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Nexus between Dividend Policy and Value of Firm: Evidence from Emerging Economy

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Abstract
Examining the connection between dividend policy and value of firm is the main goal of this research. The sample consists of 70 enterprises from 2014 to 2023. The financial statements of the chosen companies were employed to construct the panel data. The dependent variable was value of firm (Tobins Q), while the independent variables were price earnings ratio (PER), dividend payout ratio (DPOR) and earnings per share (EPS). Descriptive analysis, correlation, and multiple regression were employed as data analysis methods. The findings demonstrates that there is a positive link among value of firm and dividend policy. Tobins Q is favorably impacted by the dividend payout ratio, price-earnings ratio and profits per share. Our study's limitation is that the researcher select only 70 companies; other researchers utilize a larger sample size, and single sector companies such as manufacturing and financial.
Keyword: Tobin's Q, Dividend policy, Price earnings ratio, Dividend payout ratio.

Introduction
The objective of this research study is to assess how dividend policies affect the value of Pakistani companies. In the corporate world, dividend policy develops into the most crucial topic. Dividend policies in Pakistani companies are causing a lot of problems in the capital market. The dividend policy has been examined by several economists in recent decades. Black (1976) said that "the dividend image appears to be a puzzle with pieces that don't fit together the more closely

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we examine it.”. However, the firm's value is also impacted by the dividend policy.

The announcement of dividend payments to shareholders is recognized as dividend policy. The transfer of profits to possessors is described as a dividend. Because of their risk, a shareholder also benefits from the payout. The amount of profit that shareholders get based on their investment is determined by management. One minor element that characterizes the success of the company is its dividend policy. Any of the four most crucial areas in finance is the choice to distribute dividends.

Prudence and globalization, which are well-organized and lead to rapid success, give expertise in a corporation that is closely monitored in Pakistan. Today's businesses need to be more innovative. In essence, creating a dividend policy is crucial for businesses looking to boost their performance. The framework maximizes the firm's success via dividend. The dividend might be used to reduce the amount of agency costs. It is possible to classify the dividend. (1) advice (2) excess. Administrators have faith that dividend policies have a big influence and directly effect share value. The most beneficial policy reduced price abuse and offered recommendations for reducing shareholder wealth.

According to Modigliani and Miller, the dominance of dividends lowers the firm's quality and results in (blow of stream) sermonized functioning. The bring-home effectiveness was compared with the component of a firm's range of vision that was improper for its policy. In order to get accessible sources, such as dividends or other profits in a great market, the shareholders are tenacious. The agency hypothesis proposed by Mackling and Jonson (1976). If there is no supplementing constitution of applicable concern and goal disparity, the performer may not be sufficient to enhance shareholder abundance. Jenson claims that by allowing managers to hold inadequate free-of-cost capital improvements, a complete provision of profit indemnified dividends may enhance the firm's evaluation. If the dividend is renowned for being advantageous for business devotion and long-term conditions evaluation of businesses, dividend policy suggests association appointment.

The primary goal of this study is to reveal in what manner dividend policies may influence the value of companies that are listed on the Pakistan Stock Exchange.

We measure the consequence of dividend policy on company performance using a variety of factors. TQ dependent variable, whereas DPOR, EPS, and PER are independent variables. TQ is a measure of a company's value. There are five sections to this study paper: The introduction comes first, followed by the literature review, methods, then results and analysis in the fourth and fifth units.

Literature Review

Theories Used

A multitude of ideas has been used to elucidate the function of commercial organisations within society. These ideas delineate the responsibilities of shareholders, creditors, suppliers, society, workers, government, consumers, and the environment. The following sections delineate these theories.

Shareholder/Agency theory

The shareholder or agency theory, first articulated by Jensen and Meckling

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(1976), examines corporate management by positing that Principals, who are the owners, and their agents, who are the executives, interests often conflict. The shareholder or agency paradigm emphasizes risk allocation and agency dilemmas amongst management and shareholders, together with the associated three costs of agency which is bonding, monitoring, and residual—incurred by shareholders, as posited by Fama and Jensen (1983). Within the framework of agency theory, the moral hazards arise from information asymmetry, when the agent (management), representing the principle (shareholders), has superior knowledge of its acts and/or intentions than the principal, attributable to inadequate oversight of the agent.

Stakeholder theory

Stakeholder theory categories stakeholders into internal and external stakeholders. Stakeholders maintain a reciprocal connection with a business, since their contributions enhance the value of firm generation, while the firm's success influences their well-being. According to Freeman's (1984) theory of stakeholder and Jensen's (2001) "Profit maximization" theory identify the enhancement of company performance as well as long-term worth of the business as the standard for reconciling the benefits of entire stakeholders. Stakeholder theory is pertinent to all management activities, since the combination and synergy of all of the distinct components of the company processes and model are crucial for attaining comprehensive sustainable performance targets (Freeman, 2010; Donaldson & Preston, 1995).

Dividend Policy and firm performance

Dividend policy performance is being among the most contentious topics in corporate finance and continues to have a significant position in both established and emerging countries (Hafeez & Attiya, 2009). Assume that the following characteristics have notable impacts on the amount of dividends paid, incomes from prior years and current years, income irregularities from year to year, earnings growth, and bonuses from prior years.

Febrile Strait (2014) utilized data from 95 companies between 2002 and 2008 to examine the influence of dividend payments on business performance. He used a variety of regression techniques. This study found that profitability is positively correlated with both dividend consistency and magnitude. However, the researcher has no evidence that a rise in dividends is a sign of increased profitability. Mohammed Amid (2007) utilized information taken from the last eight years' worth of financial statements of the company registered on the GSC. He examined the regression equation using the ordinary least squares model. He discovers a good correlation between dividend policy, ROA, and sales growth. However, there is a inverse correlation between leverage, ROA, and dividend payout ratio.

Mulanazar (2016) looked into whether dividend policies have an impact on the success of the company. He gathered information from public companies' financial statements between 2010 and 2015. He used the OLS method. The conclusions show a negative connection among growth, dividends, and ROA. Leverage and the dividend payout ratio have a detrimental influence on ROA. Velnampy (2014) used data from manufacturing enterprises between 2008 and

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2012 to claim that there is a association among dividend policy and company profitability. ROE and ROA were behaved as independent variables. The dividend policy factor is determined by EPS and dividend payment. He comes to the conclusion that earnings per share and dividend payments have no consequence on the profitability of the company.
Carless Yegon (2014) examines nine manufacturing companies listed in Kenya to determine the connection between dividend policy and company profitability. According to research, dividend policies improve the success of businesses. Dividend policy has a favorable impact on investments as well. According to research, the company has to have a robust dividend policy in order to generate investment and profit. The objective of this analysis was to check the connection among a company's profitability and its dividend policy (Farrukh at al., 2017).
Because this approach was directly related to profitability, many businesses adopted it. ROA is used to gauge how well a company is doing, and its influence depends on a number of hypotheses. such as customer theory, theory of signaling, and bird in hand theory. Regression analysis and correlation are used by (Priya at al., 2013) to assess the influence of dividend policy on business performance. The results demonstrate that the dividend policy is determined by price earning, earnings per share, and return on investment. 51 companies are increasing their wealth by paying dividends over a ten-year period. Businesses may lower agency costs by offering dividends, which attracts workers. Through regression analysis, Jimoh JAFAARU proposed a association relating the firm's profitability and dividend policy (2012). A significant dividend distribution strategy may raise a company's level of performance and economy of scale.

Research Hypothesis

H1: The dividend payout ratio and the value of firms are positively correlated.
H2: Earnings Per Share and value of firm have a favorable relationship.
H3: Price earning ratio is correlated with value of business profitability.

Research Methodology

The influence of dividend policy on value of firms was investigated in this study. We select 70 enterprises listed on the PSE (Pakistan Stock Exchange) as an sample. Information gathered from the annual reports of the firm. This study's ten-year timeframe spans the years 2014 and 2023. Pakistan stock exchange companies (PSE) are our target segment. Our researcher evaluated the data using a variety of techniques, including regression, correlation, and descriptive analysis.

Variables of Analysis

The following dividend payout ratios are employed.
Earnings per share equivalent to net income divided by the total number of capital shares. Price to earnings ratio equals market price per share divided by earnings per share. Dividend payout ratio equals total dividends divided by total net earnings multiplied by 100 percent.

Firm Value Ratios

In this specific investigation, the dependent variable is the measure of market

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performance. The market performance in this research is assessed using Tobins Q (TQ). The performance of the market is the study's dependent variable.Tobins Q is employed to determine market performance. Tobin's q is estimated by dividing the replacement cost of all assets (COA) by the product of the market value (MV) of equity and the book value (BV) of debt (Turamari & Hyderabad, 2018; Song et al., 2008; Giannopoulos et al., 2021).

The Tobin's Q ratio was developed by Branard & Tobins in 1968. It shows the percentage difference among the targeted market value and the replacement value of the actual assets. According to Lindenberg & Ross (1981) and Smirlock et al. (1984), the replacement cost of all assets (COA) is divided by the market value (MV) of equity and the book value (BV) of debt to get the Tobin's q. The assembly sector in particular has employed Tobin's q to explain a wide range of corporate wonders. These include (a) the dissimilarities between venture and growing choices across different categories, (b) the relationship between value and company value, (c) the relationship between implementation and repercussions from the opening, tricky proposition, and delicate response, and (d) finance, profit, and compensation plan Chung and Pruitt (1994).

According to the references (Jamal et al., 2022; Yu et al., 2018; Ortas et al., 2015; Xie et al., 2018; Pintea et al., 2014), the Tobins Q (TQ) serves as a figure of organisations' market success.

Control Variable

Firm Growth: There is a correlation between changes in firm assets and the growth of a company (Develle, 2021; Xie et al., 2018).

Leverage: According to Sahut and Pasquini-Descomps (2018) and Mohammad and Wasiuzzaman (2021), it is an indication of the leverage ratio—the ratio of a company's debts to its assets.

FirmAge: The number of years that a firm has been listed on a stock exchange is expressed by this term, according to Thomas (2012).

Research Model

The model utilized for the research is shown below. Multiple regression analysis was done to look at how dividend policy ratios affected firm value. It is crucial to remember that the price to earnings ratio (P/E), dividend payout ratio (DP), and earnings per share (ES) all affect how well a company value. The effect of dividend policy ratios on firms is measured by the following two models.
Performance is as follows.

$$TQ= \alpha1+ \beta^1ES+ \beta^2PE + \beta^3DP + \beta^4FG+ \beta^5LEV+ \beta^6FA+ \varepsilon.............. (1)$$

The equation 1, which represents the connection between the independent variable and the dependent variable, is the representation of this connection. The TQ measures the financial value of firm, the ES measures the earning per share, PE measures the price to earnings ratio, the DP measures the dividend payout ratios, FG measure the firm growth, the FA denotes the age of the company, and LEV measures the firm leverage. The slope, which is represented by the symbol β, is the beta coefficient, while the error term is represented by the symbol $\varepsilon i,t$.

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Analysis and Interpretation

Descriptive Analysis

The researcher utilized std, mean, maximum, and minimum. Descriptive summary examines in what manner the dividend policy changes the values of the company.

Table 1: Descriptive Analysis

Variables	**TQ**	**DP**	**ES**	**PE**	**FG**	**LEV**	**FA**
Mean	7.014	42.87	14.57	12.44	5.13	41.73	15.73
Maximum	26.20	19.02	53.63	13.43	25.20	19.200	43.430
Minimum	0.020	0.00	1.71	1.560	0.140	0.005	1.51
Std.Dev	7.48	31.53	12.75	14.81	6.74	21.37	11.46

The table represents the descriptive statistics of manufacturing firms of Pakistan.

4.2 Correlation Analysis

Correlation matrix appears the connection concerning independent as well as dependent variable. Values might range anywhere from +1 to -1.

Table 2: Correlation Matrix

Variables	TQ	DP	ES	PE	FG	LEV	FA
TQ	1						
DP	0.661	1					
ES	0.324	0.216	1				
PE	0.262	0.182	-0.065	1			
FG	0.656	0.252	0.142	-0.055	1		
LEV	0.382	0.264	0.252	0.142	-0.05	1	
FA	0.242	0.134	-0.095	0.52	0.12	-0.01	1

Note: This table describes findings of correlation matrix.

The association involving value of firm and dividend policy in Pakistan is determined via correlation findings. The data show a considerable correlation between TQ and price-earnings ratio, earnings per share, also dividend payout ratio.

Regression Analysis

The affect of dividend policy on value of firm is analyse with the help of multiple regression models. The results of this model are given in the table that is presented below.

Table 3: Analysis of Regression

Variables	**Coef**	**S.E**	**t-stat**	**P**
DP	0.131***	0.037	4.145	0.000
EP	0.056 ***	0.053	4.480	0.011
PE	0.089 ***	0.048	3.458	0.016
FG	0.141***	0.017	5.176	0.000

LEV	0.064 ***	0.023	4.240	0.017
FA	0.042	0.078	1.458	0.132

Note: This table presents findings of proposed hypotheses using dynamic regression model. *,**,*** show 10%, 5% and 1% significance levels respectively.

When using a regression model for analysis, the result shows that DP, EP, PE, FG and LEV are positively and significantly associated with TQ. It also indicates that dividend policy increase the value of firms operating in Pakistan. While the firm age show in significant relation towards value of firms. The findings indicate that firm growth positively impacts the value of Pakistanian firms. Li et al. (2018) also Mohammad and Wasiuzaman (2021) confirmed that firm size has an inverse link with value of firms. The age of firm is also enhancing the firm value. The firm's leverage is also enhancing firms value. The results indicate that firms with more leverage will achieve better profitability, whereas smaller organisations are expected to exhibit greater productivity. Jamal et al. (2023), Crisostomo et al. (2011), also Ingram and Frazer (1980) assert that leverage favourably and considerably enhances value of firms operting in Pakistan.

Conclusion

The first and foremost goal of this study is to examine how dividend policies influence the value of companies listed on the Pakistan Stock Exchange (PSE). We have chosen 70 Pakistani companies for the study. From 2014 to 2023, information was taken from the yearly reports. We used regression, descriptive, and correlation analysis to assess the data. Table 3 demonstrates that Tobins Q, dividend payment, price-earnings ratio, and earnings per share are all positively correlated. Table 3's result indicates that Tobins Q is positively impacted by the dividend payout ratio. In the end, we advise businesses to keep their dividend policies consistent in order to boost value of firms.

Future Direction

This paper's primary emphasis is only on Pakistan's 70 companies. In order to get additional precise results, future study may expand the sample size and include more sectors. Increase the time span for future study since the results of this work were conducted on limited data for a short period of time. Therefore, more study may be carried out by including other businesses, gathering more data, and extending the time frame.

Limitations

First of all, our study's sample size is insufficient. We only work with 70 companies. Second, we exclusively use data spanning ten years, from 2014 to 2023.For improved results, future researchers may utilize data from more years. We only utilize TQ, DPOR, EPS, and PER, but future researchers may use more variables to get more accurate and significant results. Lastly, although using the regression approach, they use a variety of techniques.

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