

CHAPTER 1: INTRODUCTION

1.1 Introduction

The following research is aimed towards assessing the importance of dividend policy on the wealth of shareholders and performance of company. This chapter aims to define the contextual background of the study in which information regarding the topic of the study is being provided by the researcher. Moreover, problem statement has also been discussed as the problem statement which is one of the most important elements as it contains the reasoning of the issue which is going to be addressed in the study.

Third section consists of the aims of the study, in which usually four to five aims have been settled by the researcher. However, the most important aim is the point of recommendations where the researcher provides the recommendation to the company, organisation or the country regarding the issues which have been studied in the research. An aim of the study helps to design the research questions which summarises the focus of the study. In last sections of the chapter, scope of the study is being provided that who would be benefited by the research and what would be issues which will be solved through this study along with the structure of the thesis. Another section which is being included in this chapter which describes the key terms of the study based upon the topic of the research in order to strengthen the understanding of the readers.

1.2 Contextual Background

As the companies are required to meet their financial obligations they are required to have cash in their hand and for that particular reason the organisation have been issuing their shares in the market (Ansar, Butt and Shah, 2015). It has been observed that an organisation can

float a large number of shares in the market until there are investors which are ready to invest in the company. However, there are various elements which make the company attractive for the investors such as the profit that the company is being making (AsmaTahir, 2014). However, the profit that has been made by the company is being distributed among the shareholders by the ratio of earning per share which is different from the dividend. When it comes to discuss about the dividend, it was observed that dividend is the amount which is being paid to the shareholders of a company which means that the amount that the company has made will also be distributed among the shareholders to keep them interested for making investment in to the company.

Furthermore, the companies are required to calculate that how much amount they have earned during the given period of time which helps them to identify that how much amount they should pay in terms of dividend so that the investors would be influenced to make decision of investing in the company (Agyei and Marfo-Yiadom, 2011). There are ranges which have been identified by the applied researches that what the percentages are being considered as the favourable condition for the investors so that they start purchasing the share of the company based upon the fact that the firm would be providing them the dividend based upon their policy. Dividend policies of the companies usually being made by the analysis of the capabilities and abilities of the company that whether they are capable of paying it to the investor on monthly basis, quarterly basis or annual basis.

Moreover, dividend is the liability of the company which is to be paid to the real owners of the company. However, there are some of the practices when the companies hold the cash and delay the dividend pay-out to fulfil their short term liabilities. Where this practice makes them able to meet the financial obligations at the same time it affect the shareholders' value and gives a perception to the market that the firm is no more able to make profit in sufficient amount if

they are even paying less amount of dividend. On the other hand, if the firm holds the cash and delays the dividend in case where the company is being usually providing the higher amount of dividend, it is being considered that the company was paying more than their capacity which can also be called as imbalanced manner Therefore, it is necessary that the company should keep a balance in this activity and fix the percentage they would be providing to their shareholders in return of their investment.

1.3 Problem Statement

According to Adediran and Alade (2013) examine that there is combination method pay-out, dividend and execution of firm in capacity of profitable asset which increases earning for each share of an organisation. Most of the studies are accompanied to discover this connection whereas, investigators determined that dividend pay-out and each share earnings are two dissimilar perceptions which must be engaged into concern on the basis so that wanted proficiency and profitability might be achieved. As it has been studied that dividend pay-out is being acknowledged to define the proprietorship of the stockholder within the organisation, though on other side each share earnings is the revenue that the business has produced for the duration of the specified time duration. This profit is being delivered to the investors as their revenue which is isolated from the dividend pay-out. Al-Haddad et al. (2011) reflect that these consequences cannot be executed on unindustrialized countries. But numerous researches have determined that operational profitability and cash flow have important effect on other organisation however there has been irrelevant relationship with proprietorship, responsiveness of cash flow, resistance and size, (Afzal & Mirza, 2010).

In spite of all the concepts, the policy of dividend pay-out have been evaluated with several variables to recognise the policy nature of dividend but not a particular suitable statement has been establish which can determine the positive outcome on companies dividend pay-out, (Agyei & Marfo- Yiadom, 2011). Furthermore, it is necessary to mention that where the amount which is being paid in terms of dividend pay-out is the amount that is in the favour of the shareholder, while the company would have to bear the additional transaction. This would affect the cash flow of the company in significant manner and there are the chances that the company would run out of cash as there are some of the examples where the companies hold the cash for their business process (Ye, 2018). However, the policy of dividend pay-out impact on stakeholders capital and its' effect on organisations performance will be assessed allowing for UK listed corporations to have an understanding of dividend strategy influence on variables. Several researches have been done on developing countries view due to which the aims and objectives of this study is to discover and analyse the influence of organisation performance by dividend policy on developed countries and wealth of shareholders.

1.4 Aim of the Study

Analysing the topic and the problem statement of the study, below are the aims which have been settled to be achieved in this study.

- To recognise the conceptual consequence of dividend policy and wealth of shareholders
- To regulate the features of dividend policy that impacts wealth of shareholders and organisation performance
- To analyse the effect on shareholder wealth and organisation performance by dividend policy in UK listed organisations.

- To deliver set of recommendations for companies to increase distribution of dividend for stakeholders to increase performance of an organisation.

1.5 Research Question

Based upon the aims of the study, two specific research questions has been designed which will be answered through the findings of the study.

- What is the influence of dividend policy on stockholders wealth in context of UK listed organisations?
- What are the features of dividend policy that impact wealth of shareholders?

1.6 Scope of the Study

In accordance to the study of Ouma (2012), the earning from different firms indicates that whether the performance of firm generates profit or not. The amount that is paid by a firm to its stake holders despite knowing its risks related to the profit to the company is known as dividend payment. This dividend payment is considered as a significant factor for stake holders while investing in any organization. The earning and the profit that is produced by the firm is critically evaluated by the stakeholders. As such, the focus of this research study is to emphasize on the factors which increases the wealth of Stake holders and firms in UK enhancing their performance. Moreover, the policies which different organizations can apply for dividend payments and to increase the trust of stake holders on that particular organizations are also analysed critically throughout the research.

1.7 Structure of the Study

This research study includes five chapters as per requirements of making the thesis comprehensive which have also been described by the study of (Schmied, 2018). First chapter of the study is providing the introduction of the study and the major elements which have been included in the problem statement, aims, research question and the scope of the study. Second chapter is providing the literature review of the selected topic, where the understanding of the topic is being created by the critical analysis of the studies being conducted by multiple researchers. Furthermore, this chapter also identifies the factors of the independent variable which affect the dependent variable, based upon which the conceptual framework is being designed. In addition, there is a theoretical framework as well, where the researcher has compared different theories relating to the research topic. Third chapter of this study is providing the methodology that has been used in this study. Major elements of this chapter are the research approach, research philosophy, type of the study, data collection method, methods of data analysis as well as the ethics and limitations of the study are also made part of discussion in chapter three. Moreover, fourth chapter of the study is being done by the researcher where the findings of the study have been provided and discussed in the light of work done by different researchers on similar topic. The fifth and the final chapter of the study includes the conclusion of this research study, where the results and findings of the study have been summarised to make a concise conclusion which helped the researcher to provide recommendation in the last section of the last chapter of the study.

1.8 Key Terms

1.8.1 Dividend Policy

In this study, one of the most used terminology is dividend policy, which is a financial term being used for the policy of the company to distribute the amount the company has earned in a specific time period. This amount is being divided among the shareholders by the finance officers to maintain the trust and interest of the shareholders. However, it has been studied that the companies are required to hold cash for their ongoing business process, in such a case, the companies which are not performing well in terms of their financial ratios are likely to hold the dividend pay-out. Reason being holding the dividend to make themselves capable of paying their short term liabilities. In addition to that, it has also been studied that there are four different type of dividend policies which include regular dividend policy, stable dividend policy, irregular dividend policy and no dividend policy. However, these are the financial decisions which are being made over the factual conditions of any organization by the board of directors representing shareholders in board meetings. Another aspect that has been studied is that there are some of the relaxations have been provided to the companies which have been practicing the dividend policies pay-out policies in order to benefit their shareholders and increase their value.

1.8.2 Shareholders Wealth

It has been studied that there are multiple factors which defined the shareholders wealth such as the stakeholders of the company maximising the shareholders' value by increasing the market value of the company. Another study has contributed that when it comes to define the wealth of the stakeholders, an expected value of the company in future is being evaluated for it. However, for that particular reason, the current market value of the share is also necessary to be

determined which helps to evaluate the future projection. Furthermore, it was also observed that the managers and the people at the decision making position of the company are required to make decision which are in the favour of the company in monetary terms which would be maximising the market value of the company. Therefore, in such a case, when the firm size is being maximize, it becomes easier for the individuals holding the shares of the company to maximise their wealth as well. As per the study of Mishra, and Modi, (2016), shareholders' wealth is the aspect which is being targeted for the long term benefits of the company, however, this is being derived from the decisions which are focused towards the short-term benefits of the company.

1.8.3 Firm Performance

When it comes to discuss about the firm performance, it is necessary to analyse that there are multiple elements which contribute the firm performance including the major role being played by the sustainability of the business. In order to make a company sustainable in the competitive environment where their competitors have already sustained the market challenges, it is necessary that the strategies of the company should be focused towards the process of managing and creating knowledge among their employees. Knowledge management and creation is process which is usually being derived by various activities such as training and development. However, these aspect contribute the firm performance in the indirect manner, as the employees of a company when having knowledge regarding the business and its environment, they would be able to make decision in the favour of the organisation. This enables the organisation to enhance their performance and the professionals are required to keep on analysing the performance of the company over various parameters such as the profit that the firm has been

generating. Along with that the position that the firm is holding in the market should also be determined as together these elements contribute the firm performance. In accordance to the study of Sheikh, et al. (2018), companies which are able to sustain the cut throat market challenges are likely to be performing better when their firm performance is to be evaluated.