

## Factors Affecting Dividend Policy of Normal and Default Sectors of Pakistan

Moez Ahmad<sup>1</sup> and Maqbool Hussain Sial<sup>2</sup>

### **Abstract**

*The purpose of the study is examining the aspects which affects the dividend policy of normal and default sectors of Pakistan. The study population consists of all the companies fall in the normal and default sector for the year 2016. The panel data is used and gathered from the annual reports of selected listed companies of Pakistan including textile, banks, oil refinery etc. The panel data is analyzed by descriptive statistics, correlation and multiple regression techniques. The study tells us about the interrelationship of dependent and independent variables which are used in our analysis and to check how distinct variables and factors influence dividend payout ratio of any firm. The result shows us effect on dividend payout ratio in normal and default sectors of Pakistan, in which the values of non-default companies exceed the values of default companies based on the statistical results.*

**Keywords:** Dividend Policy, Normal Sector, Default Sector

### **1. Introduction**

A dividend is defined as the dispersal of honor from a portion of the company's earnings and is paid to a class of its shareholders. Dividends are determined by the company's board of directors and are managed, though they must be accepted by the shareholders through their voting rights (Ajanthan, 2013).

Dividends can be distributed through cash payments, as a share of stock or, other property. Dividends not only provide actual proof of company's profitability and ability to finance it, but also provide actual information of the company's ability to attain cash from its operational activities (Adesola and Okwon, 2009).

Capital market is a market where buyers and sellers employ in trade of the financial securities which includes bonds, stocks, etc. (Bell, Filatotchev, & Rasheed, 2012). In capital market, buying or selling is going through by the participator such as individuals and institutions. The capital market in Pakistan is developing market distinguish by limited competition, low liquidity and high rate of return and risk contrast to the markets of developed countries. The capital market in Pakistan includes normal and default sectors based on certain factors. Normal sectors are the sectors in Pakistan which are able to secure their debt obligations. However, a default sector includes those companies which are unable to repay a debt including interest or principal on a loan or a security.

Dividend policy is related with financial policies regarding paying cash dividends in present and paying an increased dividend at a later stage (Chenchehene, & Mensah, 2015).

It sets the framework for delivering the returns to equity shareholders on the capital invested by them in the business. Most investors whose lose money is because they may not be market professionals, which know the influence of factors which affects the dividend policy of both sectors (Normal and Default). Therefore, the main issue of this study is to know those factors which make an impact and make a comparison in the dividend policy of normal and default sectors of Pakistan.

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<sup>1</sup> Corresponding author and MS Scholar, University of Management and Technology, Lahore.

<sup>2</sup> Professor, School of Business and Economics, University of Management and Technology, Lahore.

## 2. Literature Review

The current district will check the past studies organized on the factors affecting the Normal and Default sectors of Pakistan. According to Roman (2021) dividend policy have a significant effect on market value. He took all the commercial and Islamic banks of Jordanians from 2008-2018. He used multiple regression analysis. And conclude that dividend policy and dividend payouts matters allot for the market value of the firm.

Zaman, Roudaki, & Nadeem, (2018) studied KSE for the period of 2009 to 2013 and divide listed companies to 32 broader sectors. He used multiple regression analysis and concluded that EPS have a positive effect on dividend payments in eight sectors.

Dewasiri and Weerakoon Banda (2014) took 40 companies from Colombo stock exchange for the period of 2003 to 2012 and used cross section random effect model. They found significant negative impact of dividend payout to market value and also found that company size has a positive impact on firm's value. Further it was observed that dividend yield does not affect the market price of the firm.

The agency theory plays a vital role in financing decisions because of the problems arising from debtors and shareholders (Chenchehene, & Mensah, 2015). The agency theory indicates that managers will prefer to have excess cash with them instead of declaring dividends to shareholders. They would like to take personal benefits rather than building up or increasing the value of banks. (DeAngelo & DeAngelo, 2007).

Dividend policy needs a balance between current distribution and retained earnings. That reflects the market needs of owners and gives a positive reflection to the market (Chumari, 2014).

Dividend policy and financing decisions are related with each other and they cannot be separated from each other. Basically, it is the dividend policy that determines what should a company hold and what should a company disperse to its shareholders (Brealey, Myers, Allen, & Mohanty, 2012).

Amidu (2007) examined the influence of dividend policy on performance in Ghana and this was done through multiple regression analysis of GSE firms for the latest eight year and conclude that bigger firms in Ghana perform less with respect to return on assets and there is negative relationship of return on asset with dividend pay-out ratio and leverage.

John (2014) studied the relationship of firm's performance with respect to dividend pay-out. He took ten companies as sample and with the help of secondary data, he found out a significant relationship between profit after tax and dividend pay-out. He also found out that dividend pay-out has no significance relationship with shareholders' fund and also suggested that board of directors should ensure dividend payments for continuously boosting the profitability of the firm.

Ha le, Nguyen and Tran (2019) studied the regulation of dividend pay-out policy and for this they took 226 ASEAN region companies from three emerging markets. Time period was from 2012 to 2016 and used OLS regression model and concluded that dividend pay-out is direct proportionate to the profitability and growth have negative relationship with dividend pay-out. At the same time, they also found that financial leverage, liquidity, free cash flow and firm size have minor or have no relationship with dividend pay-out.

## 3. Methodology

### 3.1 Problem Statement

Dividend policy plays a very vital part for a company on whether to pay or not depends on the financial position of the companies in normal or default sectors of Pakistan. It is the decision of board of directors to make dividend policies according to scenario as dividend policy is necessary for both company's management and shareholders of the company. To see how it affects and make companies difficult or not to pay, there is a need to identify those factors

which affects the dividend policy of normal and default sectors of Pakistan. This study tells how companies which default to pay their debt or which are able to pay their debt are affected by the dividend policy based on certain factors. Those factors which directly or indirectly affects the dividend policy and makes a difference between different companies in Pakistan. Therefore, the problem of this research is to identify the impact of dividend policy (based on certain factors) on the market value of Normal and Default sectors of Pakistan.

### 3.2 Research Question:

According to the current study of dividend policy, the research question which has been discussed and needed to be identified is to know the factors which exert influence the dividend policy of Normal and Default sectors of Pakistan. It is important to know such factors because like chaos theory. According to theory, initial small changes can make a big difference in the future, which makes it difficult for the companies to survive in the market and to pay their debt obligations. Also, companies are unable to pay dividends to shareholders or reduce the dividend ratio by changing the dividend policy depends on their financial position.

### 3.3 Research Objective:

Following are the research objectives of this study which are:

- *To identify dividend policy of normal sectors and default sectors of Pakistan.*
- *To identify what determines dividend payout ratio in the default and normal companies.*

The above objectives discussed are identified in this research to fill the research gap of the market.

### 3.4 Hypothesis:

Based on the current study of research, the following hypotheses are formulated:

- *Ha.1: Tax has significant impact on the dividend payout ratio in sectors of Pakistan.*
- *Ha.2: Growth sale has significant impact on the dividend payout ratio in sectors of Pakistan.*
- *Ha.3: profit has significant impact on the dividend payout ratio in sectors of Pakistan.*
- *Ha.4: company Size has significant impact on the dividend payout ratio in sectors of Pakistan.*
- *Ha.5: Leverage has significant impact on the dividend payout ratio in sectors of Pakistan.*

### 3.5 Population and Sample of Study:

- The sample of our study consists of all Pakistan listed companies based on the year 2016.
- The study will be based on a detail survey system. The sample will include the entire community.

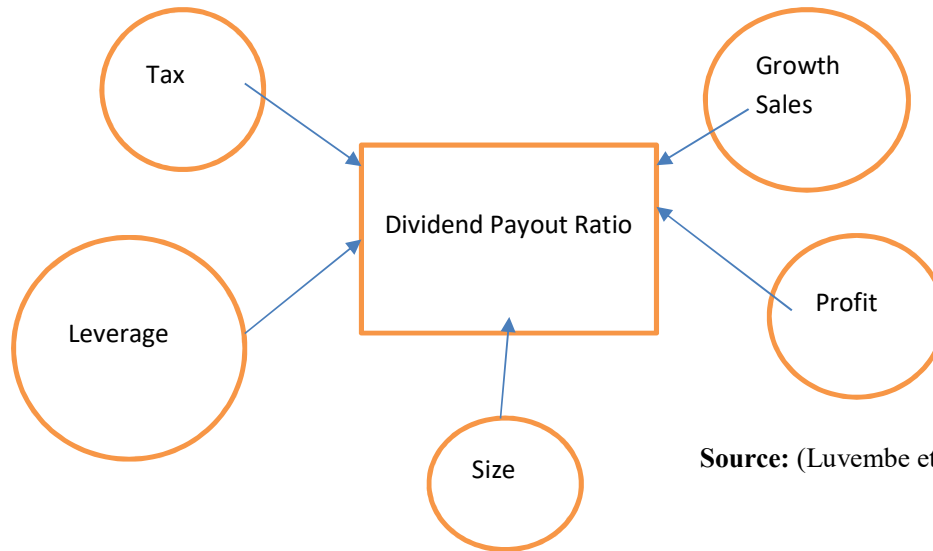
### 3.6 Sources of Data Collection:

- Data is used from secondary source of the annual reports of the sample listed companies of Pakistan like Textiles, banks, oil refinery etc.
- The panel data is collected and analyzed from the following statistical tools:
  - ✓ Descriptive analysis
  - ✓ Correlation analysis
  - ✓ Multiple Regression analysis

### 3.7 Conceptual Framework:

The conceptual framework of this study is shown below which tells the relationship of dependent and independent variables, that how the factors affect the dividend payout ratio for the sectors of Pakistan.

Figure 1: Dividend Payout Ratio:



Source: (Luvembe et al., 2014)

### 3.8 Measurement of Study Variables:

This study is measured on the basis of factors (*independent variables*) which affect the dividend payout ratio (*dependent variable*) of the normal and default sectors of Pakistan.

The list of variables is mentioned below:

**Table 1: List of Variables:**

Dependent Variable	Independent Variable
<ul style="list-style-type: none"> <li>Dividend Payout Ratio</li> </ul>	<ul style="list-style-type: none"> <li>Tax</li> <li>Growth Sales</li> <li>Profit</li> <li>Size</li> <li>Leverage</li> </ul>

#### 3.8.1 Dependent variable:

Dividend payout ratio (DIV PAY), the researcher measures the dividend payout ratio by dividend payout of the total dividend pay of different sector of Pakistan.

$(DIV\ PAY) = \text{dividend pay} / \text{net income}$

#### 3.8.2 Independent variables:

- Tax
- Growth sales
- Profit
- Size (SIZE): measured by the natural logarithm of total assets at the end of the year.
- Leverage:

#### 3.9 Model Specification:

The standard model below will be adopted to test the hypotheses of the study:

$$DIVPAY = \beta_0 + \beta_1 TAX + \beta_2 SIZE + \beta_3 GROWTH SALES + \beta_4 PROFIT + \beta_5 LEVERAGE + \epsilon$$

## 4. Results and Discussion:

### 4.1 Non-default companies:

The following table of descriptive statistic of the study variables according to non-default companies and default companies

**Table 2: Descriptive Statistics**

variables	company type	mean	standard deviation
<b>Tax</b>	non default	5.771	9.66
	default	2.5776	24.909
<b>Sales growth</b>	non default	257.37	279.2
	default	51.0044	219.81
<b>Profit</b>	non default	228.9	933.05
	default	36.5	32.0
<b>Size</b>	non default	569.3	282.9
	default	501.55	1712.1
<b>Leverage</b>	non default	5.9	11.6
	default	1.62	7.01

The above table represent that the mean of all variables' values of non-default companies surpass the values of default companies. Moreover, the minimum values of company's size indicate that default is not the smallest default companies in the Pakistan listed companies.

**Table 3: Durbin-Watson test:**

### Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the estimate	Change Statistics					Durbin Watson
					R Square Change	F Change	df1	df2	Sig F Change	
1	.908a	.825	.757	38.81305	.824	12.195	5	13	.000	1.628

a. Predictors: (Constant), Profit, leverage, sales\_growth, Size, tax

b. Dependent Variable: dividend\_payout

The above table shows that the value of adjusted R<sup>2</sup> is 0.824 which tells that 82.4% variation in dependent variable and unexplained variation in dependent variable is due to other factors. R<sup>2</sup> is the point estimator. In this fitted model R<sup>2</sup> has higher value then standard error of the estimator which indicates that this model is good fitted model. Durbin Watson is a test which tells the test of independence. In this table the value of Durbin Watson is 1.628 which relies between (1.5 and 2.5) indicates that the errors are independently distributed

**Table 4: Regression Analysis**

Model	Unstandardized Coefficient		Standardize Coefficient	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Beta	Lower Bound
1 (Constant)	-18.369	24.824		-.740	.472	-71.998	35.261
tax	5.744	1.016	.786	5.654	.000	3.549	7.939
size	.010	.032	.039	.301	.768	-.060	.079
leverage	-1.815	.807	-.299	-2.248	.043	-3.558	-.071
sales_growth	.056	.035	.221	1.622	.129	-.019	.131
profit	.187	.261	.085	.717	.486	-.377	.752

a. Dependent Variable: `dividens_payout`

This table represent the un standardized coefficients of the variables, as the dividend payout ratio as the dependent variable the other variable unstandardized have positive beta except leverage and this table also shows the significant of the independent variable as per dependent variable only tax and leverage are significant. Tax is highly significant as the value of alpha is 0.005 and leverage is significant having p value of 0.43.

This table also shows the tail test in this coefficient table size, sales growth and profit exists in tail test as alpha lies in two tales as they contain "0".

**Table 5: ANOVA**

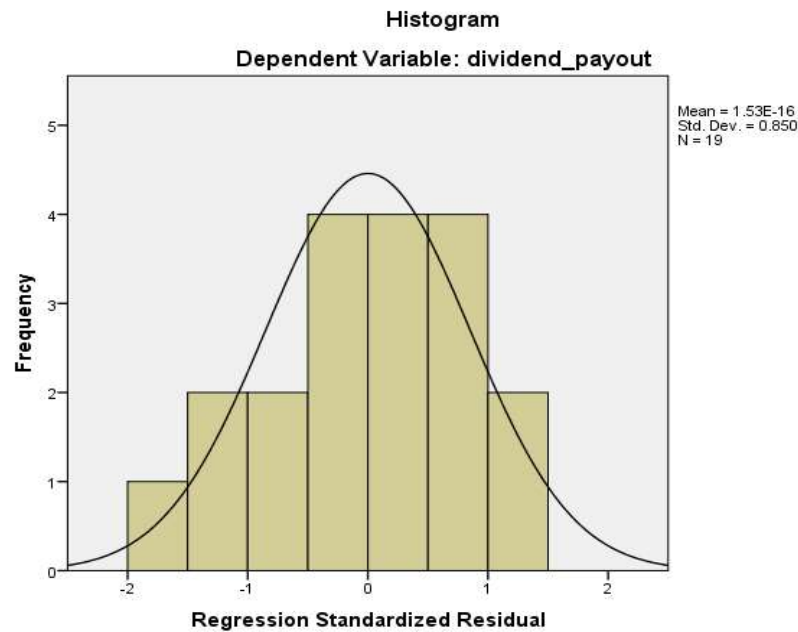
Model	Sum of Squares	df	Mean Square	F	Sig
Regression	73899.992	5	14779.998	12.195	.000b
Residual	15755.334	13	1211.949		
Total	89655.326	18			

a. Dependent Variable: `dividend_payout`

b. Predictors: (Constant), profit, leverage, sales\_growth, size, tax

This table tells the significance of whole variables if the significance value is less than the alpha which is 0.05 then there is significance deference somewhere among our mean on our dependent variable. In our result the overall significant value is 0.000 which is less then alpha value (0.005) that indicates that we have statistically significant result somewhere in our groups.

Figure 2: Histogram



This graph indicates that our data is normally distributed.

#### 4.2 Default companies:

Table 6: Durbin Watson:

Model	R	R Square	Adjusted R Square	Std Error of the estimate	Change Statistics					Durbin Watson
					R Square Change	F Change	df1	df2	Sig F Change	
1	.208a	.043	-.028	.13254	.043	.608	5	67	.694	1.810

a. Predictors: (Constant), leverage, tax, size, profit, sales\_growth

b. Dependent Variable: dividend\_payout

The above table tells us that the value of adjusted R<sup>2</sup> is 0.043 which tells that 4.3% variation in dependent variable and unexplained variation in d.v is due to other factors. R<sup>2</sup> is the point estimator. In this fitted model R<sup>2</sup> has lesser value than standard error of the estimator which indicates that this model is not a good fitted model. Durbin Watson is a test which tells the test of independence. In this table the value of Durbin Watson is 1.810 which lies between (1.5 and 2.5) that indicates that the errors are independently distributed.

Table 7: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.053	5	.011	.608	.694b
Residual	1.177	67	.018		
Total	1.230	72			

a. Dependent Variable: dividend\_payout

b. Predictors: (Constant), leverage, tax, size, profit, sales\_growth

This table tells the significance of whole variables. If the significance value is less than the alpha which is 0.05 then there is significance deference somewhere among our mean on our dependent variable. In our result the overall significant value is 0.694 which is not less than alpha value (0.005).

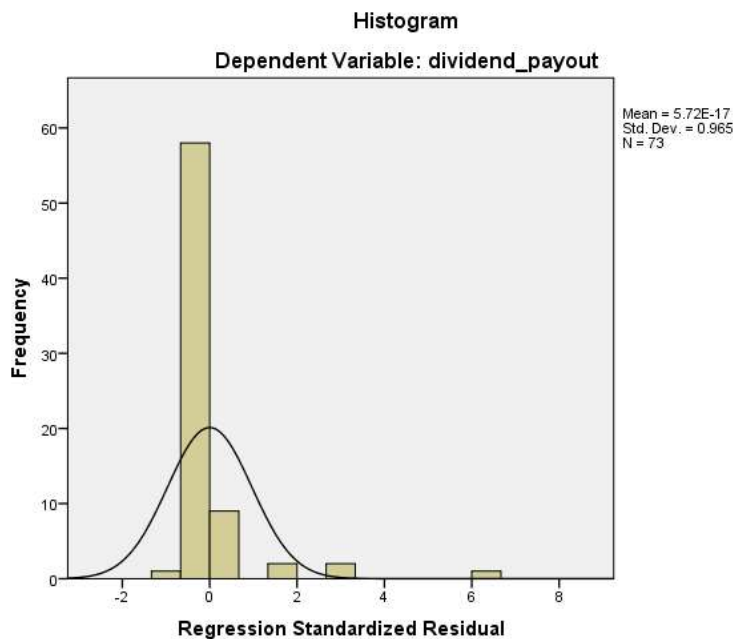
**Table 8: Regression and Coefficients**

Model	Unstandardized Coefficient		Standardize Coefficient	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.041	.017		2.397	.019	.007	.075
Tax	.000	.001	.034	.282	.779	-.001	.001
sales_growth	9.709E-5	.000	.163	1.183	.241	.000	.000
profit	-1.206E-5	.000	-.086	-.682	.498	.000	.000
size	-4.871E-6	.000	-.064	-.518	.606	.000	.000
leverage	.001	.003	.056	.394	.695	-.004	.006

a. Dependent Variable: dividend\_payout

This table shows the unstandardized coefficients of the variables, as the dividend payout ratio as the dependent variable the other variable unstandardized have positive beta except profit and size this table also shows the significant of the independent variable as per dependent variable there are no significant variable. This table also present the tail test in this coefficient table tax and leverage exists in tail test as alpha lies in two tales as they contain "0".

**Figure 3: Histogram**



This graph tells that the data is not normally distributed as it is negatively skewed.

## 5. Conclusion

The main purpose of this study is to identifying the effect of dividend payout ratio on normal and default sectors of Pakistan. This study comprise all the listed companies of Pakistan and



all the sectors listed in stock exchange of Pakistan. The data collected for the time period of 2016. The sample includes the entire community. This study is measured on the bases of factors (*independent variables*) which affect the dividend payout ratio (*dependent variable*) of the normal and default sectors of Pakistan.

The variables used in our study are: tax, sales growth, profit, size, leverage. The result shows that values of non-default companies exceed the values of default companies. We test our results by different ways. In our study we use Anova test and Durbin Watson test. The data of default sectors are not normally distributed and non-default sector is normally distributed.

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