Impact Of Retained Earnings On Stock Returns Of Food And Personal Care Good Industry Listed In Karachi Stock Exchange

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Abstract- The study posits to identify the effect of retained earnings on stock returns of food and personal care good industry listed in Karachi Stock Exchange. The study used three sub variables of stock returns, i.e. capital gain/loss yield, stock prices, cash dividend per share, and identify its relationship with retained earnings. The analysis consists of seven active companies of food and personal care good industry and used the data for a period of 2009-2014. The study used convenience sampling of non- probability method and used linear regression and Spearman's correlation analysis. The study found a weak and insignificant relationship between retained earnings and cash dividend per share and capital gain/loss yield. The study also found a moderate positive and significant relationship between retained earnings and closing price of stock. The study concluded that the retention of earnings has a weak and insignificant relationship with stock returns. The study suggests that managers should try to pay huge amount of dividends, as retention of earnings do not contribute in enhancing the stock returns.

Index Terms- Retain earnings, cash dividend per share, stock return, capital gain/loss yield, stock prices, Karachi Stock Exchange.

I. INTRODUCTION

Finance is a very broad subject in which so many areas are still untapped and still need further research. One of them is the impact of retained earnings on different factors i.e. cash dividend per share, capital gain/loss yield and stock returns. This study attempts to dearth the gap of previous researches.

Retained earnings are company's profit, which left after deducting all expenses and paying dividends, and it retained in the company for future growth (Dinayak, 2014). The purpose of retention is that expansion chances of growth increases of retaining the profit into the company.

Strong (2009) explained stock return as the income attained from a stock security. According to Hodrick (1991), stock return considered as the performance indicator of shares at a particular time. Time can be selected according to personal preferences. (Khan, 2013) stated that there are two components of measuring stock performance, through stock returns, which are dividends and capital gains. (Carson, 2012) explained that dividend policy are the guiding principles of a company which decide shareholders part of the company earnings. According to Lincoln (2014), Managers pay dividend when they have no profitable investment opportunities but it has a negative impact on share prices of firms. According to Miller, H. M., & Modigliani, F. (1961) the dividend policy has not affected on the wealth of shareholders and it is irrelevant for the firm. On the other hand, Walter and Gordon support that dividends are relevant and it has a direct effect on firm value. (Domains, 2007) affirmed that capital gain/losses are results of share price movements. According to (Hodrick, 1991) total return of the stock can be measured by adding dividend and capital gain/loss for the period of a year.

A study conducted by Kumar and Hundal (1986) and Beisland (2014) revealed that a positive relationship exists between retained earnings and stock prices. Muhammad Ali, T. (2012) stated that retained earnings have a substantial impact on firm value and shareholders' wealth. Domains (2007) hypothesized that investors expect that growth of the company and stock prices are heavily depended on the high retention ratio. On the other hand Khan & Zulfiqar (2012) postulate that high retention ratio is not the only factor which influenced the company growth. In addition, Bali (2008) identifies a positive and significant relationship exists between expected returns, earnings and dividends. Joshi, R. (2012) stated a positive and significant relation of share prices with dividends and retained earnings.

1.1 Problem Statement

In finance retained earnings is always considered a very important area because it has a significant impact on companies' stock prices (Dinayak, 2014). Many researches have been conducted on retained earnings but it still a dearth or untapped area in Pakistan. This research not only consider retained earnings (independent) and stock returns (dependent) as variables, but it also used some moderating variables, i.e. cash dividend per share, stock prices and capital gain/loss yield and find out its relationship with retained earnings. This study used and personal good care sector because it is one of the flourishing sector of Pakistan.

What is the impact of retained earnings on stock returns of food and personal care good industry of Pakistan?

1.2 Research Questions

This study, carried out to dearth the gap of previous researches. Various researches have done on retained earnings and its impact on various factors, but it is still an untapped area in Pakistan. The research questions of this study are:

- How stock prices affected by the retention ratio of firms in the food and personal care good industry?
- What relationship exists between retained earnings and cash dividend per share?
- What is the impact of retained earnings on capital gain/loss yield?

1.3 Objective Of The Study

The purpose of this study is:

- To study the relationship between retained earnings and cash dividend per share
- To examine that how earning distribution affect the stock returns of food and personal care good industry of Pakistan.

1.4 Significance Of Study

This study facilitates both corporate managers as well as investors. This study provides guidance to investors when making their investment strategies. This study enables investors to use retained earnings and information of financial statements to identify the future returns on stocks. The information is provided through this study helps portfolio managers in the allocation and valuation of stock price movements. This study also provides guidance to corporate managers to judge investors various reactions on different accounting information.

1.5 Limitations Of The Study

There are some limitations and shortcomings in this study, which are as follows:

- Due to unavailability of data the study used only 7 companies in the food and personal care good industry as sample.

- This study, conducted on food and personal care good companies of Pakistan that might follow different accounting practices, industry, which may be deviated the results of the research.

- This study also conducted within a short period of time and in a workplace environment that restricted the researcher to consider more variables.

LITERATURE REVIEW

2.1 Introduction

This chapter illustrates different researches conducted by diverse scholars on the impact of distributed and retained earnings on stock returns. By examining the past researches of different scholars, this section contours the conceptual framework of the study on impact of distributed and retained earnings on stock returns of food and personal care good companies listed in KSE 100 index.

2.2 Previous Researches

Thuranira, M. G. (2014) sought to find out the casual relationship between retained earnings and stock performance of NSE listed firms. The study followed descriptive research and collect the data during the period of 2009-2013. The study used regression and correlation analysis to identify the tendency of relationship among variables. The study findings established a weak and insignificant relationship between retained earnings and stock returns.

The impact of retained and distributed earnings and capital invested on stock prices was studied by Chughtai, A. R., Azeem, A., & Ali, S. (2014). Data of 99 listed companies in Pakistan used as a sample for the period of 2006-2011. The study used both descriptive analysis and panel regression analysis to deeply analyze the relationship among variables. The study findings indicate a positive and significant relationship between dividends and earnings with share prices and study also found no relationship between capital employed and retained earnings with stock prices.

Tariq, A., Kharal, M., Abrar, M., Ahkam, A., & Khan, M. S. (2014) tried to find out the relative importance of dividends and retained earnings. The study used the data of 66 nonfinancial companies listed in KSE during the period of 2007-2010. The study used regression and correlation analysis to identify the tendency of relationship among variables. The results from the study showed that dividends are more important as compared to retained earnings for the illustrative influence of stock prices in the KSE.

Another study conducted by Essays, UK. (November 2013) posit to find out the relationship between retained earnings on share prices of KSE listed firms. The data were collected during the period of 2005-2008 of 40 listed companies in the KSE. The study used simple linear regression analysis to find the relationship between variables. Evidence showed that a positive relationship exists between share prices and retained earnings.

Another study conducted by Mulama, L. W. (2014) to determine the factors of retained earnings in companies listed on the Nairobi Stock Exchange. The factors tested by the study are dividend payout, profitability, and firm size, the tangibility of assets, growth opportunities and leverage. The study used cross-sectional as well as a longitudinal research design to deeply analyze the facts. The data were collected during the period of 2009-2012 of 41 non-financial companies listed at NSE. The study used multiple regression models and also used SPSS tools. The findings of the study suggest that profitability had a weak positive relationship with retained earnings, whereas a weak negative relationship exists between retained earnings with growth opportunities and firm size. The evidence from the study also showed that retained earnings had insignificant or no relationship with dividend payout and significant relationship with the tangibility of assets. The study also found a sturdy or a strong negative relationship between retained earnings and leverage. The study strongly recommended that managers should consider both tangibility of assets and leverage while decide the best level of retained earnings. The study also recommended that while identifying the factors of retained earnings should include both unquoted and quoted firms.

The comparative importance of retained earnings and dividends on the movements of share prices in Bangladesh was studied by Khan, S. H. (2009). The data were collected during the period of 2000-2006 of 96 listed companies in Dhaka Stock Exchange (DSE). The study has used regression analysis to identify the dynamic relationship between different variables. The findings of the study suggest that dividends played a vital role as compared to retained earnings for the determination of share prices in Dhaka Stock Exchange (DSE

Another study conducted by Rafique, M. (2012) tried to determine the factors of dividend payout of non-financial firms listed in KSE 100 index. The study tested key illustrative variables which are corporate tax, firm size, profitability, earnings, growth and financial leverage. The study collected the data during the period of 2005-2010 of 53 non-financial firms listed in KSE 100 index. The study tested different regression model to identify the relation among variables. The evidence from the study showed that dividend payout had a positive relationship exists with firm's size and corporate tax. The study also found an insignificant relationship with the rest of the other illustrative variables in the context of Pakistan. The study strongly recommended that managers should focus more on retained earnings as compared to dividend payment in case of corporate tax. The study also showed that dividend is still an untapped area and more research work is still required on this subject.

Ouma, O. P. (2012) posits to identify the relationship between dividend payout and firms' performance of in companies listed on the Nairobi Stock Exchange. The study collected the data during the period of 2002-2010 of listed companies of NSE. The study used regression analysis to seek the relationship between variables. The evidence from the study showed that there is a considerable and positive relationship exists between dividend payout and firms' performance. The study also evidences the relevancy theory model of Walter's which indicate that dividend payout affect the firms' performance and dividends played a vital role in enhancing the firms' performance. The study also recommended that managers should take keen interest in making an attractive and relevant dividend policy to enhance its share holder's wealth.

Suliman, M., Ahmad, S., Anjum, M. J., & Sadiq, M. (2013) posit to find out the relationship between stock prices and dividend policy. The data were collected during the period of 2001-2011 of 35 listed companies of KSE. The study used panel data approach and regression analysis to find out the relationship between stock prices and other illustrative variables which are growing, earning volatility, firm size, dividend yield and earnings per share. The study found out that earnings per share and dividend yield has a negative relationship with stock prices. The study also concluded that firm size and growth in assets has a significant robust relationship with stock prices and it also evidence an insignificant relationship exits between earning volatility and stock prices in Pakistan. Nishat, M., & Irfan, C. M. (2004) also conducted the same study to identify the impact of dividend policy on stock returns. The study gathered the data of 160 listed companies of KSE during the period of 1981-2000. Evidence from the study proved that a significant positive relationship exists between stock prices and dividend policy.

Khan, A. B., & Zulfiqar, A. S. (2012) tried to find out the dependability of future profitability on distributed and retained earnings. The study collects the data of 86 listed companies of Pakistan during the period of 2004-2009. The study used regression analysis and correlation analysis to assess the relationship among variables. Evidence from the study indicated that retained earnings have a significant and strong impact on future earnings of firms of Pakistan.

The relationship between retained earnings, financial leverage, cash dividends and earnings per share on stock prices was examined by Al Troudi, W. (2013). The study used all the listed industrial companies of Amman Stock Exchange and collect the data during the period of 2005-2010. The study used regression analysis, unbalanced panel data approach and correlation analysis to observe the relationship between different variables. The results of the study showed that stock prices have a significant and positive relationship with earnings per share, cash dividends and retained earnings. The study also showed a non-significant, but a robust relationship between stock prices and financial leverage. The significance of this study is that it decrease the gap of preceding researches which were conducted in association between dividend policy and stock prices.

The impact of dividend policy on stock returns and the relevance of dividend policy for measuring stock return was investigated by Masum, A. A. (2014). The study used all thirty listed private commercial banks of Dhaka Stock Exchange (DSE). The data were collected during the period of 2007-2011 and used panel data approach, fixed effect model, random effect model and correlation analysis to identify the relationship between variables. The findings of the study showed a positive and strong relationship between

dividend policy and stock prices. Joshi, R. (2012) also conducted the same study in Nepal on 117 banking and non-banking sector companies. The study collects the used the data of financial year 2010-2011 and used regression analysis to examine the effects of dividend on stock prices. The findings of the study proved that dividends has a manifest effect on stock prices as compared to retained earnings and a significant and positive relationship exist between both variables in perspective in Nepal.

Another study conducted by Ajanthan, A. (2013) who tried to find out the relevancy of dividend policy and the relationship between dividend payout and the firm's profitability. The data were collected of 16 listed restaurant companies of Colombo Stock Exchange (CSE). The study used both regression and correlation analysis to identify the tendency of relationship among variables. Evidence from the study showed that strong positive and significant relationship exists between dividend payout and firm profitability.

METHODOLOGY

3.1 Introduction

This section provides the details of procedures and methods used to conduct the study. The section contains the detailed information on research design, data collection sources and techniques and statistical technique used to analyze the data to achieve the desired results of the study.

3.2 Research Design

The study used quantitative method and explanatory research design as the study posit to find out the causal relationship between retained earnings and stock returns. The philosophy of the study is positivism because the study do some addition in previous researches and this study also used the deductive approach because this study go from problem statement to the solution.

3.2.1 Sample Size

This study selects 7 companies as a sample of the population of 21 companies listed in the food and personal care good sector of KSE. The study used convenience sampling of non- probability method. This method of sampling is selected on the basis of availability of data.

3.2.2 Time Horizon

This research followed a longitudinal study because the study collects the secondary data of 7 food and personal care good companies during the period of 2009-2014. Due to availability of the data of only 6 years, this study only selects 7 companies from the food and personal care good sector as a sample.

3.2.3 Data Collection Sources

The study used the data is secondary in nature. The advantage of secondary data is that it can easily available, For this research secondary data was the best option as this research posit to examine the relationship between retained earnings and different variables which could only be achieved by analyzing past trends and data. The study used 7 food and personal care good companies as sample which are listed on Karachi Stock Exchange (KSE). The companies were selected on the basis of availability of variables such as cash dividend per share, retained earnings, capital gain/loss yield and stock prices. The study used panel data of selected companies during the period of 2009-2014. Annual reports of selected companies were used to collect the data which are available on companies' websites and also available on KSE website.

3.2.4 Hypothesis Of The Study

The study tested the following hypothesis:

Ho: There is no relationship between retained earnings and cash dividend per share.

Ha: There is a relationship between retained earnings and cash dividend per share.

Ho: There is no relationship between retained earnings and stock prices.

Ha: There is a relationship between retained earnings and stock prices.

Ho: There is no relationship between retained earnings and capital gain/loss yield.

Ha: There is a relationship between retained earnings and capital gain/loss yield.

3.3 Data Analysis

This study used linear regression and Spearman's correlation analysis. IBM SSPS version 19 were implemented to identify the strengthening of relationships between different variables.

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter illustrates the study's findings and results which were set out in research methodology and objectives. The study posits to identify the effect of retained earnings on stock returns of food and personal care good industry listed in KSE 100 index. The study used three sub variables of stock returns, i.e. capital gain/loss yield, stock prices and cash dividend per share and identify its relationship with retained earnings. The analysis consists of 7 active companies of food and personal care good industry and used the data for a period of 6 years. The analysis was conducted on 5% level of confidence.

4.2 DESCRIPTIVE ANALYSIS:

Table 4.1

Descriptive Statistics							
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
		Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Cash Dividend per share	42	0	163	38.59	50.334	.944	.365
Retained Earnings	42	-433000	3885343	691772.74	1045608.517	1.510	.365
Closing stock prices	40	20	11204	2187.09	3207.628	1.568	.374
Capital gain/loss yield	39	-.80	3.34	.4097	.75272	1.491	.378
Valid N (listwise)	39						

Table 1 reveals a brief descriptive statistics of different variables in which the very first dependent variable is cash dividends per share. The average cash dividend per share is Rs 38.59 and the highest and lowest value for cash dividend per share was Rs 163 and Rs 0 along with standard deviation of 50.334. It shows that in Food personal care good industry some companies paid no dividend whereas few companies paid a very high amount of dividends. The skewness of the cash dividend per share in statistic was .944 whereas the standard error was .365.

Retained earnings are the first independent variable. Its mean value is Rs 6.92E5 along with standard deviation of 1045608.524 and its highest and lowest values are Rs 3885343 and Rs -433000 and skewness in statistics was 1.510 and standard error was .365. It shows that some companies in food and personal care good industry suffer from losses, whereas few retain a huge amount of earnings.

The second dependent variable is closing price of stock. The average value of stock prices is Rs 2187.09 along with standard deviation of 3207.628. The highest and lowest value of stock prices is Rs 11204 and Rs 20 and skewness in statistics was 1.568 and standard error was .374. It shows that a very high difference of stock prices among companies in food and personal care good industry.

The last dependent variable is capital gain/ loss yield. Its mean value is .4097 along with standard deviation of .75272 and its highest and lowest value is 3.34 and -.80 and skewness in statistics was 1.491 and standard error was .378. It indicates that few firms suffer from losses and give capital loss to shareholders whereas few firms provide a very huge amount of capital gain to its shareholders.

4.3 CORRELATION ANALYSIS

The correlation explains the strength and direction of the relationship among variables. The study implied Spearman correlation as the skewness values of all variables are greater than one. The analysis of correlation is given below:

Hypothesis 1:
Table 4.2

Correlations			Cash dividend per share	Retained Earnings
Model				
Spearman's rho	**Cash dividend per**	Correlation Coefficient	1.000	.321[*]

share (Dependent)	Sig. (2-tailed)	.	.038
	N	42	42
Retained Earnings (Independent)	Correlation Coefficient	.321[*]	1.000
	Sig. (2-tailed)	.038	.
	N	42	42

Table 4.2 indicates the tendency of relationship between variables. The table showed the correlation coefficient between retained earnings and cash dividend per share is .321 which implies a weak positive relationship between variables. The results implied that in food and personal care good industry, higher or lower the retained earnings will not influence the cash dividends. The study sought to find out the relationship between retained earnings and cash dividend per share.

4.4 REGRESSION ANALYSIS

Table 4.2.1
Analysis of Variance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9137.664	1	9137.664	3.858	.056[a]
	Residual	94734.328	40	2368.358		
	Total	103871.992	41			
a. Predictors: (Constant), Retained Earnings						
b. Dependent Variable: Cash Dividend per share						

Results revealed in ANOVA showed the probability value of .056a which depict that the model of regression was insignificant in establishing a relationship between cash dividend per share and retained earnings since P value was larger than α =0.05. With the F-distribution table, the F (1, 40) with α =0.05 was 4.08 which was larger than F- critical value= 3.858. By critical analysis of both P value and F critical value, it indicates that the model of regression was insignificant. The study fails to reject the null hypothesis as P value is greater than α =0.05.

Table 4.2.2
Model Coefficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	28.715	9.037		3.177	.003
	Retained Earnings	1.428E-5	.000	.297	1.964	.056
a. Dependent Variable: Cash Dividend per share						

The model showed the relationship between retained earnings and cash dividend per share. The equation of model coefficient is Cash dividend per share = 28.715 + 1.428E-5x, where x is the retained earnings. This equation interprets that a one Rupee increase in retained earnings will increase the cash dividend per share on average by Rupee 1.428E-5. It also interprets that if retained earnings were zero than cash dividend per share will increase by 28.715. As the P Value was .056 which is greater than the accepted threshold of α =0.05 and thus the relationship is insignificant. The evidence showed that there is an insignificant effect on the change of retained earnings on cash dividend per share of food and personal care good industry listed in KSE 100 index.

Hypothesis 2:

Table 4.3

<table>
<tr><td colspan="7" align="center">Correlations</td></tr>
<tr><td colspan="4" align="center">Model</td><td>Retained Earnings</td><td>Closing price of stock</td></tr>
<tr><td rowspan="6">Spearman's rho</td><td rowspan="3">Retained Earnings (Independent)</td><td>Correlation Coefficient</td><td>1.000</td><td>.462[**]</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.</td><td>.003</td></tr>
<tr><td>N</td><td>42</td><td>40</td></tr>
<tr><td rowspan="3">Closing price of stock (Dependent)</td><td>Correlation Coefficient</td><td>.462[**]</td><td>1.000</td></tr>
<tr><td>Sig. (2-tailed)</td><td>.003</td><td>.</td></tr>
<tr><td>N</td><td>40</td><td>40</td></tr>
</table>

Table 4.3 indicates the tendency of relationship between variables. The above table showed the correlation coefficient between retained earnings and closing price of the stock is .462 that implies a moderate positive relationship between variables. The results implied that in food and personal care good industry, higher or lower the retained earnings of firms will moderate and positively influence the stock prices of firms. It shows that retaining the higher amount of earnings is positively increase the stock prices in food and personal care good industry listed in Karachi Stock Exchange. The study sought to find out the relationship between retained earnings and closing price of the stock.

Table 4.3.1
Analysis of Variance

<table>
<tr><td colspan="7" align="center">ANOVA[b]</td></tr>
<tr><td colspan="2">Model</td><td>Sum of Squares</td><td>df</td><td>Mean Square</td><td>F</td><td>Sig.</td></tr>
<tr><td rowspan="3">1</td><td>Regression</td><td>9.523E7</td><td>1</td><td>9.523E7</td><td>11.824</td><td>.001[a]</td></tr>
<tr><td>Residual</td><td>3.060E8</td><td>38</td><td>8053602.803</td><td></td><td></td></tr>
<tr><td>Total</td><td>4.013E8</td><td>39</td><td></td><td></td><td></td></tr>
<tr><td colspan="7">a. Predictors: (Constant), Retained Earnings
b. Dependent Variable: Closing price of stock</td></tr>
</table>

Results revealed in ANOVA showed the probability value of .001a which depict that the model of regression was significant in establishing a relationship between stock prices and retained earnings since P value was smaller than α =0.05. With the F- distribution table, the F (1, 38) with α =0.05 was 4.09 which was smaller than F- critical value= 11.824. By critical analysis of both P value and F critical value, it indicates that the model of regression was significant. The study reject the null hypothesis and accepts the alternative hypothesis as P value is smaller than threshold α = 0.05.

Table 4.3.2

Model Coefficient

<table>
<tr><td colspan="7" align="center">Coefficients[a]</td></tr>
<tr><td colspan="2" rowspan="2">Model</td><td colspan="2">Unstandardized Coefficients</td><td>Standardized Coefficients</td><td rowspan="2">t</td><td rowspan="2">Sig.</td></tr>
<tr><td>B</td><td>Std. Error</td><td>Beta</td></tr>
<tr><td rowspan="2">1</td><td>(Constant)</td><td>1099.451</td><td>548.985</td><td></td><td>2.003</td><td>.052</td></tr>
<tr><td>Retained Earnings</td><td>.001</td><td>.000</td><td>.487</td><td>3.439</td><td>.001</td></tr>
<tr><td colspan="7">a. Dependent Variable: Closing price of stock</td></tr>
</table>

The model showed the relationship between retained earnings and stock prices. The equation of model coefficient is Stock Prices = 1099.451 + .001x, where x is the retained earnings. This equation interprets that a one Rupee increase in retained earnings will increase the stock prices on average by Rupee .001. It also interprets that if retained earnings were zero than the closing price of the stock will increase by 1099.451. As the P Value was .001 which is smaller than the accepted threshold of α =0.05 and thus the

relationship is significant. The evidence showed that there is a significant effect on the change of retained earnings on stock prices of food and personal care good industry listed in KSE 100 index.

Hypothesis 3:

Table 4.4

Correlations			Retained Earnings	Capital gain/loss yield
Model				
Spearman's rho	Retained Earnings (Independent)	Correlation Coefficient	1.000	.211
		Sig. (2-tailed)	.	.179
		N	42	42
	Capital gain/loss yield (Dependent)	Correlation Coefficient	.211	1.000
		Sig. (2-tailed)	.179	.
		N	42	42

Table 4.4 indicates the tendency of relationship between variables. The table showed the correlation coefficient between retained earnings and capital gain/loss yield is .211 that implies a weak positive relationship between variables. The results implied that in food and personal care good industry, capital gain/loss of shareholders is not influence by change in retained earnings. The study sought to find out the relationship between retained earnings and capital gain/loss yield.

Table 4.4.1

Analysis of Variance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.536	1	1.536	2.842	.100[a]
	Residual	19.995	37	.540		
	Total	21.530	38			
a. Predictors: (Constant), Retained Earning						
b. Dependent Variable: Capital gain/loss yield						

Results revealed in ANOVA showed the probability value of .100a which depict that the model of regression was insignificant in establishing a relationship between capital gain/loss yield and retained earnings since P value was larger than α =0.05. With the F-distribution table, the F (1, 37) with α =0.05 was 4.105 which was larger than F- critical value= 2.842. By critical analysis of both P value and F critical value, it indicates that the model of regression was insignificant. The study fails to reject the null hypothesis as P value is greater than α =0.05.

Table 4.4.2

Model Coefficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.272	.143		1.902	.065
	Retained Earnings	1.885E-7	.000	.267	1.686	.100
a. Dependent Variable: Capital gain/loss yield						

The model showed the relationship between retained earnings and capital gain/loss yield. The equation of model coefficient is Capital gain/loss yield = .272 +1.885E-7x, where x is the retained earnings. This equation interprets that a one Rupee increase in retained earnings will increase the capital gain yield on average by .001% . It also interprets that if retained earnings were zero than capital gain/loss yield will increase by .272. As the P Value was .100 which is larger than the accepted threshold of α =0.05 and thus the

relationship is insignificant. The evidence showed that there is no effect on the change of retained earnings on capital gain/ loss yield of food and personal care good industry listed in KSE 100 index.

FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study posits to identify the relationship between retained earnings and stock returns of food and personal care good industry listed in Karachi Stock Exchange. The study used three sub variables of stock returns, i.e. cash dividend per share, stock prices and capital gain/loss yield and identifies their relationship with retained earnings. This chapter concludes and summarizes the overall findings of the study. It also provides recommendations and future suggestions related to the study.

5.2 Findings of the study

According to Hodrick (1991), stock return considered as the performance indicator of shares at a particular time. (Khan, 2013) stated that there are two components of measuring stock performance, through stock returns, which are dividends and capital gains. The study posits to identify the relationship between retained earnings with dividends, stock prices and capital gain/loss yield.

Table 4.2.1 showed that the relationship between retained earnings and cash dividend per share is weak positive and insignificant. It implied that in food and personal care good industry change in retained earnings will not affect the amount of cash dividends. The main reason behind the insignificance of the relationship that most of the firms in food and personal care good industry are not paying dividend and few firms paying stock dividends rather than cash dividends and few firms growth firms pays cash dividends more than their net income. The study fails to reject the null hypothesis, as the P value is greater than Alpha, which concludes an insignificant relationship between retained earnings and cash dividend per share.

Table 4.3.1 showed that the relationship between retained earnings and share price is moderate positive and significant. It implied that in food and personal care good industry change in retained earnings positively affect the share prices. The study rejects the null hypothesis, as the P value is smaller than Alpha, which concludes a significant relationship between retained earnings and stock prices. The results implied that those firms showed higher retained earnings could result a higher closing stock price, whereas those firms showed lower retained earnings can result lower closing stock prices. The study results in line with Kumar and Hundal (1986) and Beisland (2014), Muhammad Ali, T. (2012), Joshi, R. (2012), Friend and Puckett (1964); Naamon (1989); Nishat (1992), Pradhan (2003); and Khan (2009) while contradicts with Harkavy (1953).

Table 4.4.1 showed that the relationship between retained earnings and capital gain/loss yield is weak positive and insignificant. It implied that in food and personal care good industry change in retained earnings will not affect the capital gain/loss yield. The study fails to reject the null hypothesis as the P value is greater than Alpha which conclude an insignificant relationship between retained earnings and capital gain/loss yield.

5.3 Conclusion

The study sought to establish the relationship between retained earnings and stock returns. The study used three sub variables of stock returns, i.e. cash dividend per share, stock prices and capital gain/loss yield. The study was conducted on 7 companies of food and personal care good industry listed in Karachi Stock Exchange during the period of 2009-2014. The study used linear regression and Spearman's correlation analysis and used IBM SPSS version 19 to find out the relationship among variables.

The study establishes very weak and insignificant relationship between retained earnings with cash dividends and capital gain/loss yield while found a moderate positive and significant relationship between retained earnings and stock prices. (Khan, 2013) stated that there are two components of measuring stock performance, through stock returns, which are dividends and capital gains. By adding capital gain yield and dividend yield, i.e. cash dividend divided by stock prices, the study found a weak relationship between retained earnings and stock returns.

Evidence from the study contradicts with the conclusion of Campbell (2012) who stated that retained earnings improved dividends and capital gains by a return back in equity shares. The study also contradicts with the conclusion of Khan (2013) who proved that in Pakistan textile industry, change in retained earnings will affect the stock returns. The study's conclusion is in line with Thuranira, M. G. (2014) who found a weak and insignificant relationship between retained earnings and stock returns. Retained earnings and its impact on stock return is an untapped area of finance and especially in Pakistan. However, due to difference in markets the divergency in the research findings might be raised.

5.4 Policy Recommendations

The study has found a weak and insignificant relationship between retained earnings with cash dividends and capital gain/loss and found a moderate positive and significant relationship between retained earnings and stock prices. Evidence from the study has suggested that companies should not retain huge amounts of earnings as it is not contributing to increase stock returns and is not enhancing shareholder's wealth.

The study suggests that managers should try to pay huge amount of dividends as retention of earnings do not contribute in enhancing the stock returns.

Also the study suggested that corporate managers should prudently distribute and retain company's income. Managers should conduct critical analysis of all existing projects and only then retain earnings when they found growth opportunities and positive (NPV) projects.

Furthermore, corporate managers should not use retained earnings for operations and related functions. Retained earnings should only be used for investment purposes as investment projects provide higher returns than operations.

From an investor perspective, the study recommends that investors should invest their money in high paying dividends rather than relying on future returns.

From a regulator's perspective, the study suggested that regulators of the capital markets should apply or make strict rules and regulations that restrict companies to retain earnings on a certain level. The regulators also forced organizations to make policies which increase shareholder's wealth.

5.6 Suggestions for Further Studies

This study suggested that retained earnings and its impact on stock returns is still an untapped area of finance and further research should be performed on this topic because there is a chance that retained earnings might be enhanced future returns if they invested in positive NPV projects.

This study has already found the impact of retained earnings on dividends, capital gain/loss yield and stock prices, but further studies should be conducted on retained earnings and its impact on future shareholder equity or stock dividend amounts.

Furthermore, the researcher suggests that comparative study should be conducted to identify that in other markets, whether the retained earnings has same effect on stock returns or else. Results from these studies are helpful in comparison and it provides a real facts about the reliability of the relationship between variables.

This study has conducted on few companies of a particular sector so the researcher recommends that further more study should be conducted on various sectors of different markets.

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