

**IMPACT OF DIVIDEND POLICY ON FIRM  
PERFORMANCE: EMIRICAL EVIDENCE FROM LISTED  
COMPANIES OF PAKISTAN**

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**ABSTRACT:** The aim of study is that find the relationship among the dividend policy and firm performance with adaptation of different variables like dividend policy (DPO), return on equity (ROE), ownership structure (OS) and firm size (FS). In this study also shown the fact that ownership structure together with firm's specifications provides an essential effects within the dividend payout for firms overly (Fama and French, 2001). We are taken the cement sector and its 9 companies which are listed in Karachi stock exchange (KSE) of Pakistan. Data collected from annual reports of companies for the time period 2009-2013. In this study results find out by using regression technique is show that firm size has positive and significant relation with its dividend payout, and ownership structure and return on equity also show significant but negative among the dividend payout of the sample firms of Pakistan.

**Keywords:** Ownership Structure, Dividend policy, Firm Performance, Pakistan.

**JEL Classification:** G30, G32, G35

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## 1. Introduction

### 1.1 Background of the Study

Dividend policy is the policy a company how to decide how much it will pay out to share holders in dividends. The is that dividend policy is more commonly an instrument of wealth distribution ,than it is an instrument of wealth creation and because dividend policy has the potential to be influenced by number of conflicting factor the purist's claim that is should be undertaken in to order "maximize share holder's wealth" often gets pushed in to the back ground.

At the behalf of fast growing business atmosphere distribution of wealth as dividend most valuable instrument for current business situation and the other way of business dividend policy influence not only company financial position but also influence at its stake holders which are interlink with the company, such as the employees of company, concern with Government, shareholder's point of view and also consumer's interest about company. The rotation of dividend policy is very important for a company just like other financial policies are rotates. (Alli et al., 1993). Dividend policy described for company to get over view about its financial position. It helps to take decision for purpose of allocation the profit and distribution of funds among share holders as dividend. The dividend allocation decision is also take place in four decision areas of finance. Dividend policy is very important because it conclude with fluctuation of fund for investors and investment point (Ross et al., 2002). Dividend policy helps the firms to get information about future investment, earning, dividend payout, its capital structure and also performance of firm. Such elements provide help to stake holders to take decision about company performance (Foong et al., 2007). Distribution of dividend is very important matter in new business literature. The scene of determent of dividend policy is very important in corporations and it becomes very famous debate among the researchers because practical work does not have explanation about dividend policy and its optimal implementation in corporations.

When we study of assumptions of Miller and Modigliani, (1961) about irrelevancy of dividend policy they refused the frictions which are influence the perfect market. Many frictions like tax, bankruptcy about used debts, agency cost are effected the perfect market, such assumptions caused to make freely dividend policy by the corporations, and also explain there is no affected or disturbance in value of corporations what income remain and relationship between dividend

payments and retained earnings. These assumptions help the firms freely used of funds in internal and external matter, and assure them how to distribute the dividend among the common stock holders. This par is also supported by (Friend and Phuket, 1964 and Black and Scholes, 1973). Reality is that never be make fair and relevant dividend policy when market is not perfect and presence of market are also remain. (Jense and Meckling, 1976; Rozeff, 1984; Myers and Majluf, 1984 and Stulz, 1990).

## 1.2 Dividend Policy Theories

### 1.2.1 Dividend Irrelevance Theory

Dividend irrelevance proceeds from Modigliani-Miller's (1961) growth capital irrelevance brand, of which works out according to specified economy conditions—no tax returns, certainly no operation will cost you, are flotation will cost you. Businesses not to mention enterprises require exactly the same debt not to mention loan levels and then the comparable information on typically the firm's buyers. Enterprises who give further dividends make available reduced carry charge enjoyment. But, the sum bring back because of at the same time dividends not to mention growth capital rewards towards stockholders stress and anxiety comparable, which means stockholders would definitely truly turn out to be indifferent from the only two picks. Should dividends are actually much too smallish, some stockholder can just prefer to offer for sale numerous part of his or heir's carry for the purpose of capital not to mention vice versa.

### 1.2.2 Bird in Hand Theory

The concept which postulates which traders choose returns from the share in order to possible funds increases due to the natural doubt from the second option. In line with the saying that the chicken within the hands may be worth 2 within the rose bush, the actual bird-in-hand concept says which traders like the guarantee associated with dividend obligations towards the chance of considerably greater long term funds increases.

The idea originated through Myron Gordon as well as Steve Lintner like a counterpoint towards the Modigliani-Miller dividend irrelevance concept that keeps which traders tend to be unsociable in order to regardless of whether their own results through keeping the share occur through returns or even funds increases. Underneath the bird-in-hand concept, shares along with

higher dividend affiliate payouts tend to be searched for through traders and therefore order a greater selling price.

### **1.2.3 Tax Preference Theory**

The fact that investors choose collateral understanding in order to returns simply because funds increases tend to be successfully taxed from reduce prices compared to returns. Companies which follow this particular point of view usually possess reduce specific payment percentages, or perhaps a long-term dividend-to-earnings percentage, because dividend obligations tend to be arranged instead of adjustable. Simply because businesses which presume the taxes differential point of view tend to be centered on reveal understanding, they frequently convey more money readily available for development as well as growth compared to businesses concentrated basically upon growing their own returns. The actual degree from the viewpoint depends upon the actual taxes framework from the area where the organization works.

### **1.3 Aim of the Study**

The study focuses on impact of dividend policy determinants of cement industry of Pakistan. The purpose to choose cement industry is the dividend-intensiveness of the industry and there is a need of larger funds to commence completely new company or for the expansion of further unit. Our purpose is to determine the impact of tangibility of assets, size, and profitability and in the last of growth on leverage in cement industry.

### **1.4 Research Objectives**

The common objectives of this study include:

- To check the impact of dividend policy on firm's performance, profitability of the cement industry.
- To check the relationship among all the variables those are taken in the study.

## 2. Literature Review

(Uwuigbe et al., 2012) find out the connection between the financial accomplishment and distribution dividend among filed companies in Nigeria. They also analyzed the relationship between owner's business structure, extent of firms and payments of dividend. The researchers describe there is a critical positive relation into efficiency of firms and distribution of dividend.

(Al- Gharaibeh et al., 2013) investigated the impact of business form of firm dividend procedure. They find out the relationship into business ownership and dividend payment procedure using two model of dividend. The result declare the uniform business ownership specify incentives for ruling shareholders to apply their authority for maximizing the financial worth of firms by diminishing of funds in low beneficial project, that is indicate high cash flows can be distribute of dividend.

(Foroghi et al., 2011) find out the relationship of dividend behavior and chance of dividend with financial variables among Iranian companies listed in Tehran stock exchange. They apply two models to find out the cause of dividend policy the dividend payout ratio while the Poole and panel tob it and log it variable is take. The result declared that profitable investment favorable circumstances and firm size are most important factors in this case.

(Honarbakh et al., 2013) investigate the effects belonging of dividend procedure on market value research of listed companies on Tehran Security exchange. In this study three models of earning are used. Fist model basically is based on constant earning and second one is based on anticipated future rewards and third model is located as present earnings. They find out results show based on model, debt, constant income and the net running cash flows, financing and credit debt and investment are linked with stock prices, significant and absolutely and all models are selected. The research accommodates a better possibility to determine the effects of procedure of dividend payment on company's financial worth in market.

(Georgiana, 2012) typically the investigator deliberate on from dividend approach ranked organizations concerning The UK stock exchange not to mention London stock exchange not to mention dividend dispense action. Which are usually the actual pinpoint from dividend approach



bought from ranked organizations filed away inside the UK are actually complimentary financial, dividend out of your recent time, that however for Portugal, typically the determinants from dividend insurance coverage are actually gains show, dividend get not to mention control arrangement concerning dividend commission rates.

(Doron Nissim and Amir Ziv, 2001) individuals identify all the relationship approximately dividend transformations really are make an effort to connected to money transformations for every one of long term future productivity like mirrored for fee completed dividend, history dividend and additionally dividend transformations comprehensive agreement experts incomes prophecies in connection with for formativeness about dividend transformations approximately long term future productivity. In addition capture which usually dividend transformations really are make an effort to connected to money transformations for each one of the two year period as soon as dividend transformation.

(George M. Frankfurter and Bob G. Wood Jr, 2002) many detail towards business enterprise and dividend insurance coverage enthralled economists a long time, bringing about substantial theoretical modeling not to mention empirical scanning. Plenty of devices program clearly define active quest to describe typically the complicated truthfulness from business enterprise and dividend action. Many evaluate the fashion from test implemented try length, not to mention data files oftenest enhances this unique inconsistent program. The outcome programs from in line with certainly no dividend brand, on your own and / or jointly with the help of various devices, might be guaranteed necessarily.

(Elena Goldman and P.V. Viswanath, 2011) they find out dividend payment choice of exporting firms in India. Researchers describe after controlling for variables, exporting firms pay higher alternatively, it could be because exporting firms are better known abroad and economies should encourage firms to export, since this improves their ability to access indeed, if the exporting firms in our sample find it possible to pay higher.

(Eugene F. Fama and Kenneth R. French, 2000) said an attack of paying dividends falls from 66.5% in 1978 to 20.8% in 1999, due to the changing characteristics of public traded firms. The population of public traded firms moves increasingly toward small firms that have never paid dividends. More interesting, we find that firms did not want to pay dividends. This shows lower

propensity to pay show up more clearly in the dividend decisions of never paid also initiate dividends at much lower.

(AL\_Shubiri, 2011) typically the reason for the purpose of such research projects will be abroad broad experiments on the subject of causes that might be fundamental through selecting firm's dividend insurance coverage. Typically the retained making money intentions to fund typically the organization then that dividend insurance coverage of this organization can affect her growth capital arrangement. Dividend insurance coverage seems to have distinguished destination at the same time through introduced not to mention caused real estate markets. Economists furnish reasonable recognition not to mention thought to helping you out with typically the dividend problem, bringing about countless inconsistent hypotheses theories not to mention answers,

(Ajanthan, 2013) this approach understands noticed dividend agreed payment and additionally productivity for Sri Lanka. The learning recognized which usually dividend agreed payment boasts a serious effect on all the productivity about displayed vendors Sri Lanka. The software presents make an effort to impinge on about dividend agreed payment degree vendors a small increase for ability to earn money. The learning listed hypothesis convinces there are a considerable great bond approximately cash flow and therefore the productivity about vendors, together with in one payment properties and assets and therefore the productivity about vendors.

(Amidu, 2007) the research looks at the actual dividend plan affects firm's overall performance within Ghana. The actual investigator utilized monetary statement's information associated with detailed companies about the GSE throughout resent 8 12 months time period. Regular Minimum Squares design can be used in order to estimation the actual regression formula. Research exhibits good romantic relationship in between come back upon property, dividend plan, as well as development within product sales. These people discover that research reveal damaging organizations in between come back upon property as well as dividend to come back upon property, come back upon property as well as dividend payment percentage, as well as influence. The primary worth associated with research is actually id associated with the way the dividend plan impacts overall performance associated with companies detailed upon GSE.

(Hafeez Ahmeed and Attiya Yasim Javid, 2008). The study finds out the dynamics and cause for payments of dividend procedure of 320 non financial companies filed in KSE. The result

frequently holds up that the Pakistani listed non financial firms rely on the dividend payment. They indicate relationship of available funds for dividend and dividend payment. They find there is a significant positive relationship among the dividend payments policy of the firm and the shareholders.

### 3. Data Collection and Research Methodology

In this section, information about data source, measurement of the variables and discussion on these variables is included.

#### 3.1 Sources of Data

In this study, Financial Statements Analysis (FSA) of companies (Non-Financial) Listed at Karachi Stock Exchange 2007-2012 is used as a source which is issued by State Bank of Pakistan (SBP). We selected 9 listed firms at Karachi Stock Exchange from cement sector and five years data is taken for research work from the year 2009-2013.

#### 3.2 Explanation of Variables

In such an analysis, several aspects will be taken to assess a (DPO) dividend payout definitely utilized as dependent variable. ROE (Return on equity), OS (ownership structure), and FS (firm size) used as independent variables. Variables are often proper by way of various methods.

- DPO the percentage of earnings paid to shareholders in dividends. Dividend Payout ratio is measured as the dividend per equity share divided by earnings per share.
- ROE the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE measured Return on Equity for firm  $i$  at time  $t$  (in years). Used as a proxy for performance and is measured as net profit after tax divided by shareholders equity
- OS the ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners. Ownership structure has been calculated by the percentage of shares held by board of directors divided by total numbers of shares



- Firm’s size (FS) is proxy as total number of directors present in the Board of Directors.

### 3.3 Development of Hypotheses

The purpose of the following homework will be to study an affect with to the profits with organizations.

- H1: Dividend payout includes significant and positive relation on a profit with organizations.
- H2: includes significant and positive relation on a profit with organizations

### 3.4 Model Specification

The following model is used to examine the association between independent and the dependent variables of the listed firms in Pakistan.

$$DPO_{it} = f(ROE_{it}, OS_{it}, FSIZE_{it}, e) \dots \dots \dots (1)$$

This can be written in explicit form as:

$$DPO_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_2 OS_{it} + \beta_3 FSIZE_{it} + e \dots \dots \dots (2)$$

**Where:**

DPO it = Dividend Payout ratio is measured as the dividend per equity share divided by earnings per share

ROE it = Return on Equity for firm i at time t (in years). Used as a proxy for performance and is measured as net profit after tax divided by shareholders equity.

OS it = Ownership structure has been calculated by the percentage of shares held by board of directors divided by total numbers of shares

FSIZEit = Firms size is the proxy of total number of directors present in the Board of Directors.

e = Stochastic or disturbance term.

t = Time dimension of the Variables

β0 = Constant or Intercept.

B1-3 = Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (a priori expectations) are such that β1- β 3> 0.

### Proxies and Predicted Signs for Explanatory Variables

Variable	Predicted Sign	Type	Scale
ROE	+	independent	Measured as net profit after tax dividend shareholder equity
OS	+	independent	Percentage of director's equity interest
FS	+	independent	Total number of directors present in the Board of Directors.

## 4. Results and Discussion

### 4.1 Descriptive Statistics

Descriptive statistics is used to check the normality of data in statistical analysis. The average value of is FS 6.136364 which has the highest mean value. The lowest value of mean in this table ROE -2.32913. The DPO ha minimum value is 0.00000 and maximum value is 131.0167. The standard deviation for DPO is 0.175428 while ROE, OS, and FS have standard deviation 16.24207, 0.226301, 10374027 respectively. The skewness may be negative or positive. If the median > mean than it will negative skewness and if mean > median than it will positive skewness. The table 1 results of OS, FS, and DPO have showed positive skewness except the ROE which has negative skewness. The kurtosis measure the peakedness of data. The ROE, OS, DPO are >3 so due to this they are called Leptokurtic while the kurtosis value of FS are < 3 so it will be called platykurtic. The total number of observation of all variables is 44 according to table 1.

Table 1 Descriptive Statistics

	ROE	OS	FS	DPO
Mean	-2.32913	0.149473	6.136364	0.10232
Median	0.108686	0.010407	6.00000	0.00000
Maximum	1.976184	0.692135	9.00000	0.880282
Minimum	-107.595	5.07E-09	3.0000	0.00000
Std. Dev.	16.24207	0.226301	1.374027	0.175428
Skewness	-6.40043	1.302005	-0.19336	2.373784
Kurtosis	41.98595	3.164589	2.567418	9.994586
Jarque-Bera	3086.904	12.48125	0.617253	131.0167
Probability	0.00000	0.001949	0.734455	0.00000
Sum	-102.482	6.576814	270.000	4.502059
Sum Sq.Dev.	11343.61	2.202125	81.18182	1.323318
Observations	44	44	44	44

#### 4.2 Correlation Analysis

In table 2, coefficient of correlation is a technique which is used to find the relationship between two variables. The correlation is greater than or equal to 0.5 than the positive and strong relationship between the variables otherwise it will be the insignificant below the level of 0.5. Moreover, correlation is greater than or equal to -0.5 than the negative and strong relationship between the variables otherwise it will be the insignificant below the level of -0.5. The correlation always lies between -1 and +1. Menard (1995) and Adeyemi and Fagbemi (2010) suggested that a tolerance value less than 0.1. The table 2 shows that DPO has a significant but negative relationship with FS and OS, ROE which values are 0.325, 0.056 and 0.0972 respectively (kouki & guizani) (2009).

Table 2 Correlation Coefficient Matrix of Cement sector

	ROE	OS	FS	DPO
ROE	1			
OS	0.105551	1		
FS	0.130561	0.163029	1	
DPO	0.097112	0.055732	0.324799	1

### 4.3 Regression Analysis

By using panel data techniques of fixed effects regression or random effects regression in table 3 the relationship of dividend payout and profitability can be measured. In table 3 regression technique is shown and find out that firm size has positive and significant relation with its dependent variable at 1% level of significant. R-Square shows .439447 coefficients between the variables which show 43% impact among variables shows fitness of model.

Table 3 Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.451832	0.209679	-2.154879	0.0388
ROE	6.69E-05	0.001634	0.040965	0.9676
OS	-1.063513	0.480066	-2.215347	0.034
FS	0.116237	0.042127	2.759185	0.0095
R-squared	0.439447	Mean dependent var		0.10232
Adjusted R squared	0.246757	S.D. dependent var		0.175428
F-statistic	2.280589	Durbin-Watson stat		1.868876

## 5. Conclusion

The investigation quite simply investigated dividend protection plan together with solid results during Pakistan. The research came across investigations that will be for salient great importance that will students research dividend complications during the Pakistan framework. In line with the earliest hypotheses, the research detected the fact that the fact that solid results provides an essential relation to any dividend payment for mentioned providers during Nigeria. That could be, a slight increase during the money good appearing associated with a solid will probably rightly change any dividend payment volume of annual reports. At the same time, investigations within the following hypothesis are saying that there's a major favorable rapport somewhere between ownership structures. At last, any investigations within the 1 / 2 hypotheses validate any propositions made available during Barclay et al. Fama and french language (2001), Grullon and Michaely (2002), Al-Malkawi the place these advisable the reality that larger sized agencies will probably pay off even more dividend as a consequence of larger sized providers own better the means to access outward finance together with fall back significantly less regarding bodily budget. Is prejudicial, they just politically even more private and as such wish to greatly reduce political rates by just giving out dividend. Hence, any documents ends the fact that with regards to possession system for providers terms and conditions for justness attraction seem to be to use a visual together with significant affect dividend payment for providers, then again, solid specifications generally have a major favorable relation to providers dividend payment ratio seeing that larger sized providers own more effective connection into the budget economies and likewise can possibly to lift monies for lessen a good rates. During component, great providers will probably pay off even more dividend to lower agent rates since they normally skin huge agent rates from possession dispersion, amplified the nature and also failing for shareholders that will keep tabs on solid process intently. Even more which means that, with the weakly deal with during watching direction during great reports, a significant dividend payment increases the requirement outward finance, which unfortunately, also, will cause any amplified watching for great providers by just banking institutions. This might be a high-quality that could be attractive to any shareholders. A key reduction to the current documents stands out as the span for which the comprehensive data is certainly tried.



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