

Effect of Leverage and Dividend Policy on Agency Cost of Free Cash Flows: Evidence from Pakistani Non-financial Companies

Abstract

The purpose of this research is to inspect how non-financial segment of Pakistan alleviates the agency cost of free cash flow by utilizing leverage. To determine the agency cost of free cash flow organization free cash flow is utilized as an intermediary. Leverage of the organization is determined by utilizing two ratios involving debt to equity ratio and long term debt. Panel statistics of 58 non-financial companies for the period 2010 to 2015 has been gathered from the manufacturing sector of Pakistan. These companies were in the Karachi 100 stock index. Findings affirm that the company leverage assume an essential part in reducing the agency cost of free cash flow by decreasing the free cash flow that is beneath the command of the manager. These findings are persistent with the free cash flow hypothesis. Another target of this research is to analyze how manufacturing sector of Pakistan reduce the agency cost of free cash flow by utilizing company dividend policy. To determine the agency cost of free cash flow company free cash flow is utilized as an intermediary. Dividend policy of an organization is determined by taking dividend payout ratio and dividend yield. Statistical tools and approaches, for example, correlation and generalized least square regression have been practiced to examine the evidence. The findings report that the company dividend policy assumes a vital role in mitigating the agency cost of free cash flow by decreasing the free cash flow that is under administrator control. This outcome is also reliable with the free cash flow hypothesis. The suggestions, limitations and further aspects for study are too explained in the conclusion toward the end of this paper.

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