A RELATIVE STUDY OF DIVIDEND PAYOUT AND LIFE CYCLE STAGE OF FIRMS

BY

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Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this thesis has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

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Abstract

Purpose

The aim of this study is to determine that if any relationship exist between dividend payout ratio and life cycle stage of firms. The ratio of retained earnings to total shareholder's equity is used as a measure to find out the life cycle stage of firms. Other variables which effect dividend payout such as growth rate, firm size, age, retained earnings, debt/equity ratio, return on earnings, managerial efficiency are also considered. No evidence of research showing the impact of life cycle stage in Pakistan on chemical firms has been found in Pakistan.

Methodology & Design

The analysis is performed utilizing the panel data for all 32 chemical firms listed on PSX extracted from the annual publications of SBP. The time period for the selected data is 2006-2015. Regression analysis is done to determine the relationship.

Findings

The outcome of the research shows no relationship between dividend payout and life cycle stage of firms. Growth rate, debt/equity ratio and life cycle stage are found to have a negative relationship with dividend payout whereas firm size, age, retained earnings, return on equity and managerial efficiency have a positive relationship. The overall model is significant at significant level of 5 %.

Limitations

The results in this study suggest that market participants, potential investors and financial analysts should focus more on firm size, retained earnings, return on equity and managerial efficiency while making decisions related to dividends. This study has shown that life cycle stage has no impact on dividend payout, however literature implies that life cycle stage is an important factor and should therefore be considered.

Recommendations

This study recommends to all decision makers, market participants, financial analysts and potential investors to analyze the real factors determining dividend payout policy to assess firms, estimate previous and upcoming risks, schedule financing decisions which have been considered main and principal factors of dividend payout decisions. Firms' life cycle has a significant impact on dividends as discussed elsewhere in literature, though the same is not true for the firms in chemical sector of Pakistan. Therefore the impact of life cycle stage on dividend payout along with other determinants will lead investors to select an optimum portfolio with minimum risk and maximum efficiency.

Keywords

Life Cycle Stage, Dividend Payout, Relationship, Chemical Sector, Panel Data, PSX, Pakistan.

TABLE OF CONTENTS

CHAPTER 1 1
INTRODUCTION 1
1.1 Introduction 1
1.2 Background 2
1.2.1 Theories of dividend policy 2
1.2.2 Dividend irrelevance theory: 2
1.2.3 Bird-in-hand theory: 3
1.2.4 Agency cost and the free cash flow theory: 3
1.2.5 Signaling proposition: 3
1.2.6 Clientele effects of dividends theories: 4
1.3 Problem Statement 4
1.4 Research Objectives 4
1.5 Research Questions 4
1.6 Significance of the Study 5
1.7 Scope of the Research 5
1.8 Organization of the Thesis 6
CHAPTER 2 8
LITERATURE REVIEW 8
2.1 Literature review 8
2.2 Description of Variables 14
2.2.1 Dependent Variable 14
2.2.1.1 Dividend Payout 14
2.2.2 Independent Variables 15
2.2.2.1 Growth rate 15
2.2.2.2 Firm Size 15
2.2.2.3 Age 15

2.2.2.4 Retained Earnings 15
2.2.2.5 Debt / Equity Ratio 15
2.2.2.6 Return on Equity 15
2.2.2.7 Managerial Efficiency 15
2.2.2.8 Life Cycle Stage 15
2.3 Research Hypotheses 16
2.4 Conceptual Framework 16
CHAPTER 3 18
Research Methodology 18
3.1 Research Approach & Type 18
3.2 Research Design 18
3.3 Research Population 18
3.4 Sample Size & Sampling Technique 18
3.5 Data Collection 18
3.6 Data Analyses Method 19
3.7 Regression Model 19
CHAPTER 4 20
Results 20
4.1 Data analysis 20
4.1.1 Variables Entered/Removed 20
4.2 Correlation 21
4.3 Regression Analysis 22
4.4 Hypothesis Testing 24
4.4.1 Hypothesis 1 – Growth rate 25
4.4.2 Hypothesis 2 – Firm Size 25
4.4.3 Hypothesis 3 – Age 25
4.4.4 Hypothesis 4 – Retained Earnings 26
4.4.5 Hypothesis 5 – Debt / Equity Ratio 26

4.4.6 Hypothesis 6 – Return on Equity 26
4.4.7 Hypothesis 7 – Managerial Efficiency 26
4.4.8 Hypothesis 8 – Life Cycle Stage 27
CHAPTER 5 29
Discussion 29
5.1 Discussion 29
5.1.1 Hypothesis 1 Discussion 29
5.1.2 Hypothesis 2 Discussion 29
5.1.3 Hypothesis 3 Discussion 29
5.1.4 Hypothesis 4 Discussion 29
5.1.5 Hypothesis 5 Discussion 30
5.1.6 Hypothesis 6 Discussion 30
5.1.7 Hypothesis 7 Discussion 30
5.1.8 Hypothesis 8 Discussion 30
CHAPTER 6 31
Recommendations and Conclusion 31
6.1 Recommendations 31
6.2 Limitations of the Research 31
6.3 Conclusion 32
References 33
APPENDICES 36
6.4 APPENDIX – A - List of Companies 36
6.5 Data Of 32 Listed Chemical Firms 37