

CHAPTER 4: FINDINGS AND ANALYSIS

4.1 Introduction

This chapter is aimed towards presenting the findings of this research in accordance to the aim of the research. The main aim towards which this research is focused on is to highlight the importance of dividend policy on the shareholder's wealth and company's performance. In order to fulfill this aim, eight listed companies of UK have been considered that are listed on the FTSE 30 index. The data for this research was collected from the official website of London Stock Exchange in order to ensure the authenticity and accuracy of the figures. Companies from different industries were taken into consideration for this study in order to ensure the generalizability of the findings and conclusion. Considering the fact that the data was obtained in the form of panel, Panel Least Squares (PLS) Regression has been applied on the data set via E-views. Detailed explanation and interpretation of the quantitative data is followed by a comprehensive discussion which is followed by a discussion over the objectives which has taken into consideration both the results of this research and the findings of the previously executed research papers on dividend policy and its impact on shareholder's wealth and company performance.

4.2 Quantitative Analysis

4.2.1 Descriptive Statistics

Descriptive statistics have been applied for variables that are incorporated in the model of this research. This has allowed to summarise the large amount of data that has been considered in this study. The following table shows the values of the descriptive analysis that has been carried with the help of E-views:

| | Observations | Mean | Std. Dev. | Minimum | Maximum |
|--------------------|--------------|----------|--------------|----------|----------|
| EARNINGS_PER_SHARE | 40 | 109.0423 | 290.3351 | -70.24 | 1836.300 |
| DIVIDEND_PER_SHARE | 40 | 47.78150 | 57.24452 | 0.000000 | 203.0000 |
| ROA | 40 | 1.836201 | 4.609978 | -0.15 | 22.43000 |
| ROE | 40 | 3.270140 | 13.82036 | -52.7 | 56.23000 |

Table 1: Descriptive Statistic

The total number of observations for each variable is 40 because 8 companies were selected for which 5 years of data was collected. The mean value of EPS for the companies selected is found to be £109.04 but there is a deviation of £290.22. The average value of dividend per share for the time period of 2015-2019 for the selected companies is found to be £47.78 with a deviation of £57.2. The average ratio of ROA is found to be 1.83 which is lower as compared to the average ROE for the selected companies that is 3.2.

4.2.2 Correlation Analysis

In order to assess the significance of nexus between the predicting variable i.e. dividend policy with the criterion variables that are firm performance and shareholder's wealth, correlation analysis has been conducted. Correlation analysis is mainly conducted for the purpose of determining the linear association among two or more variables. From the assessment of the literature it has been determined that the both company's performance and the wealth of the shareholder has a linear relationship with the dividend policy of the company. The model used under this research has also tested this relationship, for which the results are given below:

| Probability | EARNINGS_PER_SHAR E | DIVIDEND_PER_SHAR E | ROA | ROE |
|-----------------|------------------------|------------------------|---------|---------|
| EARNING | | | | |
| S PER | 82187.08 | | | |
| SHARE | ----- | | | |
| DIVIDEND | | | | |
| PER | 9959.551 | 3195.012 | | |
| SHARE | 0 | ----- | | |
| ROA | -205.274 | -81.9776 | 20.7206 | |
| | 0.3324 | 0.0451 | ----- | |
| ROE | -189.404 | -108.936 | 28.1861 | 186.227 |
| | | | 6 | 4 |
| | 0.7667 | 0.3847 | 0.0033 | ----- |

Table 2: Correlation Matrix

As shown in the above table, there is a moderately high relationship of the dividend policy of the UK companies with the shareholder's wealth as the value given in the correlation analysis is 0.61 or 61%. Moreover, the relationship among the variables is found to be positive which indicates a direct association among them. However, with the performance of the company, which is measured with the help of Return on Assets and Return on Equity, the relationship of dividend policy is negative. This indicates that as the company increases their dividend per share, the performance of the company reduces. The relationship of ROA with

dividend policy is moderate (31% or 0.31) and the relationship of ROE with dividend policy is weak (14% or 0.14).

4.2.3 Impact of Dividend Policy on Shareholder's Wealth

Considering that the data of this study was in panel, hence panel least squares has been chosen as the data analysis technique. Among the fixed and random effects model, the fixed model has been selected after the rejection of the null hypothesis for the Hausman test where the p-value was found to be 0.028 (Table 4). The overall model is found to be statistically significant as the p-value in consideration to the F-statistic (3.98) is computed to be 0.0024. This indicates that the dividend policy of listed firms in UK which is measured with the help of dividend per share is considered to have a significant impact over the shareholder's wealth which is measured with the help of Earning per Share in this model. 50.09% of the variation caused in the shareholder's wealth can be explained by the dividend policy of the company as shown by the value of R-square given in the table below. Moreover, after adjusting the value of R-square, it can be said that only 37.9% of the variation in the model can be explained by the predicting variable. The value of coefficient in the table indicates that a single unit increase in the dividend per share will cause the earning per share to increase by 12.10 units. Overall, the results of this model are significant and the null hypothesis pertaining to dividend policy having no significant influence over the shareholder's wealth is rejected.

| Std. | | | | |
|--------------------|-------------|----------|-------------------|----------|
| Variable | Coefficient | Error | T-Statistics | P-value |
| Dividend Per share | 12.10043 | 3.996713 | 3.027596 | 0.0049 |
| Constant | -469.1347 | 194.3612 | -2.413726 | 0.0219 |
| F | 3.984546 | | R-square | 0.506969 |
| | | | Adjusted R-square | 0.379735 |
| Prob (F-Statistic) | 0.002412 | | | |

Table 3: Impact of Dividend Policy on Shareholder's Wealth

| | |
|-------------------|----------|
| Chi-squared | |
| Statistics | 5.184724 |
| Probability Value | 0.0228 |

Table 4: Hausman Testing

4.2.4 Impact of Dividend Policy on Company's Performance

4.2.4.1 ROA

There are two performance metrics that have been used in this model in order to accurately predict the influence of dividend policy of UK listed firms on their performance, the first performance metric is Return on Assets (ROA). Considering that the data of this study was in panel, hence panel least squares has been chosen as the data analysis technique. Among the fixed and random effects model, the random model has been selected after the acceptance of the null hypothesis for the Hausman test where the p-value was found to be 0.645 (Table 6). The overall model is not found to be statistically significant as the p-value in consideration to the F-statistic (1.01) is computed to be 1.01. This indicates that the dividend policy of listed firms in

UK which is measured with the help of dividend per share is considered not to have a significant impact over the company's performance which is measured with the help of ROA in this model. 2.60% of the variation caused in the financial performance can be explained by the dividend policy of the company as shown by the value of R-square given in the table below. Moreover, after adjusting the value of R-square, it can be said that only 0.03% of the variation in the model can be explained by the predicting variable. The value of coefficient in the table indicates that a single unit increase in the dividend per share will cause the ROA to decrease by 0.02 units however, the p-value show no statistical significance in this case. Overall, the results of this model are insignificant and the null hypothesis pertaining to dividend policy having no significant influence over the company's performance is accepted.

| Std. | | | | |
|--------------------|-------------|----------|--------------|----------|
| Variable | Coefficient | Error | T-Statistics | P-value |
| Dividend Per share | -0.021994 | 0.022058 | -0.997094 | 0.325 |
| Constant | 2.887125 | 1.706703 | 1.691639 | 0.0989 |
| F | 1.015396 | | R-square | 0.026026 |
| | 0.319987 | | Adjusted R- | 0.000395 |
| Prob (F-Statistic) | | | square | |

Table 5: Impact of Dividend Policy on ROA

| | |
|-------------------|----------|
| Chi-squared | |
| Statistics | 0.206591 |
| Probability Value | 0.6495 |

Table 6: Hausman Testing

4.2.4.2 ROE

The second financial performance related metric that has been taken into consideration for this model is Return on Equity. This metric has been selected because it accurately interprets the performance of the company with respect to its total equity. For this dependent variable (ROE), Hausman testing is not carried out because both the fixed and random effects model has indicated statistically insignificant results. Thus, the interpretation of the model has been carried out with the help of fixed effects model. The overall model is not found to be statistically significant as the p-value in consideration to the F-statistic (0.26) is computed to be 0.61. This indicates that the dividend policy of listed firms in UK which is measured with the help of dividend per share is considered not to have a significant impact over the company's performance which is measured with the help of ROE in this model. 0.68% of the variation caused in the financial performance can be explained by the dividend policy of the company as shown by the value of R-square given in the table below. Moreover, after adjusting the value of R-square, it can be said that only -1.98% of the variation in the model can be explained by the predicting variable. The value of coefficient in the table indicates that a single unit increase in the dividend per share will cause the ROE to decrease by 0.03 units however, the p-value show no statistical significance in this case. Overall, the results of this model are insignificant and the null hypothesis pertaining to dividend policy having no significant influence over the company's performance is accepted.

| <hr/> Std. | | | | |
|--------------------|--------------------|--------------|---------------------|----------------|
| Variable | Coefficient | Error | T-Statistics | P-value |
| Dividend Per share | -0.030732 | 0.060688 | -0.506393 | 0.6155 |
| Constant | 4.738555 | 4.579583 | 1.034713 | 0.3073 |

| | | | |
|--------------------|----------|-------------------|----------|
| F | 0.262909 | R-square | 0.006871 |
| Prob (F-Statistic) | 0.611097 | Adjusted R-square | -0.01926 |

Table 7: Impact of Dividend Policy on ROE

4.3 Hypothesis Assessment

In the above section, each of the statistical test has been presented and interpreted in detail in the light of the aim and objectives of this research. The following table summarises the results with the help of hypothesis statements and their respective results:

| S. No. | Hypothesis Statement | P-Value | Result |
|---------------|---|----------------|---------------|
| H1 | There is a significant impact of dividend policy on Shareholder's wealth | 0.0024 | Accepted |
| H2 | There is a significant impact of dividend policy on Company's performance (ROA) | 0.3199 | Rejected |
| H3 | There is a significant impact of dividend policy on Company's performance (ROE) | 0.6110 | Rejected |

Table 8: Hypothesis Assessment Table

Thus, the overall findings of this research have concluded that the shareholder's wealth is impacted positively and significantly by the dividend policy of the company however, the dividend policy does not have a statistically significant impact over the financial performance of the company. In the following section of this chapter, a detailed discussion has been carried out regarding the comparison of the findings of this research with the results of the previously conducted studies.

4.4. Discussion of Objectives

This section of the study discusses the main objectives of the research that what were the aims of the study and what related information is being reviewed while studying for these objectives. In this study, there were mainly three objective which were need to be achieved. However the fourth objectives was to provide recommendations to the UK listed companies to increase their amount of dividend in order to enhance the shareholder value which would result in the increased level of interest from the investors towards making investment in an organisation. First objective of the study was to understand the conceptual significance of the dividend policy and the shareholders wealth which is usually focused towards the investors. While the second objective of the study was to identify the factors of the dividend policy which influence the shareholders wealth and the overall firm performance, these two are the necessary elements of the analysis of an organisation in terms of benefits they have been providing to their shareholders.

Objective 1: To understand the conceptual significance of dividend policy and shareholders wealth

There are multiple aspect which have been determined in order to analyse the significance of dividend policy and the shareholders wealth, as it has been studied that the investors are interested to invest in the companies where they have opportunity to earn better. Therefore, in such a case, it becomes clear that the companies should not only be focused towards the earning per share but also the dividend which is being paid to the shareholders in the form of their reward in return of their investment in the company. However, the dividend pay-out decision also affects the firm's long term benefits in positive manner as the company is being considered as favourable to the market investors. Furthermore, it has also been studied that the

company should balance the element of shareholders wealth along with the growth of the company while paying the dividend to the shareholders. As per the study of Cundill, Smart, and Wilson, (2018), it was observed that value of the company is also being evaluated by their policies which are regarding the financial decisions of a company for their shareholders.

Another aspect which was observed that there are examples when the companies have paid the less amount to their shareholders in terms of dividend, however they have been making profit which can be observed by their financial statement. Therefore, in such a case, overall value of the firm is being affected which reduces the market price of the company and makes it less preferable for the investors to make investment. This results in the form of reduced investment in the shares of the company creating the sustainability issues for the company. There are some of the studies which have focused that the company should focus the element of shareholders wealth more than any other. For that particular reason, there are some of the companies which start focusing the growth of their business or business expansion in various fields which demands the organisation to make more effective strategies countering the ongoing issues occurring during the strategy execution (Bryson, 2018; Broman, and Robèrt, 2017).

Shareholders wealth is being defined as the major element for influencing the decision of the investors while investing in an organisation. Therefore, it becomes evident that the organisation should make their policies in a way that the shareholders wealth should be maximised so that there would be large number of investors ready to invest in the organisation. Dividend policies are one of the players in the process of maximising the shareholders wealth for the organisation. These policies enhances the level of satisfaction among the shareholders as they start realising the fact that the company is in their favour and their investment would be returning them in better ways. According to the study conducted by Starks, Venkat, and Zhu, (2017), it

was observed that the element should be focused by the organisation to further strengthen the position of the company in the market attracting more investors towards the organisation due to the policies of paying-out dividend instead of holding the amount to meet their liabilities.

Objective 2: To determine the factors of dividend policy that influences shareholders wealth and firm performance

As it has been studied that the dividend policy plays a vital role for the shareholders wealth and firm performance, it becomes evident that there must be some of the factors which have been influencing the dividend policy. In this study, it was observed that there are mainly three factors which affect the dividend policy such as dividend pay-out ratio, dividend yield and the dividend per share. However, all these factors have different intensity of influencing the dividend policy, as the dividend pay-out ratio is being calculated by dividing the total dividend payments with net income added with noncash expenses which is subtracted by noncash sales. As per the study of Bajaja, and Jain, (2019), there are some of the scales which determines the company's importance for the shareholders in terms of paying out the dividend such as the company paying more than 55% and limited to 75% are considered as better companies to make investment. Another aspect which was observed that the dividend pay-out ratio shows that how much the company is sustainable, on the other hand, the companies which have been sharing the higher amount of its earning in terms of dividend pay-out are sharing their major part of earning with the shareholders which indicates that there are the chances that the company would ran out of the cash which would make it difficult for the company to meet their short term liabilities (Dugan, 2018).

In addition to this, dividend yield is also being identified as one of the major player in this regard, it is also a ratio which is being calculated by the total amount of dividend and with the current price of stock in the market. Furthermore, it has also been studied that investors by the time of making investment are likely to know the dividend yield of the company as they are focused towards the opportunity of earning well through their investment. This makes it clear that the dividend yield has a direct influence over the shareholders wealth. As per the study conducted by Ali, and Waheed, (2017), it was observed that the companies which possess the dividend yield between 4 to 6 % are likely to be considered as the better options for the investment. However, the companies which are paying the lesser percentage for their dividend yield are not considered as justified in terms of making investment which affects the business of the company in significant manner. While studying about the dividend yield, it was also observed that when the companies lower their dividend, the market analyses the move and reduces the price of the stock share in the market. This affects the overall wealth of the organisation as well as the shareholders' value which increases the element of risk for the company to sustain in the market.

Moreover, dividend per share is being calculated by dividing the annual dividend of the company with the purchase price, which makes it easier for the company to calculate that how much amount should be paid to a specific shareholder. This factor is of the most important factor as it shows that how much amount the company is being paying to the investors against their investment. This makes it easier for the investors to evaluate that which of the company is better for investment and where they should invest which would be enabling to earn in significant manner. In such a case where the dividend per share is being calculated, it is necessary to

mention that some of the companies pay the dividend annually, some of them pays it quarterly. However, there are lesser practices of paying it on monthly basis as well.

Objective 2: To identify the impact of dividend policy on shareholder's wealth and firm performance in UK listed firms.

This study was focused towards the identification of the impact of the dividend policy over the shareholders wealth and the firm performance specifically for the company which have been registered and working in UK. It has been observed that the approach of investors may differ from country to country, therefore this study was limited to the case of UK listed companies. While looking for the related literature regarding the factors of the study, it was observed that dividend policy is the major player in terms of evaluating that how much the investors are interested to pay for buying the shares of a specific company. Another aspect that has been studied is that the organisations are required to have cash in hand which would enable them to meet their expense on daily basis. Therefore, it is necessary that the organisation should focus that the investors should have better opportunity to invest in the organisation. The only interest that the investors are associated with the decision of investing in any organisation is the amount that they would be able to earn in return of their investment.

Furthermore, it has also been observed that some of the times the company hold the amount of dividend to meet their liabilities, however in such a case it is necessary to analyse that what was the history of the organisation. If the company has a better history which would enable the organisation to be in the line of making money and the investors would not be asking for the dividend at the crucial stages of the company. Additionally, the firm performance is being calculated for various purpose such as maintain the financial statements for the investors in

future. It has been studied that there are some of the ratios which help the investors to analyse that how much the company has been earning, what were their expenses and other elements related to their financial matter. These elements helps the investors to analyse that whether they should start investing in that particular organisation or not.

In addition to this, shareholders wealth is the vital element in this study as the companies earning profit and paying out dividend are actually contributing the shareholders wealth. Therefore, it is necessary that the investors should keep themselves focused towards the dividend yield and dividend per share, as it would make it easier for the investors to make decision before investing. Related literature review has made it clear that there are different dividend pay-out policy which have been accepted by the organisation themselves depending on their financial abilities. Another aspect that has been studied is that the dividend policies are being made to keep the interest of the shareholders and maintain the moral higher as they are being provided to specific share of the total market value of the company. This study aims to identify the effects of the dividend policy of the company over the shareholders wealth and the firm performance of the company as the major role is being played by the opportunities which have been provided to the investors when they are going to make investment in any company.