



Journal of Research in International Business and Management (ISSN: 2251-0028)
Vol. 13(1) pp. 01-04, February, 2026
Available online @ <https://www.interestjournals.org/research-international-business-management.html>
DOI: <http://dx.doi.org/10.14303//jribm.2026.048>
Copyright ©2026 International Research Journals

Research Article

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

Muhammad Yaseen Burdi*, Foazia Jamal, Asif Jamal, Akram Ali Lashari

Department of Mathematical and Statistical Sciences, Clemson University, South Carolina, USA

E-mail: ybuledi3@gmail.com

Abstract

This study examines the effect of dividend policy on the financial performance of Engro and Fauji fertilizer companies from 2014 to 2017. The research employs a descriptive methodology and utilizes secondary data from financial statements to assess key performance indicators, including Dividend Payout Ratio (DPR), Dividend per Share (DPS), Return on Assets (ROA), leverage, and company size. The findings reveal a significant positive correlation between DPS and firm performance, indicating that higher dividend payments are associated with improved financial results. In contrast, DPR and leverage exhibit weak positive associations with financial performance, while firm size negatively impacts ROA. These insights suggest that a robust dividend policy is crucial for enhancing the financial performance of fertilizer companies, underscoring the importance of strategic financial management. Future research could explore the impact of dividend policy across different sectors and geographical contexts.

Keywords: Dividend policy, Financial performance, Fertilizer companies, Return on assets, Dividend per share

INTRODUCTION

The decision regarding the distribution of profits as dividends or their retention for reinvestment represents a critical financial management challenge for companies (Ali AJ et al., 2015). This decision not only influences the company's immediate cash flow but also shapes investor perceptions and long-term shareholder value (Ahmed et al., 2013). A company's dividend policy reflects its financial health and its management's approach to balancing immediate shareholder returns with sustainable growth (Enekwe et al., 2015).

In the context of the fertilizer industry, which plays a vital role in agricultural productivity and food security, understanding the implications of dividend policy is particularly significant (Modigliani et al., 1961). Engro and Fauji fertilizer companies are two leading players in this sector in Pakistan (Priya et al., 2013). This study aims to

investigate the effects of their dividend policies on financial performance, specifically focusing on the period from 2014 to 2017 (Shisia, 2014).

Research problem

The dividend policy is a crucial aspect of a company's financial strategy, affecting its ability to attract investors and sustain growth. However, there is ongoing debate regarding its impact on financial performance (Velnamy et al., 2014). While some studies suggest a positive relationship, others report mixed results, particularly in the context of the fertilizer sector in Pakistan (Yegon et al., 2014). This research aims to clarify the relationship between dividend policy and financial performance in this specific industry.

Received: 01-Nov-2024, Manuscript No. JRIBM-24-151533; **Editor assigned:** 04-Nov-2024, Pre QC No. JRIBM-24-151533 (PQ);

Reviewed: 18-Nov-2024, QC No. JRIBM-24-151533; **Revised:** 10-Feb-2026, Manuscript No. JRIBM-24-151533 (R); **Published:** 17-Feb-2026

Citation: Burdi MY, Jamal F, Jamal A, Lashari AA (2026). The Effect of Dividend Policy on Financial Performance: A Case Study of Engro and Fauji Fertilizer Companies in Sindh Pakistan. JRIBM. 13:048.

Research objectives

The primary objectives of this study are:

- To assess the effect of Dividend Payout Ratio (DPR) on the financial performance of Engro and Fauji fertilizer companies.
- To analyze the impact of Dividend per Share (DPS) on financial performance.
- To evaluate the relationship between leverage, firm size, and financial performance in the context of dividend policy.

Value of the study

The findings of this research will provide valuable insights for various stakeholders, including investors, financial managers, and policymakers. Understanding how dividend policy influences financial performance can aid investors in making informed decisions, enable financial managers to develop effective dividend strategies, and inform policymakers on the regulatory environment for corporate governance.

Hypotheses

The study tests the following hypotheses:

- H₁:** There is a significant relationship between Dividend Payout Ratio (DPR) and firm performance (ROA).
- H₂:** There is a significant relationship between Dividend per Share (DPS) and firm performance (ROA).
- H₃:** There is a significant relationship between the size of the firm and firm performance (ROA).
- H₄:** There is a significant relationship between leverage and firm performance (ROA).

MATERIALS AND MRTHODS

Dividend policy has been a subject of extensive research, with various theories proposed to explain its impact on firm performance. The Modigliani-Miller theorem asserts that in a perfect market, dividend policy is irrelevant to a firm's value; however, this theory has been debated extensively, with many scholars emphasizing the importance of dividends as signals of financial health. The bird in hand theory posits that investors prefer the certainty of dividends over uncertain future capital gains, suggesting that higher dividend payouts could lead to increased stock prices. This theory is supported by empirical evidence that links dividend announcements to positive stock performance. Moreover, signaling theory suggests that

companies use dividend announcements to convey information about their future profitability. High dividends may signal strong future performance, while cuts in dividends could indicate financial distress.

Prior research has produced mixed findings regarding the relationship between dividend policy and financial performance. For instance, studies have shown a positive correlation between dividend payout and firm performance in various sectors, but others have found no significant relationship, highlighting the need for further investigation, particularly in the fertilizer industry, Kariuki John Muchira found a significant positive association between dividend policy and firm financial performance, emphasizing that stable dividend payments are perceived positively by investors.

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.

Descriptive statistics

The average ROA for the study period was 11.98%, indicating a relatively stable performance. The DPR averaged 81.26%, suggesting that both firms prioritize returning profits to shareholders. The average DPS was 8.11, reflecting consistent dividend payouts over the years (Table 1).

Table 1. Descriptive statistics.

	N	Minimum	Maximum	Mean	Std. deviation
ROA	8	7.36	20.99	11.9813	4.92629
DPR	8	47.43	111.97	81.2625	22.67455
DPS	8	3	13.65	8.1138	3.33763

SOF	8	7.93	8.14	8.04	0.06175
Leverage	8	129.96	237.21	169.9613	39.27708
Valid N (list wise)	8				

Correlation analysis

The correlation analysis reveals a significant positive correlation between DPS and ROA ($r=0.827$, $p=0.011$), suggesting that higher dividends per share are associated with improved financial performance. A weak positive correlation between DPR and ROA ($r=0.085$, $p=0.841$),

indicating that the dividend payout ratio does not significantly influence financial performance. A negative correlation between firm size and ROA ($r=-0.654$, $p=0.078$), suggesting larger firms may struggle to maintain high performance levels, potentially due to inefficiencies (**Table 2**).

Table 2. Correlation analysis.

		ROA	DPR	DPS	SOF	Leverage
ROA	Pearson correlation	1	0.085	.827*	-0.654	0.191
	Sig. (2-tailed)		0.841	0.011	0.078	0.651
	N	8	8	8	8	8
DPR	Pearson correlation	0.085	1	0.546	-0.273	-0.153
	Sig. (2-tailed)	0.841		0.162	0.513	0.718
	N	8	8	8	8	8
DPS	Pearson correlation	.827*	0.546	1	-0.461	0.023
	Sig. (2-tailed)	0.011	0.162		0.251	0.957
	N	8	8	8	8	8
SOF	Pearson correlation	-0.654	-0.273	-0.461	1	-0.447
	Sig. (2-tailed)	0.078	0.513	0.251		0.267
	N	8	8	8	8	8
Leverage	Pearson correlation	0.191	-0.153	0.023	-0.447	1
	Sig. (2-tailed)	0.651	0.718	0.957	0.267	
	N	8	8	8	8	8

Note: **. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

ANOVA analysis

To assess the overall significance of the regression model, ANOVA was performed. The results indicate that the regression model significantly predicts ROA, as evidenced by an F-statistic of 51.151 and a p-value of 0.004 ($p<0.05$).

This suggests that the independent variables collectively explain a significant portion of the variance in financial performance (**Table 3**).

Table 3. ANOVA analysis.

Model	Sum of squares	Df	Mean square	F	Sig.
1 Regression	167.423	4	41.856	51.151	.004 ^b
Residual	2.455	3	0.818		
Total	169.878	7			

Note: a. Dependent Variable: ROA
b. Predictors: (Constant), Leverage, DPS, DPR, SOF

Regression analysis

The regression analysis further supports the findings, with an R^2 value of 0.986, indicating that 98.6% of the variance in ROA is explained by the independent variables. The results of the regression coefficients indicate a negative coefficient

for DPR (-0.121), implying that increases in the dividend payout ratio slightly reduce financial performance. A strong positive coefficient for DPS (1.389), reinforcing the positive impact of dividends on financial performance (**Table 4**).

Table 4. Regression analysis.

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
	B	Std. error	Beta			Tolerance	VIF
1 (Constant)	282.4	59.78		4.724	0.018		
DPR	-0.121	0.019	-0.559	-6.545	0.007	0.66	1.516
DPS	1.389	0.133	0.941	10.435	0.002	0.593	1.688
SOF	-33.532	7.242	-0.42	-4.63	0.019	0.585	1.711
Leverage	-0.013	0.01	-0.104	-1.264	0.296	0.713	1.402

RESULTS AND DISCUSSION

The findings of this study align with the signaling theory, emphasizing the role of dividend payments as indicators of financial health. The significant positive correlation between DPS and ROA highlights the importance of consistent dividend payments in attracting and retaining investors. In contrast, the weak relationship between DPR and financial performance suggests that while dividends are essential, the manner in which they are distributed may not directly influence profitability. The negative correlation between firm size and ROA raises questions about potential inefficiencies in larger firms, which may dilute performance despite higher resources.

These results contribute to the existing literature on dividend policy by providing insights specific to the fertilizer industry, an area that has been relatively under-researched.

CONCLUSION

In conclusion, this study confirms that dividend per share significantly affects the financial performance of Engro and Fauji fertilizer companies, whereas dividend payout ratio and leverage show limited influence. The negative impact of firm size on performance suggests a need for larger companies to enhance operational efficiencies to maintain profitability.

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 is limited by its focus on only two companies within the fertilizer sector and may not be generalizable across other industries. Additionally, the reliance on secondary data may introduce biases based on reporting

practices.

SUGGESTIONS FOR FURTHER RESEARCH

Future research could consider a longitudinal analysis of dividend policy effects over a more extended period. Comparative studies between different sectors to assess the variability in dividend policies and financial performance. The influence of macroeconomic factors on dividend policies across various markets.

REFERENCES

- Ali, A. J., & Atta, S. (2015). The impact of dividend policy on firm performance under high or low leverage: Evidence from Pakistan. *J Manag Info*, 8(1), 50-83.
- Ahmed, M., & Fatima, F. (2013). Impact of dividend policy on firm performance: A study of manufacturing companies listed on Karachi Stock Exchange. *Asian J Empir Res*, 3(1), 20-29.
- 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. *Eur J Account Audit Finance Res*, 3(11), 40-59.
- Modigliani, F., & Miller, M. H. (1961). Dividend policy, growth, and the valuation of shares. *J Bus*, 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. *Glob J Comm Manage Perspect*, 2(6), 16-22.
- Shisia, A. S. (2014). Assessment of dividend policy on financial performance of telecommunication companies quoted at the Nairobi Securities Exchange. *Int J Economics Commerce Manag*, 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. *Glob J Manage Bus Res*, 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. *Res J Fin Account*, 5(12), 136-144.