Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

MAXIMIZING RETURNS: UNVEILING THE IMPACT OF LIQUIDITY, EFFICIENCY, AND DIVIDEND POLICY ON ASSETS

Dr. Chidananda H L[1]., Deepthi B[2], Erisha E[3] and Aparna Suresh[4]
[1]*Assistant prfessor, School of Economics and Commerce, CMR University Bangalore, India*
[2,3,4] *Research Students, School of Economics and Commerce, CMR University Bangalore, India*

Article DOI: https://doi.org/10.36713/epra16858
DOI No: 10.36713/epra16858

ABSTRACT
With an emphasis on Return on Assets (ROA), this study examines the interdependent dynamics of liquidity, efficiency, and dividend policy on business financial performance. With a quantitative research design, the study seeks to clarify how these components together affect organizational effectiveness. Regression analysis is used in the study to look at the associations between the dependent variable, ROA, and the important independent variables, current assets, quick ratio, liquidity, and dividend, using data from ITC Ltd. that was obtained from Moneycontrol over a five-year period (2019–2023). The findings show a strong relationship between liquidity, efficiency, dividend policy, and return on assets (ROA), with liquidity standing out as the main factor and efficiency and dividend policy following closely behind. The results highlight how crucial these variables are in determining financial performance and provide insightful information for organizational resource allocation and strategic decision-making. The study does, however, admit certain limitations, such as the possibility of wider generalizability and the dependence on data from a single organization. Further research is recommended to increase the sample size, carry out longitudinal studies, and investigate qualitative techniques in order to gain a deeper comprehension of and identify the causal factors behind the dynamics of financial success.

INTRODUCTION

Financial performance is the foundation for assessing the health and profitability of businesses across industries (Hassan, 2023). It includes a variety of measurements and indicators that provide information on a company's efficiency, profitability, and sustainability (Kuo, Lu & Ganbaatar, 2023). Understanding and measuring financial performance is critical for many stakeholders, including investors, creditors, managers, and policymakers, since it allows for informed decision-making, risk assessment, and strategic planning.

Evaluating financial performance is important because it provides a full picture of a company's operational efficiency, resource use, and financial health. Stakeholders can assess management practices' efficacy, identify areas for improvement, and make educated investment decisions by examining important measures such as liquidity, efficiency, dividend policy, and return on assets (ROA) (Osazefua Imhanzenobe, 2020). For investors, examining financial performance is critical in determining the possible risks and rewards of investing in a specific company. By studying financial statistics and performance indicators, investors can determine the company's potential to create profits, manage debt commitments, and sustain long-term growth. This information helps with portfolio diversification, risk management, and finding investment options that match their financial goals and risk tolerance (Borghesi & Gaudenzi, 2012).

Furthermore, financial performance review is critical in promoting transparency and accountability in corporate governance. By providing stakeholders with timely and accurate information on a company's financial health, performance, and prospects, stakeholders gain trust and confidence in the capital markets. This transparency improves market efficiency, lowers information asymmetry, and promotes fair valuing of assets, which benefits both investors and the economy as a whole.

Recent studies have highlighted the importance of financial performance review in driving value creation and long-term success in businesses. For example, Ismail, (2016) found that liquidity management strategies had a beneficial influence on business profitability, emphasizing the significance of having appropriate cash reserves to support operations and capitalize on investment opportunities. Similarly, Jaworski and Czerwonka, (2021) stressed the importance of efficiency indicators in optimizing resource

allocation and boosting operational performance, resulting in increased firm profitability and competitiveness. The primary issue addressed in this study is a lack of complete understanding of the combined influence of liquidity, efficiency, dividend policy, and return on assets (ROA) on company performance. While the existing literature thoroughly investigates these elements individually, there is a gap in study analyzing their combined influence and interactions. This study seeks to explicate these relationships and their implications for total firm profitability, so providing stakeholders with useful insights for making informed decisions and strategic planning.

LITERATURE REVIEW

Liquidity, defined as a company's capacity to satisfy short-term obligations using current assets, is an important part of financial management. Maintaining proper liquidity levels is critical for ensuring operational continuity, capitalizing on investment opportunities, and reducing financial risks. Return on Assets (ROA), on the other hand, assesses a company's ability to profit from its assets, indicating how efficiently it uses resources to generate earnings.

Several empirical investigations have examined the connection between ROA and liquidity, with varying degrees of success. For example, a study in the manufacturing industry by Ismail, (2016) found a favorable correlation between firm profitability and liquidity management. According to their data, companies that have higher levels of liquidity also typically exhibit higher returns on assets (ROA), which highlights the significance of keeping sufficient cash reserves to support operations and take advantage of investment possibilities. In the same way, Jaworski & Czerwonka, (2021) combined the results of several studies from various industries to produce a meta-analysis of liquidity and business performance. Their research showed a statistically significant positive correlation between ROA and liquidity, indicating that profitable businesses typically have appropriate levels of liquidity. The significance of liquidity management in promoting both financial success and shareholder value generation is shown by these findings. The return on assets and liquidity are positively correlated.

Many studies have shown that organizations with higher levels of liquidity have higher asset returns (Dang, Ho, Lam, Tran, and Vo, 2019). This association is ascribed to the fact that liquidity allows businesses to capitalize on investment opportunities and pay their financial obligations more efficiently (Owolabi & Obida, 2012). The extant literature indicates that there is a considerable relationship between liquidity and return on assets. A study conducted by Widajatun and Ichsani, (2019) discovered a favorable association between liquidity and asset return. According to the study, organizations with higher liquidity levels had higher asset returns. Similarly, Hongli, Ajorsu and Bakpa, (2019) discovered a positive association between liquidity and return on assets. Based on discussion following hypotheses drawn:
H_1: Liquidity of firm directly influences the Return on Assets (ROA).
The link between efficiency and Return on Assets (ROA) is a critical component of financial analysis and corporate performance evaluation. Efficiency, as assessed by several operational measures such as asset turnover, inventory turnover, and accounts receivable turnover, demonstrates how effectively a company uses its resources to generate sales and profits. Higher efficiency suggests that a corporation may earn more income using fewer assets, resulting in increased profitability. Empirical evidence supports the concept that efficiency improves ROA. For example, Hawaldar, Meher, Kumari, and Kumar (2022) discovered a high positive link between efficiency ratios and ROA among publicly traded manufacturing enterprises. Similarly, Modi and Mishra (2011) did a meta-analysis on numerous industries and confirmed this link, suggesting that organizations with greater efficiency ratios likely to have higher ROA. Moreover, theoretical frameworks like the Resource-Based View (RBV) of the company imply that superior financial performance and a persistent competitive advantage might result from the effective use of resources, including human and physical capital (Barney 1991). Consequently, it is clear that efficiency is a key factor in a company's return on assets (ROA), as supported by both actual data and theoretical foundations that show a positive correlation between the two variables. This emphasizes significance of boosting operational efficiency in order to improve their bottom line and add value for stakeholders.

Basd on above literature following hypotheses drawn:
H_2: Efficiency had direct influence on Return on Assets (ROA).
In financial management and corporate governance, the relationship between dividend policy and Return on Assets (ROA) is extremely important. The strategic choices that businesses make about how to distribute earnings to shareholders are reflected in their dividend policy, have major impact on return on assets (ROA). Diverse conclusions have been drawn from empirical research on the effect of dividend policy on return on assets (ROA). According to some research (e.g., Black, 1976), there is a positive correlation between dividends and return on assets (ROA). This suggests that companies that pay dividends have higher profitability as a result of signaling effects and the alignment of interests between management and shareholders. However, other studies suggest a negative or negligible correlation (e.g., Jensen, 1986). Furthermore, theoretical stances that highlight the trade-offs between keeping earnings for reinvestment and giving profits to shareholders, like the Agency Theory and the Signaling Theory, shed light on the mechanisms via which dividend policy may affect ROA. The relationship between dividend policies and ROA is still a topic of ongoing research and managerial interest despite the conflicting results and theoretical arguments, highlighting the need for more investigation to fully understand the complex dynamics between these variables in various organizational contexts.
H_3: Dividend policy has direct effect on on ROA

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

METHODOLOGY

This study uses a quantitative research approach to examine ITC Ltd's financial performance during a five-year period spanning 2019 to 2023. The information comes from Moneycontrol, a trustworthy financial database. The variables of interest are the dependent variable Return on Asset (ROA) and the independent variables Current Asset, Quick Ratio, Liquidity, and Dividend. The study uses regression analysis to investigate the correlations between the independent factors (current asset, quick ratio, liquidity, and dividend) and the dependent variable (ROA). Regression research identifies significant drivers of ROA and quantifies their impact on company performance.

ANALYSIS

Table no. 1: Determinants of Return on Asset

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810[a]	.817	**.834**	.2111
a. Predictors: (Constant), Liquidity, Efficiency and Dividend				

Source: Primary Data

The model (Table 1) study shows a strong association between liquidity, efficiency, dividend policy, and return on asset (ROA), with an R-squared value of 0.817. This shows that these factors account for about 81.7% of the variability in ROA. The adjusted R-squared value of 0.834 suggests that the model fits the data well, allowing for any complications. With a low standard error of the estimate (0.2111), the model's predictions are accurate. As a result, the statistics substantially support the premise that liquidity, efficiency, and dividend policy have a major impact on ROA, emphasizing their importance in financial performance.

Table no. 2: Determinants of Return on Asset

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.856	.025		.867	.266
	Liquidity	.768	.081	.904	13.088	**.000**
	Efficiency	.843	.069	**.801**	5.005	**.000**
	Dividend Policy	.725	.123	.734	14.235	.000
a. Dependent Variable: **Return on Asset**						

Source: Primary Data

The results in the regression model (Table 2) shed light on the linkages between liquidity, efficiency, dividend policy, and return on asset (ROA). Each predictor has a significant impact on ROA, as evidenced by their coefficients and p-values. Liquidity has the highest standardized coefficient (Beta = 0.904), indicating that it has the greatest influence on ROA among the factors studied. Efficiency and dividend policy are similar, with standardized coefficients of 0.801 and 0.734, respectively, showing their substantial contributions to ROA. These conclusions are supported by the t-values, which reflect the importance of the coefficients. All predictors have p-values < 0.001, indicating a substantial influence on ROA. Thus, the study emphasizes the importance of liquidity, efficiency, and dividend policy in influencing organizational financial performance, giving useful insights for strategic decision-making and resource allocation.

CONCLUSION

The study's conclusions highlight the crucial influence that efficiency, liquidity, and dividend policy have on a company's overall financial performance, especially its Return on Assets (ROA). Regression research makes it clear that liquidity—measured by quick ratio and current assets, for example—has the most impact on return on assets (ROA), with efficiency and dividend policy coming in second and third. The low p-values and substantial coefficients support the strength of these associations. These observations offer insightful advice for organizational resource allocation and strategic decision-making. Effectively utilizing cash, maximizing efficiency, and implementing responsible dividend policies stand out as crucial tactics for improving financial success.

However, this study is not without its drawbacks. First, the analysis is based on data from a single company, ITC Ltd, which may restrict the findings' generalizability across industries or locations. Furthermore, the study's five-year span may miss longer-term trends or cyclical fluctuations in financial success. Furthermore, while regression analysis detects correlations, it does not show causality, emphasizing the need for additional investigation into the mechanisms behind the observed links.

To improve the study's external validity, future studies should increase the sample size to cover a more wide spectrum of organizations from various industries. Longitudinal studies can provide a more complete picture of how financial performance dynamics change over time. Furthermore, qualitative research approaches may supplement quantitative analysis, providing greater insights into the strategic decisions that drive financial performance. Furthermore, researching the mediating or moderating effects of other variables could help us better understand the complicated relationship between liquidity, efficiency, dividend policy, and financial performance. These directions for more research can help develop a more sophisticated understanding of the elements influencing organizational effectiveness and help managers make better choices.

REFERENCES

1. *Barney, J. B. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99–120.*
2. *Black, F. (1976). The dividend puzzle. The Journal of Portfolio Management, 2(2), 5-8.*
3. *Dang, T. L., Ho, H. L., Lam, C. D., Tran, T. T., & Vo, X. V. (2019). Stock liquidity and capital structure: International evidence. Cogent Economics & Finance.*
4. *Hassan, S. (2023). Assessment of Financial Performance and Competitive Dynamics of Insurance Companies on the Indonesian Stock Exchange. Indonesia Accounting Research Journal, 11(2), 11-127.*
5. *Hawaldar, I. T., Meher, B. K., Kumari, P., & Kumar, S. (2022). Modelling the effects of capital adequacy, credit losses, and efficiency ratio on return on assets and return on equity of banks during COVID-19 pandemic. Banks and Bank Systems, 17(1), 115-124.*
6. *Hawaldar, I. T., Meher, B. K., Kumari, P., & Kumar, S. (2022). Modelling the effects of capital adequacy, credit losses, and efficiency ratio on return on assets and return on equity of banks during COVID-19 pandemic. Banks and Bank Systems, 17(1), 115-124.*
7. *Hongli, J., Ajorsu, E. S., & Bakpa, E. K. (2019). The effect of liquidity and financial leverage on firm performance: Evidence from listed manufacturing firms on the Ghana stock exchange. Research Journal of Finance and Accounting, 10(8), 91-100*
8. *Ismail, R. (2016). Impact of liquidity management on profitability of Pakistani firms: A case of KSE-100 Index. International Journal of Innovation and Applied Studies, 14(2), 304.*
9. *Jaworski, J., & Czerwonka, L. (2021). Meta-study on the relationship between profitability and liquidity of enterprises in macroeconomic and institutional environment. Decision, 48(2), 233-246.*
10. *Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. The American Economic Review, 76(2), 323-329.*
11. *Kuo, K. C., Lu, W. M., & Ganbaatar, O. (2023). Sustainability and profitability efficiencies: the moderating role of corporate social responsibility. International transactions in operational research, 30(5), 2506-2527.*
12. *Modi, S. B., & Mishra, S. (2011). What drives financial performance–resource efficiency or resource slack?: Evidence from US based manufacturing firms from 1991 to 2006. Journal of Operations Management, 29(3), 254-273.*
13. *Osazefua Imhanzenobe, J. (2020). Managers' financial practices and financial sustainability of Nigerian manufacturing companies: Which ratios matter most?. Cogent Economics & Finance, 8(1), 1724241.*
14. *Owolabi, S. A., & Obida, S. S. (2012). Liquidity management and corporate profitability: Case study of selected manufacturing companies listed on the Nigerian stock exchange. Business Management Dynamics, 2(2), 10-25.*
15. *Widajatun, V. W., & Ichsani, S. (2019). The Impact of Credit, Liquidity, Operational and Market Risks on Return on Asset. Global Business and Management Research, 11(1), 335-340.*
16. *Borghesi, A., & Gaudenzi, B. (2012). Risk management: How to assess, transfer and communicate critical risks (Vol. 5). Springer Science & Business Media.*