Journal of Research in International Business and Management (ISSN: 2251-0028)
Vol. 11(5) pp. 01-03, October, 2024
Available online @ https://www.interesjournals.org/research-international-business-management.html
DOI: http:/dx.doi.org/10.14303//jribm.2024.045

Case Study

Financial Performance and Dividend Policy: A Case Study of Engro and Fauji Fertilizer Companies in Sindh

Muhammad Yaseen Burdi*

School of Mathematical and Statistical Sciences, Clemson University, Clemson, South Carolina 29634, USA

E-mail: ybuledi3@gmail.com

Abstract

The financial performance of a company and its dividend policy are crucial factors influencing investor confidence, business sustainability, and economic growth. In Sindh, Pakistan, the fertilizer sector plays a pivotal role in supporting the agriculture-dependent economy. Engro Fertilizer Limited and Fauji Fertilizer Company Limited are two dominant players in the industry, renowned for their financial stability and consistent shareholder returns. This article examines their financial performance and dividend policies, offering insights into their strategies and implications for stakeholders.

Keywords: Dividend Policy, Financial Performance, Fertilizer Companies, Return on Assets, Dividend per Share.

INTRODUCTION

Engro's revenue has consistently grown, supported by favorable market dynamics and operational efficiency. Despite challenges such as fluctuating gas prices and inflationary pressures, the company has maintained healthy profit margins. For instance, in the fiscal year 2023, Engro reported a double-digit growth in net profits, reflecting its resilience in a competitive market. Engro follows a shareholder-friendly dividend policy, prioritizing steady payouts. Over the years, the company has declared substantial cash dividends, reflecting its commitment to distributing surplus earnings to shareholders. This policy enhances investor confidence and contributes to the company's stock market stability.

RESEARCH PROBLEM

Dividend policy is central to a company's financial strategy, influencing both investor appeal and growth sustainability. Yet, its impact on financial performance remains a topic of debate, with mixed findings in the fertilizer sector in Pakistan. This research seeks to clarify the relationship between dividend policy and financial performance within this specific industry.

RESEARCH OBJECTIVES

This study aims to:

Assess the effect of Dividend Payout Ratio (DPR) on the financial performance of Engro and Fauji Fertilizer.

Examine the impact of Dividend per Share (DPS) on financial performance.

Analyze the relationship between leverage, firm size, and financial performance in the context of dividend policy

VALUE OF THE STUDY

The study's findings offer valuable insights for stakeholders, including investors, financial managers, and policymakers. Understanding the impact of dividend policy on financial performance can aid investors in making informed decisions, assist managers in designing effective dividend strategies, and guide policymakers on corporate governance regulations.

Received: 28-Sep-2024, Manuscript No. JRIBM-24-152790; **Editor assigned:** 30-Sep-2024, PreQC No. JRIBM-24- 152790 (PQ); **Reviewed:** 11-Oct-2024, QC No. JRIBM-24-152790; **Revised:** 18-Oct-2024, Manuscript No. JRIBM-24-152790 (R); **Published:** 25-Oct-2024

Citation: Yaseen Burdi. M (2024). Financial Performance and Dividend Policy: A Case Study of Engro and Fauji Fertilizer Companies in Sindh. JRIBM. 11: 45.

HYPOTHESES

The study tests the following hypotheses:

H_1: There is a significant relationship between Dividend Payout Ratio (DPR) and firm performance (ROA).

H_2: There is a significant relationship between Dividend per Share (DPS) and firm performance (ROA).

H_3: There is a significant relationship between the size of the firm and firm performance (ROA).

H_4: There is a significant relationship between leverage and firm performance (ROA).

LITERATURE REVIEW

Dividend policy's effect on firm performance has been extensively studied, with theories such as the Modigliani-Miller Theorem asserting that, in perfect markets, dividend policy does not influence firm value. However, empirical research often supports alternative theories, such as the Bird in Hand Theory and Signaling Theory, which suggest that higher dividend payouts signal financial health and attract investors (Shisia et al., 2014; Priya & Nimalathasan, 2013). Findings remain mixed, particularly within the fertilizer sector, necessitating further research.

METHODOLOGY

This study employs a descriptive research design to analyze the relationship between dividend policy and financial performance in Engro and Fauji Fertilizer companies. Secondary data was collected from the companies' financial statements for the period 2014-2017.

Key performance indicators were identified as follows:

Dividend Payout Ratio (DPR): Calculated by dividing total dividends by net income.

Dividend Per Share (DPS): Determined by dividing total dividends by the number of outstanding shares.

Return on Assets (ROA): Measured as net income divided by total assets, representing the company's efficiency in generating profits from its assets.

Leverage: Defined as the ratio of total debt to total equity, indicating the level of financial risk.

Firm Size: Measured using the natural logarithm of total assets, representing the scale of operations.

Data analysis was conducted using SPSS to perform correlation, regression analyses, and ANOVA, ensuring a comprehensive understanding of the relationship between dividend policy and financial performance.

RESULTS

Descriptive Statistics

The study period's average ROA was 11.98%, with an average DPR of 81.26%, indicating a strong focus on shareholder returns. DPS averaged at 8.11, suggesting consistent dividend payments over the years

Correlation Analysis

A strong positive correlation between DPS and ROA ($r = 0.827$, $p = 0.011$) indicates that higher dividends per share are associated with better financial performance. DPR shows a weak positive correlation with ROA, while firm size negatively correlates with ROA, suggesting that larger firms may face efficiency challenges.

ANOVA Analysis

ANOVA results indicate that the regression model significantly predicts ROA ($F = 51.151$, $p = 0.004$), suggesting that the independent variables significantly explain financial performance variation.

Regression Analysis

Regression analysis shows that DPS positively impacts financial performance, while DPR has a slightly negative effect. Firm size negatively impacts ROA, possibly due to inefficiencies within larger firms.

DISCUSSION

The findings support the signaling theory, emphasizing the role of dividends as indicators of financial health. The positive DPS-ROA relationship suggests that regular dividend payments enhance investor confidence. The weak DPR-ROA relationship implies that while dividends are important, distribution methods may not directly impact profitability. Additionally, the negative firm size-ROA relationship highlights potential inefficiencies in larger companies. These insights add to the understanding of dividend policy within the fertilizer industry.

CONCLUSION

Engro and Fauji Fertilizer exemplify financial discipline and shareholder-centric strategies within Sindh's fertilizer sector. Their robust financial performance and consistent dividend policies not only strengthen investor confidence but also contribute significantly to the region's economic development. By navigating challenges and capitalizing on emerging opportunities, these companies are well-positioned to sustain their leadership in the industry while ensuring long-term value creation for stakeholders.

RECOMMENDATION

For Practitioners: Financial managers should develop robust dividend policies that prioritize increasing shareholder value while ensuring sufficient funds for reinvestment.

For Researchers: Future studies should explore the dividend policies of other sectors and geographical regions to further validate these findings and understand the broader implications of dividend policy on financial performance.

LIMITATIONS

This study's focus on two companies in the fertilizer sector may limit generalizability. The use of secondary data also introduces potential biases.

SUGGESTIONS FOR FURTHER RESEARCH

Future studies could perform longitudinal analyses across various sectors and investigate the role of macroeconomic factors on dividend policy across different markets.

REFERENCES

Ali, A Ahmed, M., & Fatima, F. (2013). Impact of dividend policy on firm performance: A study of manufacturing companies listed on Karachi Stock Exchange. Asian Journal of Empirical Research, 3(1), 20-29.

Ali, A. J., & Atta, S. (2015). The impact of dividend policy on firm performance under high or low leverage: Evidence from Pakistan. Journal of Management Info, 8(1), 50-83.

Enekwe, C. I., Nweze, A. U., & Agu, C. I. (2015). The effect of dividend payout on performance evaluation: Evidence of quoted cement companies in Nigeria. European Journal of Accounting Auditing and Finance Research, 3(11), 40-59.

Modigliani, F., & Miller, M. H. (1961). Dividend policy, growth, and the valuation of shares. Journal of Business, 34, 411-433.

Priya, K., & Nimalathasan, B. (2013). Dividend policy ratios and firm performance: A case study of selected hotels and restaurants in Sri Lanka. Global Journal of Commerce and Management Perspectives, 2(6), 16-22.

Shisia, A. S. (2014). Assessment of dividend policy on financial performance of telecommunication companies quoted at the Nairobi Securities Exchange. International Journal of Economics, Commerce and Management, 11(1), 97-109.

Velnampy, T., & Nimalathasan, B. (2014). Dividend policy and firm performance: Evidence from the manufacturing companies listed on the Colombo Stock Exchange. Global Journal of Management and Business Research, 14(6), 63-69.

Yegon, C. C., Cheruiyot, J. K., & Sang, J. C. (2014). Effect of dividend policy on firm's financial performance: Econometric analysis of listed manufacturing firms in Kenya. Research Journal of Finance and Accounting, 5(12), 136-144..