CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The purpose of this study was to assess the connection among dividend policy and performance of organisation as well as with shareholders wealth. In order to analyse the association this study was established on quantitative research method. The investigator acquired financial data of eight FTSE 30 index listed companies from London stock exchange and record collected of five years for examination. The variables selected for investigation were each share of dividend, earnings every share, ROA and ROE. Based on the statistical analysis, this study concludes that there is positive affiliation amongst wealth of stakeholders and dividend policy and corporate performance. The results presented that the statistical model using two performance indicators was developed to have accurate predictions regarding the dividend policy influence in circumstance listed firms in the UK. The primary indicator of corporate performance was Return on Assets (ROA) and the panel data analysis indicates that there is positive impact. The study moreover determines that although there is encouraging link found in the sample of companies but there is lack of statistical significance as shown by the results of the fixed and unplanned effects model and the Hausman test (p=0.645, see Table 6). From this it can be inferred that if dividend policy is evaluated using the dividend per share than the historical data of listed firms in the UK do not show important impact on organisation ROA. The dividend per share indicator only explains a very and insignificant variation in the ROA measure which is 2.60%. Established on the consequences of the model this research accepted the null hypothesis which assumed that dividend policy has no significant impact on corporate performance measured using ROA.

In addition, the study also used ROE as a performance indicator and assesses the statistical relationship with dividend per share. The main characteristic of ROW as a performance metric is its accuracy in interpreting the corporate performance with regards to total equity. The Hausman test for ROE shows similar results as in case of ROA and both the fixed and random effects model show insignificant results. From these results this research achieves that when dividend policy is being evaluated using the dividend per share indicator the listed firms in the UK show that there is no important effect on organisation performance which is measured through ROE. Only 0.68% of the change in ROE can be explained using dividend per share model. Hence the study accepted the worthless hypothesis that dividend policy has no important influence on performance of an organisation. Finally, this study concludes that in case of effect of dividend each share on wealth of stakeholders which is being measured through earnings per share, there is a significant and positive impact of the former on the latter.

It is important to mention that the outcomes above are in contrast with the findings of the theoretical debate that led to develop of conceptual framework in second chapter. From the conceptual framework it was inferred that as per the signalling effect theory announcement by the organisation to increase their dividend pay-out indicates the future development and performance of the firm. Therefore the stakeholders imply that the performance and profits of the firm will lead and rise to enhance in dividend in future. Therefore stable and increasing dividends demonstrate a positive signal for the investors who interpret it as increasing profitability of the firm and translate it into the firm performance. In addition, the debate also showed that dividend pay-outs rise the share value of the firm in the marketplace because the demand for share increase and thus push the prices up which also indicate a positive performance for the corporation. Generally, rise in dividend payment signals for the sustainable performance of the firm and builds the positive reputation that motivates the shareholders to purchase the shares and invest in the firm. On other hand, low dividend rate creates the contrasting effect that is share prices of the firm declines along with its reputation and market value. Moreover, it gives the negative signal to the shareholders. However, the empirical evidence gathered in this study indicates that there is no important influence of increasing pay-outs of dividend on ROA and ROE and thus firm performance does not improve but the wealth of shareholders is significantly and positive affected by dividend payouts.

5.2 Recommendations

Farrukh, et al., (2017) suggested that corporations must develop an effective and unchanging dividend policy that is target oriented. This policy should be paired with an effective supervisory or corporate governance framework that meets the requirements of capital market and relevant regulatory bodies. Such a policy is likely to have optimistic influence on ROA and ROE. In addition, the study also recommended that an adequate level of disclosure in the annual statements should be maintained regarding dividend per share and dividend payout ratio to guide the potential investors and attract them towards directing their investment decisions.

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dividend policy can be used to enahcne firm performance and suggested that financial managers should consider using the dividend produce as a dividend policy measures and design their policy according to the trends and impacts on investor behaviour. Established on the outcomes found in the research the study concluded that each share of dividend showed encouraging influence on shareholder value and the latter was negatively affected by high dividend yield. The authors recommended that financial managers should be very careful in designing a prudent policy and wise investment choices to increase the returns (for both capital and dividend gains) so that they can have positive impact on shareholder value through their dividend policy.

Hakeem and Bambale, (2016) also made a number of recommendations that can be utilise to recognise how dividend policy can be used to relate and affect corporate performance. The study suggested that there is positive connection among return on investment and Dividend pay-out and therefore it recommended that the managers, board and management can use a steady and consistent increase in dividend payments with respect to invite more stockholders and enhance resource pool and ultimately increase firm performance. In addition, it was recommended that there is an important influence of retained revenues on the corporate profitability as indicated by the return on investment. However, the study recommended that there must be effective corporate governance framework that ensures that investment decisions are made prudently and risky short term gain behaviour and rogue behaviour of managers and decision makers is prevented and controlled. Finally the study recommended that management and board of directors must implement an influential internal regulator system and manage cash dividend as an improve in cash dividend rise the demand for company shares and thus increases cash turnover and volume and ultimately translates into corporate performance enhancement.

Priya and Mohanasundari, (2016) recommended that businesses can improve their performance by enhancing satisfaction of current investors and increase expectations of potential investors and a clear dividend policy which is consistent and predictable can be a useful tool in this regard. Therefore the study reocommended that financial managers should develop a stable policy which is reflected by consistent dividend payout for long term period. In addition, a gradual increase in the dividend payments with respect to earnings of the firm is also a useful strategy to attract investors and increase shareholder wealth and maintain their confidence.

Hafeez, et al., (2018) recommended that there is a need for financial managers to constantly monitor the factors that affect dividend policy. With respect to maintain a consistent and maintain dividend policy, managers need to observe their earnings margin. The profit margin shows the dividends level that can be circulated among investors and retained for further investments. This can be used as a indication for shareholders that the corporation is making effective investment that will ensure that there will be an increase in the returns and the consistent increase and stable increase in in dividends will increase their wealth.

Bokhari, et al. (2019) recommended that the policy of dividend developed by financial managers needs to be strengthened through effective corporate control mechanisms and governing laws. The aim is to enforced an effective dividend policy and maintain frequency and positive trend in dividend payment. This in turn will increase and improve the company market value and has positive influence on share prices. Furthermore, the study recommended that profitability is the main driver of the dividend policy and dividend payments are drivers of the market share prices therefore managers can use this phenomenon and signal information to investors through dividend payments. In addition, the study also suggested that the administration should develop policies to closely monitor the behaviour of firms regarding profitability reporting which is the fundamental signal for the investors to make investment in firms in their desire to receive dividends and increase their wealth.

In addition, M'rabet and Boujjat, (2016) suggested that financial managers may exploit various types of dividends payout and not limit their dividend policy to cash dividends only. These other types can be stock splits, bonus issue, among others. When shareholder receive different forms of dividends they might be able to diversify their portfolios and minimise risk that is typically higher in case of cash dividends. In order to formulate the most adequate dividend policy, the study recommended that the managers must analyse following features that have significant effect on payment of dividend, past dividend patterns, profitability, investment opportunities, financial leverage, stage of growth, legal rules, and investment structure.

Idris, et al., (2019) made following recommendations regarding dividend policy and how it can be used to enhance company performance. The study recommended that policies formulation should be assigned to the Capital Markets Authority that can play a pivotal role in managing unclaimed dividends. The same can be useful in various situations where risks related to unclaimed dividends can be managed properly. For the directors, the study recommended that they maintain a more comprehensive and reliable record of shareholders and use the data related to their investment behaviour to identify opportunities for improvement in dividend payments. The investment trends may indicate change in expectations of investors and thus provide the firm the information to enhance their satisfaction and confidence.

5.3 Future Research Recommendations

Although the results in this study provide reliable and validity results, yet there are a few methodological limitations that offer more research opportunities and new avenues to explore association among performance of an organisation and dividend policy as well as shareholders wealth. Firstly, this study collected data from eight companies and for five years only and thus there were only forty observations. It is important fair to assume that a larger sample would provide more evidence and enhance the reliability and validity of the results and thus future researchers are encouraged to conduct large scale studies with large and more diversified sample size. Furthermore, this study collected quantitative data only and does not integrate qualitative evidence such as experiences and opinions of investors, shareholders, and financial managers, regarding how they would or would not use dividend policy to effect performance of business and wealth of shareholders. Therefore, it is recommended that future researchers can conduct interviews or focus group based studies to acquire qualitative evidence and triangulate results. Furthermore, this study was specifically focused in case of the UK listed firm only and more studies can be conducted such as comparative studies with other developed countries in Europe and the US as well as with developing and emerging economies and assess the differences or similarities therein.