Impact of Dividend Payout on Stock Prices: An Empirical Analysis with Primary Data for KSE 100 Index Listed Companies from Pakistan

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ABSTRACT

This study was undertaken for analyzing the impact of dividend payout on the stock prices, profitability, liquidity and risk of the company. Stock price and dividend payout ratio are the dependent variables of this study. It was qualitative research in which primary data was used. Data was collected with the help of questionnaire from 30 respondents. Several statistical tools and different types of techniques such as regression analysis, T-tests, correlation and covariance were applied for getting accurate and useful results. In this research one framework model was designed, that were tested with the help of five hypotheses. Rejection of null hypothesis revealed the positive impact of profitability, leverage and liquidity on the dividend payout. It was also observed that dividend payout has significant impact on the variation of stock price.

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Introduction

There have been many studies on this issue, there is still no conceptual matching by different researchers about the impact of dividend payout on stock price, therefore this problem is still open for discussion and analysis. According to Modigilani & Miller (1958), value of firm does not depend on dividend policy and stock price totally depends on profitability of the firm. John & Williams (1987) and Miller & Rock (1985), above idea can be only true in case of exact information is available with shareholders, but in reality this is not possible, because managers provide always positive information to stakeholders, whereas negative information is always kept in secrete, until it is forced by regulations of the firm. A firm has to take decisions about dividend policy also while making investment decisions. It also has to decide that whether he has to go external or internal sources of financing for the investment project. Dividend decisions of a firm are affected by many factors such as earnings, investor's preference, target capital structure, investment opportunities, signaling, stability & Government policies, flotation costs and taxation.

Literature Review

For better understanding of this issue, we should have a short look on previous literature on this topic one by one by different researcher. Many old researchers gave different views about the relationship between dividend payout and stock price. The starting research was conducted on dividend payments and stock prices by, Harkavy (1953), Friend & Puckett (1964), Litzenberger & Ramaswamy (1982), Fama & French (1988), Baskin (1989) and Ohlson (1995) on the basis of financial data from USA firms. Rozeff (1982) concluded a high positive relation between CAMP, Beta and Dividend payouts for US companies. Fama (1991) and Fama & French (1988) focused on different variables like dividends, earnings, investments and production to describe stock price returns. Allen & Rachim (1996) from Australia concluded that there is no significant relationship between dividend policy and stock prices. Gordon (1963), stated that stock prices are influenced by dividend payments. According to Gordon, large dividend payment gives less risk for stock price changes.

According to Miller & Rock (1985), Asquith & Mullin (1983), Born et. al., (1984), after declaration of dividends, firms provide information to stakeholders for future forecasting of financial position of the company. But this forecasting will depend upon the reliability of the source of information. so there is still disagreement between researchers about the relationship between dividend payout and stock price changes, and it is still debatable point in financial market study. Friend & Puckett (1964) started the work on correlation between dividend and stock price changes. they concluded that there is a positive correlation between dividends and stock prices changes. Ball et. al., (1979) also concluded a positive relationship between dividend yield and returns of a firm.

Michaely (1991) stated that long term individual investors have no impact of stock prices, whereas short term individual investors and corporate traders have strong impact on stock prices. Baskin (1989) argued that there is significant negative relationship between stock price and dividend payment. on the contrary, Allen & Rachim (1996) suggested and significant positive correlation between stock price, earnings and leverage, and a significant negative relationship between stock price and dividend payout ratio.

Conroy et. al., (2000) concluded that current dividend declarations are unable to describe the market effect towards stock prices. Nishat & Irfan (2001) argued that stock price have significant affect of dividend payout and dividend yield. Rashid & Rehman (2008) came to the point that there is a positive but not significant relationship between stock price and stock yield in Dhaka financial market. Other studies about stock price changes impact in Pakistan included Nishat & Bilgrami (1994), Nishat (1999).

Research Problem/Issue

After several authors literature review, following research problem has been identified. all the previous researchers have used financial (secondary) data for their respective analysis, no one ever used primary data for this research. But in this research, i have selected primary data with the help of questionnaire. Investors are very much conscious about the risk and return on their investment, particularly investment in stock market. This research will help the investors to understand the relationship between dividend payout and stock return. There is another issue which is going to address is that in Pakistan listed companies does not declare their dividend policy, so I will find out how investor find out dividend payout and how dividend policy has impact on stock prices.

Objectives of Research

The objective of this research will be divided as follows:
1) To find the impact of dividend payout on share prices.
2) To analyze all factors which impact the dividend payout.

Research Plan

This research will be conducted for analysis of impact of dividend payout on the share prices, and impact of profitability, liquidity and risk on dividend payout of the company. Stock price and dividend payout will be dependent variable, and profitability, liquidity and risk will be used as independent variable. It will be a qualitative research, in which we will use interview technique to collect primary data for analysis.

Hypothesis

Following Hypothesis will be tested with data analysis results
Ho: There is no impact of dividend payout on share prices.
H1: There is positive impact of dividend payout on share prices.
H2: There is no impact of profitability, liquidity and risk on dividend payout.
H3: There is positive impact of profitability, liquidity and risk on dividend payout.
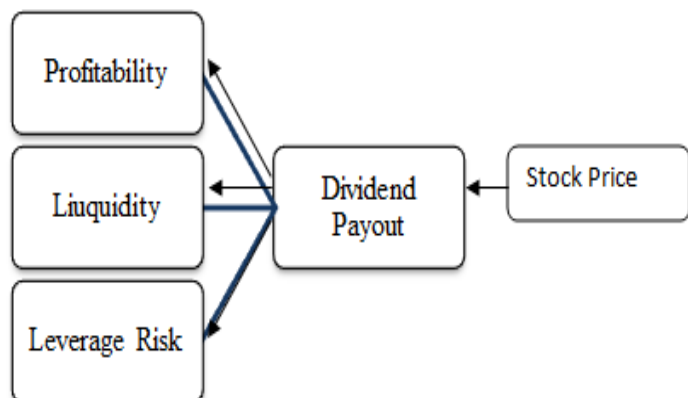
Research Methodology

The research will use qualitative approach for data analysis, in which primary data will be collected with interview questionnaire. The purpose of using this respective research approach is to differentiate the data as being with the financial (secondary) data approach. The research rounded in between the stock prices that directly connected with the dividend payout.
Factors of Research:
- SP = Stock Price (dependent variable)
- DP=Dividend Payout (Independent variable/Dependent variable)
- P = Profitability (independent variable 1)
- LI = Liquidity (independent variable 2)
- LV = Leverage/Risk (independent variable 2)

Framework Model

Data Analysis & Results Description

Data Analysis

The research study have used to describe the data under the different statistics tools and techniques as mentioned into the research methodology. The study has been rounded in between the sample of 30 people but some of the questionnaire data has been rejected because of the wrong filling and inappropriate response of the respondents. However, the data collected from the 26 (complete answers) respondents gave the following result by using the statistical software SPSS 20.0.

Section 1: Demographic Analysis

Gender Analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
			Gender		
Valid	FEMALE	8	30.8	30.8	30.8
	MALE	18	69.2	69.2	100.0
	Total	26	100.0	100.0	

The above table shows the analysis conducted to know about the number of male and female people among the respondents that have been considered into the study. The result shows that there are 8 females and 18 male people into the sample of the people that are described as 30.8% of female and 69.2% male.

Age Analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
			Age		
Valid	26-30	1	3.8	3.8	3.8
	31-35	4	15.4	15.4	19.2
	36-45	11	42.3	42.3	61.5
	46-55	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

The above table shows the analysis for the people while taken into the account the different age group. The analysis conducted shows that there are 11 number of people that are highest into the sample and belongs to the age group of 36 to 45 years that represent the 42.3% of the total. The next highest number of people that have belongs to the age group is 46 to 55 they are 10 in number and represented 38.5% of the total sample group.

Education:

Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Graduate	16	61.5	61.5	61.5
	Post Graduate	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

The above result is about the education of the people that are considered into the study. The result shows that there are 16 number of people that are educated as graduate and represent the 61.5% of the total group. The post graduate people are 10 in number and represented the 38.5% of the sample into the research study.

Working Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
			Working Experience		
Valid	4-5 years	1	3.8	3.8	3.8
	6-10 years	2	7.7	7.7	11.5
	10-15 years	8	30.8	30.8	42.3
	16-20 years	15	57.7	57.7	100.0
	Total	26	100.0	100.0	

The above table shows the number of working experiences of the people included into the study. The analysis shows that there are 26 number of people into the study and highest number of people are belongs to the range of 16 to 20 years of working experience and represent the 57.7% of the total sample size. The

next highest range of the people are from the 10 to 15 years of working experiences and represent the 30.8% of the total sample size of the study.

Section-2: Descriptive Analysis

Descriptive Statistics

	Mean	Std. Deviation	N
Dividend	1.7500	.20000	26
Profitability	1.7212	.21595	26
Liquidity	1.7404	.18001	26
Leverage	1.7404	.23959	26

The above table shows the analysis for the study contained the average response of the respondents about the factors of the study. As the questions are about the yes and no, we have divide the scale into 1 and 2. 1 for the no and 2 for the yes. The analysis shows that the dividend payout has the average responses for 26 is 1.75 that means people say yes in the respective factor. The mean deviation from the average value is 0.200 that reflected the up and down by 0.200 from the mean value. The mean value of the profitability is 1.72 which also depicted the same response as yes. The similar response are achieved for the other variables of the study. The result can be shown into the table.

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate
1	.681[a]	.464	.391	.15613
A. Predictors: (Constant), Leverage, Profitability, Liquidity				

The regression analysis is conducted to know about the impact of independent variable on the dependent variable. The above table shows the summary of the regression that have included the values of R, R-square and adjusted R-Square. The value of "R" shows the impact of independent variable on the dependent. The result shows that the independent variable have 68.1% influence on the dependent variable dividend payout. The R-square result shows about the fitness of the model. The result shows that the model is 46.4% fitted and can get the accuracy of the impact. The value of adjusted R-square shows that how much the regression model can be made best fitted after reducing the errors. The value shows that the model can be made best possible by 39.1% after reducing the error.

ANOVA Analysis

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.464	3	.155	6.341	.003[b]
	Residual	.536	22	.024		
	Total	1.000	25			
a. Dependent Variable: Dividend						
b. Predictors: (Constant), Leverage, PROFITABILITY, Liquidity						

The above table shows the analysis for the significance of the model. The analysis shows that the regression model is highly significance at the 5% confidence interval. The value of the significance is 0.003 lower than 0.005 that shows the significance of the model.

Hypothesis Testing

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.269	.385		.697	.493
	Profitability	.092	.151	.099	.608	.550
	Liquidity	.438	.190	.394	2.303	.031
	Leverage	.323	.149	.387	2.172	.041
A. Dependent Variable: Dividend						

The above table shows the regression analysis and impact on independent variable on the dependent variable. The result shows that when all independent variables are zero the value dependent variable is 0.269. The result is not significance as the value is greater than 0.005. The factor profitability shows that with the increase in the one unit of profitability the value of dividend payout is 0.092. The result is not significance as it had the value significance value greater than 0.005. The variable liquidity and leverage shows that per unit change in the dependent variable is 0.438 and 0.323. These results are significance as it had the values less than 0.005.

Results & Conclusion

From the above qualitative analysis, we conclude that, dividend payout have significant impact on share prices, whereas profitability, liquidity and risk have significant impact on dividend payout. from the above analysis, we can see the hypothesis status as below

Ho: There is no impact of dividend payout on share prices (Rejected)

H1: There is positive impact of dividend payout on share prices (Accepted)

H2: There is no impact of profitability, liquidity and risk on dividend payout (Rejected)

H3: There is positive impact of profitability, liquidity and risk on dividend payout (Accepted)

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Appendix

Questionnaire

Impact of Dividend Payout on Stock Prices: An Empirical Analysis from KSE 100 Index Listed Companies from Pakistan

I am the student of MS and conducting the survey about the Impact of Dividend Payout on Stock Prices. It is requested from you to provide the following answers of the questions. It is assured you that the data will be strictly used for study purpose only and not revealed to anyone.

Section: 1- Demographic Information

Gender	Age	Education Level	Professional Experience
□ Male □ Female	□ 21-25 □ 26-30 □ 31-35 □ 36-45 □ 46-55 □ >55	□ High School □ Diploma □ Graduate □ Post Graduate □ PhD	□ 0-3 years □ 4-5 years □ 6-10 years □ 10-15 years □ 16-20 years □ 20-30 years □ > 30 years

Section 2: Questionnaire

Choose one of the two alternatives given against each statement, as applicable to you.

Sr. #	Particulars	yes	No
	Profitability		
1	Do u think investment in shares is a good source of annual income?	□	□
2	Does Pakistani companies are more profitable as compared to international companies?	□	□
3	More profitability is associated with increase in share prices.	□	□
4	Does a company give fare distribution of profits?	□	□
	Dividend Pay out		
5	Regular Dividend payouts help in appreciation of share prices.	□	□
6	Old financial performance of company effects share price in present.	□	□
7	Company's lower level employees can impact the share price in stock market.	□	□
8	Goodwill of the business have a significant impact on share price.	□	□
	Liquidity		
9	Better liquidity management by company helps to improve share prices.	□	□
10	Company's managers may significantly affect the share price in stock market.	□	□
11	Directors of the company can make good policies to improve share prices in future.	□	□
12	Company's expenses may impact the share price in stock market.	□	□
	Leverage Risk		
13	Less risky companies' share price is more as compared to more risky companies.	□	□
14	Would u like to invest in share of public limited company in Pakistan?	□	□
15	Is investment in shares of a company halal in Pakistan?	□	□
16	Does an Increase in sales revenue of a company may increase the share prices also?	□	□