expenditure in companies listed on the Egyptian stock exchange?

Significance of the research problem:

The importance of this study is to answer empirically the role of financial reporting quality in mitigating the restrictive effect of dividend policy on capital investment expenditure of Egyptian firms. The results of the study might be relevant to investors and stakeholders in general and to the academics for a number of reasons:

- **First:** the study may add solution to face the information asymmetry problem by increasing their financial reporting quality which helps firms in:
 1. Financial reports with high quality can convey more accurate information about the expected cash flows of a firm's investment projects, which will decrease the information asymmetry between firm managers and external investors. The contraction in information asymmetry will reduce the possibility that investors will invest in non-valuable projects, and thus mitigates the adverse selection problem (**Bushman and Smith, cited in Ramalingegowda et al. 2013**).
 2. Financial reports with high quality also decrease the moral hazard cost by facilitating efficient contracting between managers and investors and also increasing investors' ability to monitor and control firm managers (**Healy and Palepu, cited in Ramalingegowda et al. 2013**).

- **Second:** improving the financial reporting quality enables managers to face the external financing constraints and they have better access to external funds in the form of more funds and/or lower cost of raising funds and thus are less likely to forgo valuable capital investment projects in order to pay dividends.
- **Third:** the study helps to facilitate the efficient allocation of capital in the economy and especially in companies listed on the Egyptian stock exchange as one of the objectives of financial reporting quality.
- **Fourth:** The result of the current study will also serve as a database for further researchers in this field of research.

Research Objective and expected contribution:

The broad objective of this research is to study the role of financial reporting quality in mitigating the restrictive effect of dividend policy on capital investment expenditure and provide empirical evidence on such a role.

This study is the first to test this relation in Egypt, as far as researcher knows, there are no studies examine the role of financial reporting quality in mitigating the restrictive effect of dividend policy on capital investment expenditure in Egyptian environment.

Almost all evidence in this area is obtained from the US or Western European countries which have sophisticated markets compared to most developing countries. So the result of the current study in Egyptian firms can be seen as an extension of US and other countries studies, which will add value to comparative studies of the role of financial reporting quality in mitigating the restrictive effect of dividend policy on capital investment expenditure among other countries and Egypt.

The research hypothesis:

The current study hypothesis is as follows:

H₁: The effect of dividend policy on capital investment expenditure is less negative for firms with higher quality financial reporting than for firms with lower quality financial reporting, *ceteris paribus*.

The study limitations:

The study population includes all Egyptian listed companies, except for firms in the banking industry and financial utility industry because of the special nature of investment for these companies.

The study sample is purposive sample which its selected companies must meet the study special criteria, so the selection may be unguided and it is probably not random. For these reasons the study results can't consider as general for all Egyptian listed company.

The Empirical Study:

Population and Sample Selection:

The study population includes all Egyptian companies listed on the Egyptian stock exchange in the year 2014. Firms from the banking industry and financial utility industry are excluded because of the special nature of capital investment reporting for these companies.

According to the purposive sampling technique, all companies in the year 2014 that meet the sample selection criteria will be taken in the sample. So, a cross-sectional sample of 35 companies on the year 2014 that met the sample selection criteria was selected as the study sample.

Research Model:

Based on theory and empirical findings in previous studies (**Ramalingegowda et al. 2013; SahnehandHamidian 2014; Jozam**

and Shafii 2015), a cross-sectional regression model will be estimated in order to examine how financial reporting quality plays an important role in mitigating the restrictive or negative impact of dividend policy on capital investment expenditure in companies listed on the Egyptian stock exchange as follows;

$$C.Inv.Exp_{it} = \beta_0 + \beta_1 D_{it-1} + \beta_2 FRQ_{it-1} + \beta_3 D_{it-1} \times FRQ_{it-1} + \sum \gamma_i CONTROLS_{it-1} + \epsilon_{it}$$

Research Results:

Descriptive Statistics:-

Before data analysis of the study variables, the descriptive statistics provide simple summaries about the sample and the observations that have been made; it is used to describe the initial characteristics of the data and to provide background information on the data used in the study

Descriptive Statistics of the sample

Descriptive Statistics					
	N	Minimum (%)	Maximum (%)	Mean (%)	Std. Deviation (%)
C.Inv.Exp ₂₀₁₄	35	.00	.11	.0244	.03028
D ₂₀₁₃	35	.00	.79	.0938	.16733
FRQ ₂₀₁₃	35	-0.392	0.551	0.0159	0.025
Size ₂₀₁₃	35	6.88	10.16	8.8058	.73301
Tang ₂₀₁₃	35	.00	.93	.2950	.24385
CFO ₂₀₁₃	35	-.12	1.07	.2580	.29140
Valid N (listwise)	35				

From the table, the following information can be obtained;

- 1- The ratio of capital investment expenditures into the total assets ($C.Inv.Exp_{2014}$) in the companies ranged from .00% to .11% with mean of .0244%, which means that capital investment expenditures in Egyptian companies in 2014 was considered weak, but in the end remain relatively acceptable rate in the current economic conditions in Egypt and in the absence of the Egyptian market efficiency with financing constraints.
- 2- As for the cash dividend ratio to total assets (D_{2013}) in the companies, it was ranged from .00% to .79 % with mean of .0938%, which means that the cash dividend size Characterized by a large range of diversity and difference values between the Egyptian companies, This is due to the policies pursued by the management of these companies in order to gain the confidence of shareholders, which led in turn to a reduction of investment opportunities as previously appeared in the proportion of capital investment.
- 3- As financial reporting quality variable (FRQ_{2013}) according to the negative of the standard deviation of regression residuals from the modified Dechow and Dichev (2002) model by McNichols (2002) of the companies over years 2008 to 2014, it was ranged from - 0.392 % to 0.551 % with a mean of .0159 %, which means that financial reporting quality level vary in the sample, this difference will result in highlight and strengthen the results of the study.
- 4- As for the control variables, it was shown a strong contrast between the companies each other. Where the ratio of the companies size ($Size_{2013}$) in the sample ranged from 6.88% to

10.16% with mean of 8.8058%, the ratio of asset tangibility ($Tang_{2013}$) ranged from .00% to .93% with mean of .2950%, and the cash flow from operation ratio (CFO_{2013}) ranged from -.12% to 1.07 % with mean of .2580%. This extreme diversity in the ratios between the companies, of course, leads to influence the key relationship between capital investment expenditure and dividend policy, and, for this reason, it has been included in the study as control variables to neutralize them down in the relationship.

Testing of Hypotheses:

Before estimating a cross-sectional regression model in order to examine how financial reporting quality plays an important role in mitigating the restrictive or negative effect of dividend policy on capital investment expenditure in companies listed on the Egyptian stock exchange, OLS model will be estimated between dividend policy and capital investment expenditure in Equation (1) without FRQ_{it-1} and $Dividend_{it-1} \times FRQ_{it-1}$;

$$c.Inv. Exp_{it} = \beta_0 + \beta_1 D_{it-1} + \epsilon_{it}$$

To document that the effect of dividend policy on capital investment expenditure without conditioning on financial reporting quality is negative;

Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.027	.006		4.569	.000
D ₂₀₁₃	-.021	.031	-.118	-.685	.498

a. Dependent Variable: C. Inv. Exp. 2014

The negative sign of β_1 indicate that dividend policy has a restrictive effect on capital investment expenditure, and this result is consistent with recent research (**Brav et al. 2005; Daniel et al. 2010**).

The results show also that dividend policy is not the only variable which has restrictive effect on capital investment expenditure, so it has less significant ($\text{sig} > .05$), so it must include the control variables in the main model to limited their effect which will increase the results power.

After the researcher documents that dividend policy has a restrictive effect on capital investment expenditure, the researcher investigates how financial reporting quality plays an important role in mitigating this restrictive or negative effect of dividend policy on capital investment expenditure in companies listed on the Egyptian stock exchange.

First, Ordinary Least Square (OLS) method results:

The Ordinary Least Square model results enable the measurement of the relationship between the dependent variable capital investment expenditure and the two independent variables of the study, dividend policy and financial reporting quality.

OLS Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.104	.084		1.243	.236
D ₂₀₁₃	-.152	.076	-.942	-2.008	.066
FRQ ₂₀₁₃	-.100	.135	-.492	-.742	.471
D ₂₀₁₃ × FRQ ₂₀₁₃	<u>2.178</u>	1.193	1.351	1.825	.091
SIZE ₂₀₁₃	-.008	.009	-.196	-.862	.404
Tang ₂₀₁₃	.003	.024	.026	.118	.908
CFO ₂₀₁₃	-.021	.029	-.190	-.717	.486

a. Dependent Variable: C. Inv. Exp. 2014

The estimation of study model by OLS method results show that the coefficient of $D_{2013} * FRQ_{2013}$ is positive by 2.178 with no significant ($\text{sig} .091 > .05$) which indicates that the effect of dividends on investments isn't less negative for companies with higher quality financial reporting, providing rejection for H_1 .

In applying of OLS method, one potential concern with estimating the study equation is that D_{it-1} could be endogenous. And if D_{it-1} is endogenous, then the interaction between D_{it-1} and $FRQ_{jt-1} - D_{it-1} \times FRQ_{it-1}$, is also endogenous because it is an interaction between an endogenous variable and an exogenous variable (**Wooldridge, 2002**).

Under the endogeneity issue, OLS model results may be yield biased which means that the result of rejection H_1 is inconsistent estimates.

So, the researcher uses the two-stage least square (2SLS) method to address this potential endogeneity issue in the study equation.

Second, Two-Stage Least Square (2SLS) method results:

The general concept in 2SLS method is the instrumental variables estimator which means replacing the endogenous variable by another explanatory variable correlated with the endogenous variable but not correlated with the other independent variable.

Following the previous studies which show that cash-payment dividend has a direct effect on the financial reporting quality level (**eg; Skinner and Soltes, 2009; ZareRafiee, ZareRafiee and Heidarpour, 2014**). So, the endogeneity issue in the study model of $D_{jt-1} \times RQ_{jt-1}$ can be resolved by replacing D_{2013} in the model with suitable instrument variable which are the key determinant of dividends but do not have a direct effect with FRQ_{2013} .

In estimating the study equation by using a two-stage least square (2SLS) method, at the first stage, the dividend is regressed on its instrumental variable and the control variables in Equation.

To consistently estimate this equation, the instrumental variable of the dividend must be determined. It must satisfy certain properties which are uncorrelated with financial reporting quality, but is correlated with the dividend. A variable that meets those two conditions is an instrumental variable for dividends.

The current study following (**Ramalingegowda et al. 2013**) in choosing a predetermined variable of dividend which is the previous year's dividends (i.e., D_{jt-2}) as a key instrument for cash payment dividends (D_{jt-1}) because according to the Lintner (1956) model this variable is the key determinant of dividends level.

Also, to my knowledge, there is no theory suggesting that a previous year dividend has a direct effect on financial reporting quality (**e.g., Fama 1974; Biddle and Hilary 2006; Richardson 2006; Biddle et al. 2009; Peterson and Benesh 1983**).

Given that D_{jt-2} is the instrument for D_{jt-1} , so the natural instrument for $D_{t-1} \times RQ_{t1}$ is $D_{t-2} \times RQ_{t-1}$ (Wooldridge 2002).

Thus, in the first stage of the 2SLS estimation, the researcher regresses the endogenous variable (D_{2013} and $D_{2013} \times FRQ_{2013}$) on the two instrumental variables (D_{2012} and $D_{2012} \times RQ_{2013}$) and all the control variables in the Equation. The instrument will be included in the first-stage estimation for the endogenous variable to control for the partial correlation between the instrument and the endogenous variable (**Wooldridge 2002**).

As the previous study expected, the first stage results show that the Dividend₂₀₁₂ is positively related to D₂₀₁₃ by 0.456 and D₂₀₁₂×FRQ₂₀₁₃ is positively related to D₂₀₁₃×FRQ₂₀₁₃ by 0.906 which mean that D₂₀₁₂ is the suitable instrument which correlated with D₂₀₁₃ and not correlated with FRQ₂₀₁₃.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.258	.417		.619	.547
FRQ ₂₀₁₃	-2.210	.622	-1.752	-3.553	.004
SIZE ₂₀₁₃	-.033	.046	-.128	-.703	.495
Tang ₂₀₁₃	.184	.128	.264	1.443	.173
CFO ₂₀₁₃	.223	.145	.326	1.535	.149
D ₂₀₁₂	<u>.456</u>	.414	.218	1.101	.291
D ₂₀₁₂ ×FRQ ₂₀₁₃	10.861	2.711	1.842	4.006	.001

a. Dependent Variable: D₂₀₁₃

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.006	.011		.573	.576
FRQ ₂₀₁₃	-.081	.016	-.645	-5.115	.000
SIZE ₂₀₁₃	.000	.001	-.025	-.543	.596
Tang ₂₀₁₃	.004	.003	.064	1.357	.198
CFO ₂₀₁₃	.003	.004	.048	.884	.393
D ₂₀₁₂	.009	.011	.043	.851	.410
D ₂₀₁₂ × FRQ ₂₀₁₃	<u>.906</u>	.069	1.534	13.050	.000

a. Dependent Variable: D₂₀₁₃ × FRQ₂

After assuring from that D₂₀₁₂ is a suitable instrument variable, the second stage of 2sls method is completed which its results indicate that the coefficient of D₂₀₁₃×FRQ₂₀₁₃ is positive by 1.819 and significant (sig .049 < .05) which indicates accepting of H₁ which means that the effect of dividend policy on capital investment expenditure is less negative for companies with higher quality financial reporting than for companies with lower quality financial reporting in companies listed in the Egyptian stock exchange, ceteris paribus.

2SLS regression results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.136	.068		2.010	.055
Size ₂₀₁₃	-.012	.008	-.291	-1.578	.127
Tang ₂₀₁₃	.003	.022	.023	.130	.897
CFO ₂₀₁₃	.004	.025	.035	.178	.860
FRQ ₂₀₁₃	-.089	.080	-.358	-1.117	.274
Dividend ₂₀₁₂	-.091	.079	-.510	-1.147	.262
Dividend ₂₀₁₂ × RQ ₂₀₁₃	1.819	.879	.829	2.070	.049

a. Dependent Variable: C.Inv.Exp₂₀₁₄

4.2.3. Discussion of Results:

The research model found that the financial reporting quality has a reasonable significant positive effect in mitigating the restrictive effect of dividend policy on capital investment expenditures at the significant level of 5%.

This result is consistent with results of some studies in one hand (**Ramalingegowda et al. 2013** and **Jozam and Shafii 2015**) and inconsistent with others in the other hand (**Sahneh and Hamidian 2014**) which found that that there is no significant relationship between financial reporting quality, dividend policy, and investment decisions.

Summary and Conclusion:

4.3.1. Summary:-

This study includes three chapters. The first one concentrates on the background to study, Statement of the research problem, Significance of the research problem, Research Objective and expected contribution, the research hypothesis, the study limitations, Thesis structure.

The second chapter concentrates on the theoretical background of financial reporting quality, dividend policy, capital investment expenditure and the effect of dividend policy on capital investment expenditure and the role of financial reporting quality in mitigating this restrictive effect.

The third chapter covers literature review of previous and current research in the area of how financial reporting quality plays an important role in mitigating the constraining or negative impact of dividends on capital investment expenditures. In addition, the hypothesis development is presented.

Chapter four presents the research design and methodology which includes sample selection, research model, and measurement of variables.

Chapter five contains a research result which includes descriptive statistics, testing of hypotheses, discussion of results and future research.

Finally, summary and conclusion are presented at the end of chapter three.

4.3.2. Conclusion:

This study investigates the role of financial reporting quality in mitigating the restrictive effect of dividend policy (cash dividend policy) on capital investment expenditures levels in companies listed on the Egyptian stock exchange.

To do so, the researcher used the two-stage least squares (2SLS) technique and ran a multiple linear regression model using a cross-sectional sample of 35 companies on the year 2014.

Study results revealed that the financial reporting quality has a reasonable significant positive effect in mitigating the restrictive effect of dividend policy on capital investment expenditures at the significant level of 5%. This means that the effect of dividend policy on capital investment expenditure is less negative for companies with higher quality financial reporting than for companies with lower quality financial reporting in companies listed on the Egyptian stock exchange, *ceteris paribus*.

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الملخص

تهدف إلى دراسة تأثير جودة التقارير المالية في التخفيف من الأثر المقيد لسياسة توزيع الأرباح على الإنفاق الاستثماري الرأسمالي. يشمل مجتمع الدراسة جميع الشركات المدرجة ببورصة الأوراق المالية المصرية في عام 2014. أما عينة الدراسة فتشمل 35 شركة ليس من ضمنهم البنوك والشركات المالية والقوائم المالية لشركات العينة تنتهي في 31 ديسمبر من كل عام ويتم تداول أسهمها في البورصة فترة لا تقل عن 5 سنوات حتى يمكن حساب أحد متغيرات الدراسة وهو جودة التقارير المالية والذي يقدر عن طريق تقدير القيمة السالبة للانحراف المعياري الناتج من انحدار نموذج (McNichols 2002) في الشركات على مدى خمس سنوات.

ويشمل نموذج الدراسة علي متغيرين مستقلين ومتغير تابع. المتغير المستقل الأول في الدراسة هو توزيعات الأرباح والتي تم قياسها بالتوزيعات السنوية النقدية مرجحه بمجموع الأصول في السنة السابقة. أما المتغير المستقل الثاني هو جودة التقارير المالية والذي تم تقديره بنموذج (McNichols 2002). وتم قياس المتغير التابع الإنفاق الاستثماري الرأسمالي عن طريق قسمة المدفوعات النقدية لشراء الأصول الثابتة مرجحة بمجموع الأصول في السنة السابقة.

تشير نتائج الدراسة إلى أن التأثير السلبي لتوزيعات الأرباح على الإنفاق الاستثماري الرأسمالي أقل بالنسبة للشركات التي تقدم تقارير مالية ذات جودة عالية من الشركات التي تقدم تقارير مالية ذات جودة أقل عند مستوي معنوية 5% .

كلمات افتتاحية : جودة التقارير المالية ، توزيعات الأرباح ، الإنفاق

الاستثماري الرأسمالي.