Study and Analysis of Dividend Policies, Practice and its Application in Mumbai Based Corporate Houses

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Abstract

In the present paper an attempt has been made to study dividend policy of Mumbai based companies of India. The study tries to assess the level of perceived awareness about models and use of dividends policies, analyses the factors affecting dividend distribution decisions and evaluates the impact of the same on the financial decision-making of companies. In addition the paper tries to understand the correlation between size of companies and distribution of dividend policies. The results of the research paper show that a majority of the fifty respondent Companies follow a policy of consistent dividend rate which is influenced by profit after tax, and finally the legal requirements. It is further observed that generous dividend or erratic divided policies are not popular choice among fifty respondent companies. The use of traditional method of dividend policies which suggests that market price increases with declaration of dividend is strong and dominant. Followed by the Modiglani Miller Method which indicates that dividend distribution has no impact on valuation. On the contrary it is found that Investment decisions influence share valuation .This is further followed by Walter Model where impact of dividend on share price depends on the IRR visa-a-vis cost of capital) and . Gordon Method in which dividend policy has an impact on share valuation. Statistical tests such as Friedman's ANOVA test, Kruskal-Wallis ANOVA ,and ,Karl Pearson's Coefficient of Correlation analysis are used for analysis and the validity of the collected data is checked by using Cronbach's alpha.

Keywords: CEO, Compensation, Mergers, Acquisitions, Firm Performance

1. Introduction

The scenario of global challenges, divergences in macroeconomic policies, massive structural pressures and shifts of interest rates/exchange rates and of course relative prices of commodities along with volatile, social, political and economic conditions, financing decisions have become one of the most critical areas for finance managers.

Financing, Investment and Dividend are the triad decisions and form the basic components of corporate financial management policy. While Financing decisions require an appropriate selection and combination of capital from available sources, investment decisions are concerned with the efficient deployment of capital funds , dividend decisions involve the periodic determination of proportion of a firms total distributable earnings that is payable to its ordinary shareholders. The larger the dividend paid, the less are the funds available for reinvestment. Thus to that extent the company will have to rely more on other sources of long term funds to finance projects. In developed countries, the decision between paying dividend and retaining earnings has been taken seriously by both investors and management and has been the subject of considerable research by economists in the last four decades.viz Lintner, 1956; Brittain, 1964; Modigliani and Miller, 1961; Pettit, 1972; Black and Scholes 1973, Michael, Thaler and Womack, 1995; Dhillon and Johnson, 1994; Amibud and Murgia, 1997; Charitou and Vafeas, 1998.

Financial economists have therefore, acknowledged the after tax earnings of any business firm as an important internal source of investible funds and also a basis for dividend payments to shareholders. The decision to retain, reinvest or pay out after tax earnings in form of cash or stock dividend is important for the realization of corporate goal which is maximization of the value of the firm [Soyode [1975], Oyejide [1976], Ariyo [1983].

This has created altogether different diversified pro and contra views about the theory, practices and trends

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in dividend policies of corporates. Hence, under this scenario, the present study tries to address Mumbai based companies with respect to the use of financial management methods and its implications in decision-making of companies in fifty selected Mumbai based companies Thus the study attempts to investigate the recent trends in dividend distribution practices in relation to various characteristics of business such as size, CFOs qualification and other characteristics based on market capitalization, assets, revenue et al.

Dividend policy has long been a subject of research and debate. There are many theoretical and empirical results relating to decisions taken by companies in this area. However, there is no generally accepted, uniform model describing payout policy. Moreover, empirical findings are often contradictory or difficult to interpret in light of the theory. In this study, we conduct a comprehensive research that describes the current practices with respect to dividend policies of respondent companies. The best-known field study in this area is John Lintner's (1956) path-breaking analysis of dividend policy. The results of that study are still quoted today and have deeply affected the way that dividend policy research is conducted. In many respects, our goals are similar to that of Lintner's. The outcome of this study should be hopefully useful to develop new theories and potentially modify or abandon obsolete or existing views.

It has always been an area of interest for researchers to understand the use of dividend related theories, policies and its application in corporate decision-making. This paper attempts to identify the most widely prevailing dividend policies ,practices and techniques in the fifty respondent companies of Mumbai Inc. in order to assist both researchers and practitioners in keeping abreast of the state of the art in dividend policies and practices Thus, the insights presented in this study could be of interest for both researchers and practitioners in different areas of finance in many ways – further research, consultancy, and development of literature in finance and improved teaching-learning process as well as new directions to decision-making.

The data obtained from fifty respondent companies, including private/public sector/s companies, represented a cross section of nine industries viz. '*Research Methodology and Statistical Tools* 'includes the following: the area of study, universe ,representation of sample, data collection, proposed statistical tools and techniques ,data collection techniques, sample description including sample techniques stratified, validity, internal reliability of data, data analysis ,industry profile, sectorial classification, control variables and hypotheses (major minor).Analysis and interpretation of data collected by qualitative analysis, quantitative analysis, frequency tables, graphs SPSS reports and using statistical tests.

The details of the topic explores the Models Used for Dividend Policies, Factors Influencing Dividend Policy and Types of Dividend Policies:

Literature Review

There are many theoretical and empirical results describing the decisions companies make in this area. At the same time, however, there is no generally accepted model describing payout policy. Moreover, empirical findings are often contradictory or difficult to interpret in light of the theory. In their seminal paper, Miller and Modigliani (1961) showed that under certain assumptions dividends are irrelevant; all that matters is the firm's investment opportunities. Miller and Modigliani considered the case of perfect capital markets (no transaction costs or tax differentials, no pricing power for any of the participants, no information asymmetries or costs), rational behaviour (more wealth being preferred to less, indifference between cash payments and share value increases) and perfect certainty (future investments and profits are given). In real life, however, people seem to care about dividends. Lintner (1956) classical study on dividend policy suggests that dividends represent the primary and active decision variable in most situations. Lintner suggests a model of partial adjustment to a given payout rate. Bhattacharya (1979) builds a two-period model with two types of firms. Investments are made during the first period; their expected profitability is known to management, but not to outside investors. In order to signal the quality of their investment, the managers of good firms (managers are assumed to act in the interest of initial shareholders) will commit to paying high dividends in the second period. Since attracting outside financing (during the second period) is expensive due to transaction costs, the low quality firms will be unable to imitate the .high quality ones. Miller and Rock (1985) also build a signalling model - the cost of the signal in their version being forced reductions in investment.

The model of John and Williams (1985) uses taxes as the main cost of dividends; thus, unlike the previous two

models, it can be used to distinguish between dividends and share repurchases, which enjoy a more favourable tax treatment**.** This model suggests that 'High dividends are a signal of undervalued shares. (high firm quality) - Shareholders will have to pay taxes on them, so they retain only proportionately higher share in the firm, which is valuable to them.' The opposite is true if the firm is overvalued. As per bird in hand theory of Myron Gordon and John Lintner investors think dividends are less risky than future potential capital gains hence they like dividends so investors value high payout firms more highly and hence high payout results in high valuation. Just opposite to this is the tax preference theory of M & M suggests retained earnings lead to long term capital gains which are taxed at lower rates than dividends and capital gains are also deferred This cause investors to prefer firms with low payout and hence high payout results in lower valuation and vice a versa.

John and Williams also show that their model implies that dividends are

Smoothed with respect to share prices rather than net cash inflows as in previous models. They suggest that firms with more risky returns on assets pay lower dividends, all other things being equal.

Kumar (1988) builds a model that explains dividend smoothing - one of the most salient features of dividend policy. Dividends once again signal a firm's quality (productivity), but, since they are over invested in the firm, managers will try to under invest by underreporting a firms productivity. While there is no fully revealing equilibrium, Kumar shows that firms will tend to cluster around optimal dividend levels. Agency theory suggests that dividends can be used as a means to control a firm's management. Distributing dividends reduces the free cash flow.

Problem and increases the managements equity stake. The question remains why the shareholders would not use debt or share repurchases instead. LaPorta, Lopezde-Silanes and Shleifer (2000) find that in countries with better shareholder rights firms pay proportionally more dividends. Therefore there is no evidence that in countries with low investor protection, management will voluntarily commit itself to pay out higher dividends and allow itself to be monitored more frequently by the market.

Fudenberg and Tirole (1995) mode shows that, when managers are risk-averse and more recent information has a higher weight in assessing their performance, there will be both dividend and earnings smoothing. Another agency problem is that between shareholders and debt holders, the risk that shareholders will expropriate debt holders by paying themselves excessive dividends has led to the often encountered covenants restricting dividend policy in bond contracts. Empirical studies also suggest that firms hold more cash than the minimum stipulated in bond contracts in order to consolidate their reputation as good quality borrowers. (Kalay 1982). The reputation effect is also supported by the fact that firms in financial distress are reluctant to cut dividends (DeAngelo and DeAngelo 1990). Mohanty's (1999) survey of the dividend payout ratio of 2,535 Indian companies indicates that firms maintain a constant dividend per share and have fluctuating payout ratio depending on their profits. Raghunathan and Dass (1999) find that the top 100 and high net worth companies have maintained a programme should replace dividend payments of the firm than the small firms. The highly profitable and growth firms (based on ROCE and EVA, P/E) significantly less strongly disagree to the share buyback programme replacing dividend payments than the low profitable and low growth firms.

To sum up, there are several credible explanations for the existence of dividends, although none of them is generally accepted or above criticism. The Miller and Modigliani proposition of dividend irrelevance is still widely mentioned, though it continue to remain as an unsolved dividend puzzle.

Objectives of the Study

The present study explores the financial management practices with respect to dividend policies in fifty respondent companies keeping in mind the following objectives:

a) To identify corporate financial management practices in India with focus on dividend policies.

b) To assess the level of perceived awareness about models and use of dividends policies

c) To study the factors affecting the decisions of distribution of dividends and evaluate the impact of distribution of dividend on the financial decision-making of the companies.

To understand correlation between size of companies and distribution of dividend policies

Research Methodology and Type of Study

The methodology is divided into following stages: First stage of research work includes an understanding of the existing Dividend distribution practices, objectives, issues, benefits and impact of these financial decision-making in corporate after consultation with different CFOs, Financial Managers or CEO's, Senior Finance Managers (in some cases, particularly, in small scale industries) in Mumbai.

The second stage was a careful review of the existing literature followed by the third stage which included a 'designed questionnaire' was circulated to a group of prominent academics for feedback. The suggestions were then incorporated in the questionnaire. To facilitate the said pilot study of questionnaire testing process, a comprehensive primary survey was conducted by directing the questionnaire to a few of the fifty respondent CFO's/CEO's of companies in India limiting to Mumbai.

Area of Study

Emails, personal interviews, meetings and telephonic conversation with senior managers of finance and CFOs enabled collection of information with respect to dividend policies and practices of Mumbai based respondent companies.

Universe and Sample

An attempt to include cross section of companies in Mumbai is made. For this purpose, stratified and random sampling was used.. The companies were classified further based on market capitalisation, revenue and assets .The research design is exploratory and descriptive

Data Collection and Proposed Tools

The secondary data was collected from financial statistics of the respective companies and other secondary sources which include data from the following:

Money control, RBI and capital Market. The investor's guide to Indian Corporate Data on Market Capitalisation - Compendium 2012, Business Today, Fortune 500.

Thus, keeping in mind the above thought process for research, 4 hypothesis are tested.

The Sample and Characteristics

While data was collected from as many as 80 companies, there were only 50 companies in case of which the information was adequate to be included in the analysis. The companies were Grouped into 9 industry categories viz. IT, Manufacturing, Automobile, Aviation Oil and gas refineries, Finance and Investment, Chemical, Pharma, Real Estate. The final response of 50 companies was considered as a sample for the research. The companies were further classified as large, medium and small based on market capitalisation, revenue and assets.

The survey asked the CFO's, Senior Finance Officers or CEO's (in case of small companies) to respond to most of the questions on dividend policies on the Likert scale of 0 to 5 (where 0 means '***never used***' 1 means '***rarely used***' and 5 means '***always used***'). This approach provided data on the method used and relative importance of each method in the decision-making process (Wong, Farragher and Leung, 1987).

Every year, Business Today features a report on India's most valuable 500 companies and ranks them based on their market capitalisation. In its issue of 'Capital Market Compendium 2012 - Fortune Top 500' companies have been ranked based on their assets, sales and market capitalisation. The primary data for the present study consisting of 50 companies constitsute 33% and 28% of these top 500 companies, with and without banks respectively, based on market capitalisation whereas these 50 companies constitute 25% and 15%. Of these top 500 companies, with and without banks respectively, based on assets,15%, 6% based on sales revenue and 36,29% based on PAT. This justifies the sample size

The said list excludes banks and NBFCs are beyond the scope of the present study.

For the analysis, the firms have been classified into small, medium and large based on the assets, market capitalisation, sales and PAT. The Mann -Whitney U test, Friedman has been used to test whether responses differ across firm size, profitability, and sector.. The data on sales, export sales, assets, market capitalisation, PE ratio and industry classification of respondent companies were taken from the Capital Market 500 Compendium 2012, The Economic Times, The Times of India.

The market capitalisation data in respect of respondent companies were taken from capital market 500 compendium 2012.

Fig. 1: A sample – Representation of Population

Nos. of Companies	*Market Capitalisation*	*Sales*	*Assets*	*PAT*
50 Companies	12,66,502	11,82,703.90	8,25,504	1,11,500
100 Companies (with bank)	43,54,573	41,12,743	1,04,55,006	3,01,138
% To 100 Companies (with bank)	39%	28.75%	9.56%	37.05%
Top 100 Companies (without banks)	36,57,245	34,48,869.55	34,30,789	2,45,206.79
% To 100 Companies (without bank)	46%	34.30%	24.06%	45%
500 Top Companies (with bank)	60,17,339	54,23,984	1,35,33,486	3,82,335
% Top 500 Companies (with bank)	28.43%	21.80%	6%	29%
Top 500 Companies (without banks)	52,35,405.70	46,64268.40	53,93,865	3,06,573.83
% To 500 Companies	32.68%	25.35%	15%	36%

Data Analysis

Data is analysed through cross tabulation and statistical tools such as Friedman's test, Kruskal-Wallis ANOVA, and , Pearson's Coefficient of Correlation analysis The validity of the questions of collected data is done by using Cronbach's alpha.

Pilot Study

The collected data are subjected to the Cronbach alpha, chi-square test of independence in order to determine if there is significant variation in the use of financial tools according to the characteristics of the firms .The test is then applied when there were two categorical variables from a single population

Fig. 2: Reliability Test – Used for Reliability and Analysis of questions

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SCALE STATISTICS

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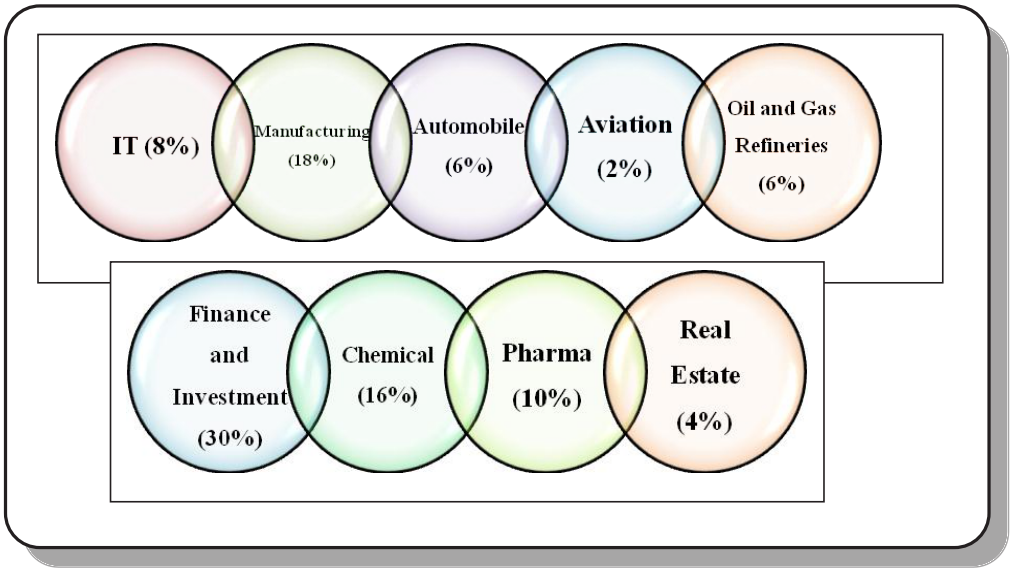
Case Processing Summary						
Cases	Valid	51	100.0			
	Excluded[a]	0	.0			
	Total	51	100.0			

a. Listwise deletion based on all variables in the procedure.

Fig. 3: Cronbach Alpha

Reliability Statistics				
Cronbach's Alpha	N of Items			
.90	10			

Fig. 4: Profile of Companies – Sectorial Classification:



3.2 Hypotheses: The four hypotheses framed for this research study ,on dividend policies, presented below, are based on the variables which are considered as proxies used by various research papers, articles and thesis (as mentioned in literature review).

Fig. 5: Hypotheses for Research

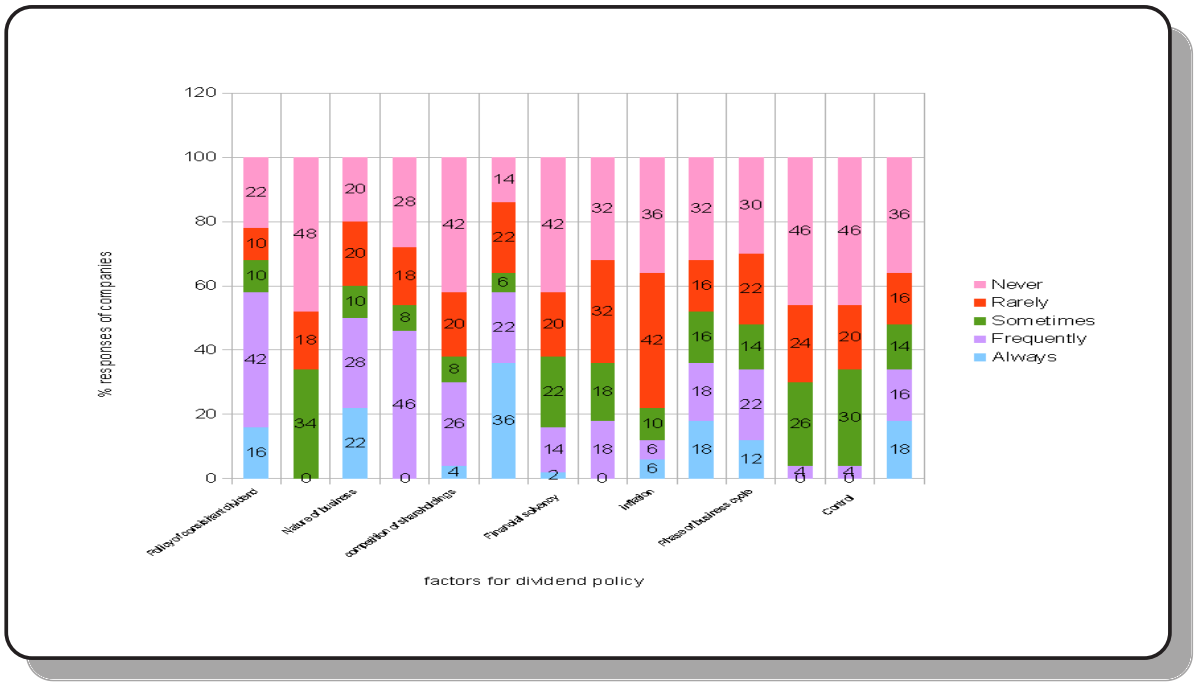
Sr. No.	*Question No.*	*Hypot-hesis H_o / H_i*	*Statement*	*Statistical Tools Used*	*Analysis*	*Hypothesi Accepted / Rejected*	
1	Q 1	H_o:	1Fifty respondent firms are not identical while ranking the 14 factors governing the dividend policy.	Friedman's ANOVA test	Overall analysis	.00<.005 p value is <.005 H_o Rejected	
2	Q2	H_o: H_i:	2The five methods of dividend policy are ranked equally by all fifty respondent companies.	Friedman's ANOVA test	Overall analysis		

3 4	Q3	H_o: H_i:	3The respondents are not identical in the ranking of models of dividend by companies while determining relationship between dividend policy and market price of equity shares. 4No correlation between size of company and the dividend models used by the companies	Friedman's ANOVA Pearson's correlation	Analysis based on company characteristics)	Rejected H_o as p value 0.003 < .005 No significant difference The strong positive correlation 0.771 is significant at 0.01 (1 tailed).	

Results of the Present Study

'Factors *influencing dividend policies of respondent companies"*--: The respondents were asked to indicate the relative importance of 14 different factors that influence dividend policies of respective respondent companies. A number of published studies have reported findings as to which techniques are being used and how firms are driving dividend decisions. Different authors have made comparisons of the findings and have generally used the results to suggest that firms are using stable dividend policy to a greater extent. No significant difference between the responses of companies while ranking 14 factors that influence the dividend policy of company Refer:

Graph 1.1: Factors Influencing Dividend Policies of Respondent Companies



The factors that have a strong influence on the dividend policy of respondent companies are:

- reinvestment opportunities 58%;
- consistent dividend rate 58%;
- nature of business 50%; and
- objectives of management 46%.

The three factors:

- phase of business cycle 34 %,
- sources of finance 34%, and
- cash positions 36%

have, moderate influence , though ,on the dividend decisions .

The attributes like ownership considerations 00, desire for financial solvency and liqidity 16%, regularity 18%, inflation 12%, surfeit cash 4% and control 4% have very little influence on dividend decisions.

In particular, dividend decisions are not at all affected by ownership considerations. Respondent companies showed a negative response towards role of factors such as surfeit of cash 4% and control 4%.

Thus, the results are consistent with the findings given in the research paper published in South Africa to the extent that there has been a significant growth in the firms paying dividends despite costs associated with it such as tax disadvantage of dividends and transaction cost associated with the fresh issue of equity.

The analysis of respondent companies classified as large and small companies

Visa- a -vis market capitalization, used mean value of said classification which is presented below:

- company policy of consistent dividend rate, 2.88v/s. 1.564;
- nature of business, 2.22 v/s 2.17;
- objectives of management, 1.98 v/s. 1.60;
- composition of shareholdings, 2.12 v/s. 1.73;
- desire for financial solvency and liquidity,2.7 v/s. 2.24;
- phase of business cycle, 2.49 v/s. 1.01;
- surfeit 2.90 v/s. 2.08,control;
- 2.46 v/s. 1.85;
- sources of finance, 1.15 v/s. 0.844;
- others 1.07 v/s. 0.809.

It was found, as seen from the above, that the mean values of different attributes of large and small companies based on market capitalization are higher for large companies than small companies for attributes (Refer S.P. Report 2.1 - Descriptive Statistics of Factors taken into Consideration while Deciding the Sources of Finance or Proportion of Funds).

The large and small companies have shown identical responses with same mean values towards investment opportunities, 2.20 v/s. 2.29 and surfeit of cash, 1.23 v/s. 1.22.

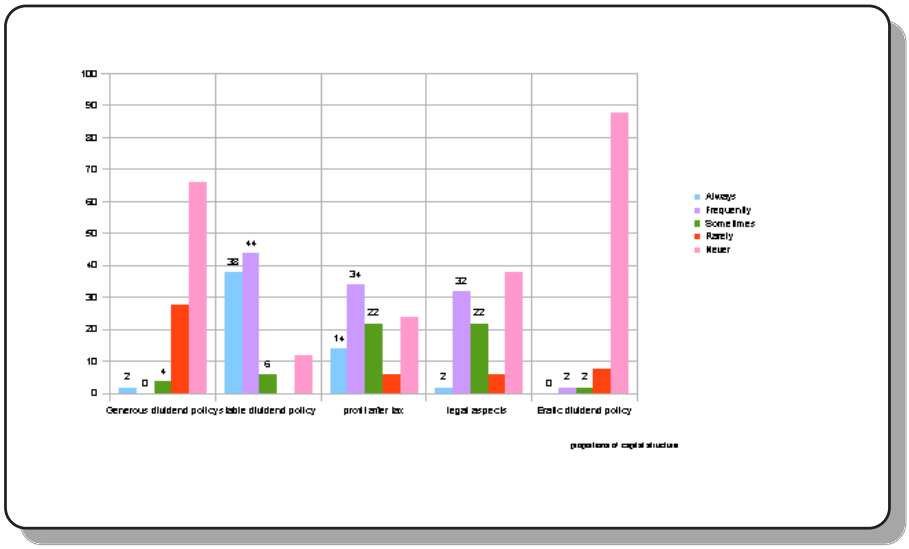
The attributes such as 'ownership consideration, 0.747v/s. 0.844', 'regularity of dividend payment' 2.01 v/s. 2.29'. Inflation 0.948v/s. 1.564 are more important (higher mean values for small companies as compared to large companies.

Results of the Present Study

2 Ho: The five methods (consistent dividend rate policy, erratic divided policy, profit after tax, legal aspect and bonus policy**)** of dividend policy are ranked equally by all fifty respondents.

H_o rejected as p <.005.

Graph 2.1: Responses of Companies Showing Types of Dividend Policies of the Company



The respondents were asked to indicate the different methods of dividend policies used. The results in Frequency Table 2.1 indicate that 82% of the respondents strongly agree and agree that their firms have a of consistent dividend rate policy 85% of the respondents strongly agree and agree that dividend changes in their respondent companies are driven by changes in long-run sustainable earnings. Only 48% of the respondents agree that the dividend policy is a residual decision after meeting tax from net profit and desired investment needs.

***Refer Izra Solman.The Theory of Financial Management"pp141**

***In a world of perfectly rational investors & managers , dividends can be treated as passive residual. In such a world, firm would invest the internal funds either within the firm or by acquiring assets of another firm, subject only to the constraint that each new investment has present worth greater than zero. i.e the expected yield on internal investment is greater than the capitalisation rate for earnings of the quality expected. "After all such investment opportunities have been exhausted, any internal funds remaining would be distributed to stockholder as cash dividends.**

***The author questions" in his book on theory of financial management "which policy of dividend is correct ?**
1 one that treats internal investment needs as a prior active decision with dividends if any as a residual distribution or 2 one that treats stable dividends as an active decision variable with retentions as a residual ?or 3 Is it really a matter of indifference as far as the goal of net present worth maximisation is concerned . All the three points of view have their adherents in theory as well as in practise
First ideological argument is that the market should decide the reallocation of earnings to investment.
A second argument is that the tax laws forbid and penalise undue retentions. Th argu applies only when the retention is demonstrably for the purposes of personal income tax avoidance.
A third argument is that there are enough investors who have irrational preference for dividends as opposed to capital gains. They depend on dividends for spendable funds and are unprepared to exchange dividend receipts for greater amt of funds if this requires them to sell fraction of their holdings.
A forth and crucial argument is that stable generous dividends are valued more highly than unstable niggardly dividends assuming no variation in the stability of earnings and dollar of dividend is valued more than a dollar of net present worth.Cross section of statistical studies show that relation between market values & dividends are stronger than the corresponding. and earnelation between market value and earnings.

The findings of the survey are in agreement with the findings of Lintner's (1956) study on dividend policy.

Companies which are creating shareholder value, using EVA as an index of performance are, and significantly so , not in favor of liberal dividend policy in the wake of ready reinvestment opportunities compared to companies which are not creating shareholder value for dearth of reinvestment opportunities.

The use (in percent) of different dividend policies by companies are as follows:

Company policy of consistent dividend rate 82%, profit after tax 48%, and legal aspects 34%.

The response shown by fifty companies for use of policy of generous dividend, bonus policy is 2% and erratic divided policy 2% both of which are very low as compared to other findings.

Refer SP Report No. 2.1 - Friedman Test - Descriptive [DataSet0] of Responses of Companies showing the Methods of Dividend Policy of the Company.

For testing the Hypothesis whether fifty respondent firms are 'identical or not' while ranking the types of dividend policies the company follows, we have used Friedman test. The p value obtained by using the said test is less than .0050 which means that the hypothesis null is rejected. Two 2 - tailed significant values are $0.000 < 0.005$ which means again that the hypothesis H_o is rejected that is to

say '***the fifty companies did not respond differently with respect to use of dividend policy***'

SP Report No. 2.3 - Correlations Statistics of Factors Responses of Companies showing the Types of Dividend Policy of the Company.

There is positive correlation observed between the size of company based on market capitalization and dividend policy.

The large firms (based on market capitalization) are significantly correlated with the two policies. Viz erratic divided policy and profit after tax showing a strong Karl Pearson correlation with values 0.956, and 0.978 respectively.

Frequency Table No. 2.1 - Responses of Companies showing Types of Dividend Policies of the Company. Nearly 34% of the respondents strongly agree/agree that the dividend policy decision depends upon the regulatory or legal aspects as an important dimension governing dividend policy decisions. The untabulated results show that the respondents agree that the investors have different relative risk perceptions of dividend income and capital gains and are not indifferent between receiving dividend income and capital gains. The non-CA CFOs are more likely to consider the dividend policy as a residual decision than the CFOs with CA qualification.

If company is committed to capital expenditures equivalent to 100% of PAT , Shareholders will receive no dividends which they may not mind if the reinvestment rate of successor project is greater than the rate of investment made by shareholder. On the other hand if the company is commiteed to pay a given amount of dividend every year ,capital expenditure will be a bridged and restricted to t available to he residual PAT available after dividend appropriation. This may result in loss of benefits which are foregone on investements which could have been made if dividends were not paid. (positive NPVor IRR>cost of capital).Thus the Banker Theory may be useful because it enables the Shareholders to have a cake and eat it too. After paying dividends as per policy all successor projects can be pursued through sources of funds which include available internal generation and deficiencies obtained through debts.

Undaunted by the conflict between two theories Ezra Solo man argues in his book on **Theory of Financial Management "Industries with large proportion of fixed capital should employ the New England Theory and Industries with large percentage of liquid assets lean toward the Banker Theory"**

For testing the Hypothesis whether "fifty respondent firms 'are identical or not' while ranking the types of dividend policies, we have used Friedman test. The p value obtained by using test is less than .0050 which means the hypothesis null is rejected 2 - tailed significant values are 0.000< 0.005 which means the hypothesis H_o is rejected that is '*the fifty companies did not respond differently for use of dividend policy*'

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Nearly 34% of the respondents strongly agree/agree that the dividend policy decision depends upon the regulatory or legal aspects as an important aspect of dividend policy decisions. The table result show that the respondents agree that the investors have different relative risk perceptions of dividend income and capital gains and are not indifferent between receiving dividend income and capital gains. The non-CA CFOs are more likely to consider the dividend policy as a residual decision than the CFOs with CA qualification.

About more than half of the respondents agree that dividend payments provide a bonding mechanism so as to encourage managers to act in the best interest of the shareholders. (Pl refer on Tata Motors AGM)

This belief is shared by the CFOs of the private sector than the public sector.

The percent use by companies adopting dividend policies are as follows: company policy of consistent dividend rate82%, profit after tax 48%, legal aspect 34%. The response rate for use of policy of generous dividend and bonus policy is 2% and erratic divided policy2% which is very low as compared to other findings. For testing the hypothesis 'whether fifty respondent firms are identical or not while ranking the types of dividend policies the company has.We have used Friedman test. The p value

obtained by using test is less than .0050 The 2 -tailed significant values are 0.000< 0.005 which means the hypothesis H_o is rejected that is 'The fifty companies do not responded differently for use of dividend policy.

There is positive correlation observed between the size of company based on market capitalisation and dividend policy. The large firms (based on market capitalisation) are significantly correlated with the two policies, erratic divided policy, profit after tax showing the strong correlation coefficient r = 0.956, and r= 0.978.

4.3 Results of the Present Study

According to you, which model is appropriate as far as relationship between dividend policy and market price of equity shares?

3 Ho : The respondents are not identical in the ranking of models of dividend by companies while determining relationship between dividend policy and market price of equity shares

4 Ho: There is no correlation between different dividend policy methods adopted by the companies and size of companies

35% responses show that the use of traditional model of dividend is dominant among the different dividend models used by companies as far as relationship between dividend policy and market price of equity shares. The theory of Net Operating Income approach supports these findings.

There is no significant difference in the use of various models adopted by company. There is no significant difference in the ranking of models of dividend by companies while determining relationship between dividend policy and market price of equity shares.

The mean values calculated and pie chart shows that the most frequently used method amongst all is traditional method which is based on the concept that '***market price increases with declaration of dividend***'.

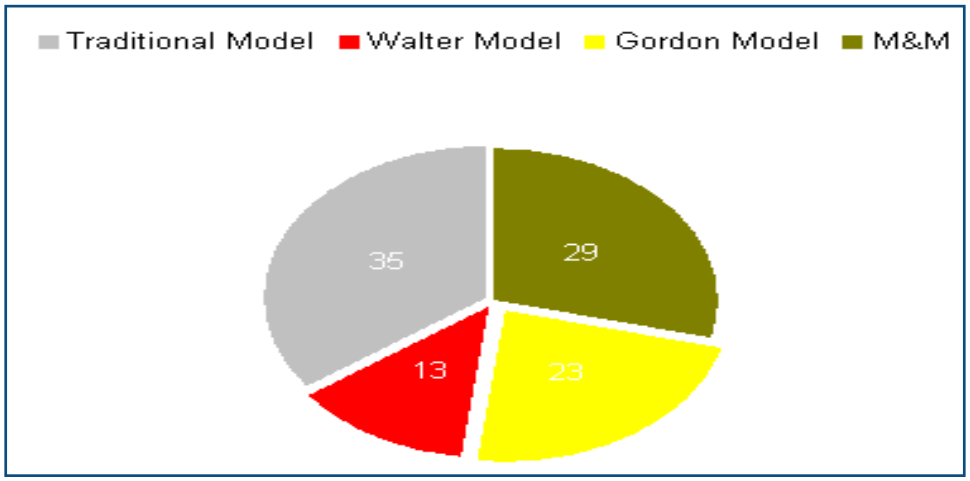
The mean values shown in SP Report No. – Statistics showing Mean Ranks for Responses indicating Relationship between Dividend Policy and MPS reinforces the dominant use of traditional method (market price increases with declaration of dividend (2.89) followed by Walter Model proactive and reactive (impact of dividend on share price is influenced by IRR and cost of capital (2.21) Gordon Method (dividend policy has an impact on share valuation) (2.33) and MM Method (dividend policy is irrelevant rather depend on investment policy) (2.57).

The CFOs with CA qualification are more likely to use Walter Model than non-CA CFOs (84.44% v/s. 62.5%).

Refer Findings of SP Report No. – Statistics also indicates coefficient correlation of (Thus indicating positive Relationship between Dividend Policy and MPS.

Walter model is the least popular method amongst the corporate with a mean value of 1.84 against an average mean value of 2.21. This is followed by Modigliani Millar MM Method, where dividend policy is irrelevant and depends on investment policy ,which shows a mean value of 1.8 against an average mean value of 2.57.

Graph 3.1: Responses of Companies Showing Types of Models of the Company



Graph 3.2: Responses of Companies Showing Types of Models of the Company

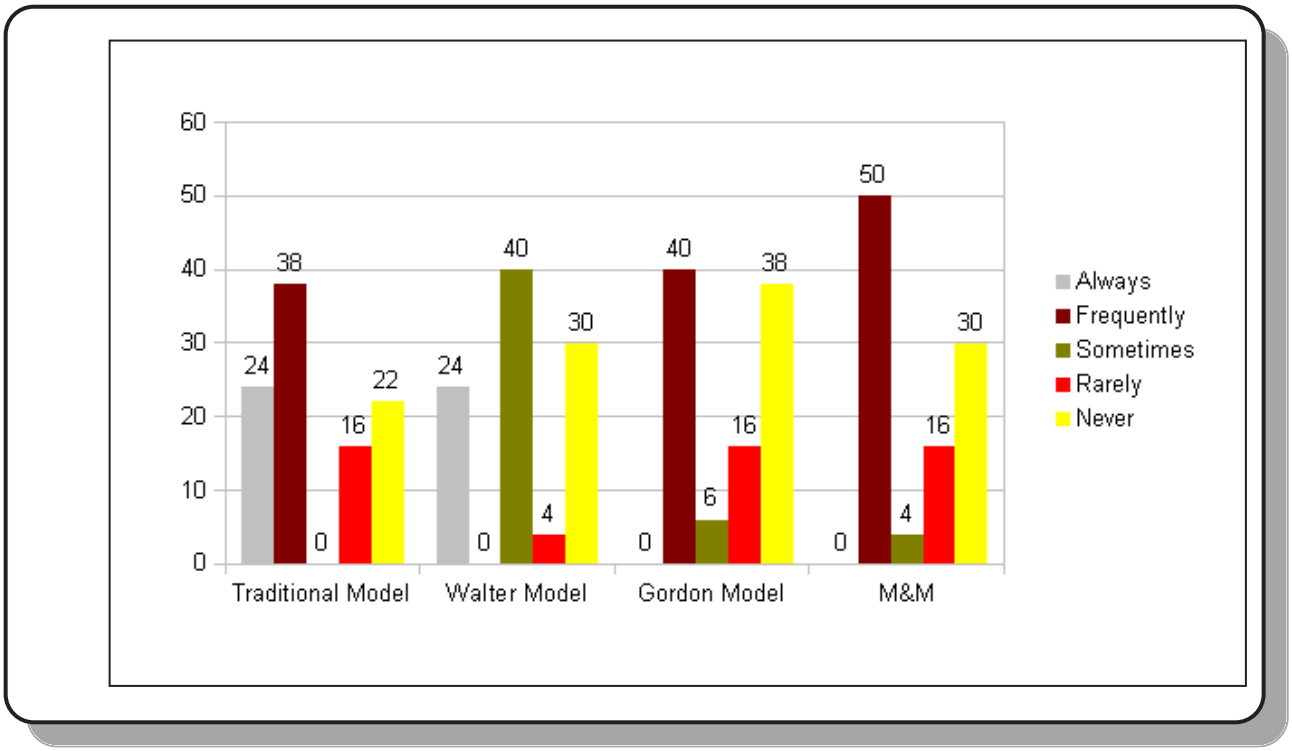


Fig. 6: (SPSS Report) - Correlations Statistics of Factors Responses of Companies showing the Types of Dividend Policy of the Company

Correlations							
		VAR00002 Generous dividend and bonus policy	*VAR00003 Company policy of consistent dividend rate*	*VAR00004 Profit after tax*	*VAR00005 Legal aspects*	*VAR00006 Erratic di-vided policy*	*VAR00007 market cap*
VAR00002	Pearson Correlation	1	-.100	-.008	.219	.395**	-.100
	Sig. (2-tailed)		.488	.956	.127	.005	.550
	N	50	50	50	50	50	38
VAR00003	Pearson Correlation	-.100	1	.231	.213	.053	.178
	Sig. (2-tailed)	.488		.107	.138	.716	.285
	N	50	50	50	50	50	38
VAR00004	Pearson Correlation	-.008	.231	1	.518**	.047	-.005
	Sig. (2-tailed)	.956	.107		.000	.748	.978
	N	50	50	50	50	50	38
VAR00005	Pearson Correlation	.219	.213	.518**	1	.181	-.163
	Sig. (2-tailed)	.127	.138	.000		.208	.328
	N	50	50	50	50	50	38
VAR00006	Pearson Correlation	.395**	.053	.047	.181	1	-.010
	Sig. (2-tailed)	.005	.716	.748	.208		.952
	N	50	50	50	50	50	38
VAR00007	Pearson Correlation	-.100	.178	-.005	-.163	-.010	1
	Sig. (2-tailed)	.550	.285	.978	.328	.952	
	N	38	38	38	38	38	38

Conclusions

The research examined the dividend policies, practices of corporate finance used by practicing managers of fifty respondent companies. The macroeconomic conditions play an important role in corporate financial decision-makings. In the context of dynamic changes in the business environment, both with micro and macro perspectives, there is need to study the impact and implications of these factors on the financial decisions at the level of a firm. Capital gains rather than dividends have been the key attraction to investors over the years. Investors have held the belief that companies can utilize '*better than investors*'. The surplus post-tax profit payout ratios do not in any case indicate higher future returns. If value creating investments opportunities are not available at acceptable levels of risk, the management should serve the interest of the shareholders by increasing the dividend payout.

Corporate Finance Theories or Concept	*Related Survey Evidence*
Q1	
• Models of dividend used by companies while determining relationship between dividend policy and market price of equity shares • The theory of NOI approach supports these findings. • ***Lintner, 1956*:** Dividends are irrelevant; all that matters are the firm's investment opportunities. • ***Bhattacharya (1979)*:** Investments are made during the first period, their expected profitability is known to management, but not to outside investors. In order to signal the quality of their investment, the managers of good firms will commit to distribute higher dividends in the second period. • Stable Dividend Policy: • ***Kumar 1988*:** a signaling model - this model uses taxes as the main cost of dividends, high dividends are a signal of undervalued shares (high firm quality) - shareholders will have to pay taxes on them. • ***Kumar 1988*:** Distributing dividends reduces the free cash flow problem and increases the management's equity stake. The reputation effect is also supported by the fact that firms in financial distress are reluctant to cut	• A dominant use of traditional method (market price increases with declaration of dividend (2.89)). • Followed by Walter Model (impact of dividend on share price depends on the IRR and cost of capital (2.21)). • Gordon Method (dividend policy has an impact on share valuation) (2.33) and a MM Method (dividend policy is irrelevant rather depend on investment policy) (2.57).
Corporate Finance Theories or Concept	Related Survey Evidence
Q2	
Factors that influence dividend policy of the company. Rediscovering dividends by U. R. Bhat*. Capital gains rather than dividends have been the key attraction to investors over the years. Investors have held the belief that companies can utilize '***better than investors***'. The surplus post-tax profit payout ratios do not in any case indicate higher future returns. If value creating investments opportunities are not available at acceptable levels of risk, the management should serve the interest of the shareholders by increasing the dividend payout.	• Strong influence on corporate dividend policy • include reinvestment opportunities 58%, consistent dividend rate 58%, nature of business 50% and objectives of management 46%. surfeit of cash positions 36% sources of finance 34% and Phase of business cycle 34 %, have moderate influence on the dividend decisions. • Ownership considerations 00, desire for financial solvency and regularity 18%, liquidity 16%, inflation 12%, surfeit 4%, control 4% have very little influence on the dividend decisions. **The large and small companies have shown identical responses with same mean values towards investment opportunities 2.20 v/s. 2.29 and cash position 1.23 v/s. 1.22. • Responses are higher for large companies than small companies for attributes a) company policy of consistent dividend rate 2.88 v/s. 1.564; b) nature of business 2.22/s 2.17; c) objectives of management, 1.98 v/s. 1.60;

	d) composition of shareholdings 2.12 v/s. 1.73; e) desire for financial solvency and liquidity 2.7 v/s. 2.24; f) phase of business cycle 2.49 v/s. 1.01; g) surfeit 2.90 v/s. 2.08, control; h) 2.46 v/s. 1.85; i) sources of finance, 1.15 v/s. 0.844; and j) others 1.07 v/s. 0.809.

Corporate Finance Theories or Concept	*Related Survey Evidence*
Q3	
• Types of dividend policies of the company. • Mohanty's (1999) survey of the dividend payout ratio of 2,535 Indian companies indicates that firms maintain a constant dividend per share and have fluctuating payout ratio depending on their profits. • Raghunathan and Dass (1999): The highly profitable and growth firms (based on ROCE and EVA, P/E) significantly less strongly disagree to the share buyback programme replacing dividend payments than the low profitable and low growth firms. • Dr. Sanjay Bhayani dividend payments provide a bonding mechanism so as to encourage managers to act in the best interest of the shareholders. This belief is shared by the CFOs of the private sector than the public sector.	• Company policy of consistent dividend rate 82%, profit after tax 48%, legal aspects 34%. • Use of policy of generous dividend and bonus policy is 2% and erratic divided policy 2% which is very low. • Nearly 34% of the respondents strongly agree/agree that the dividend policy decision depends upon the regulatory or legal aspects as an important aspect of dividend policy decisions. • Investors have different relative risk perceptions of dividend income and capital gains and are not indifferent between receiving dividend income and capital gains. • Dividend policy is a residual decision after meeting tax from net profit and desired investment needs 48%. • The findings of the survey are in agreement with the findings of Lintner's (1956) study on dividend policy.

Due to gradual liberalisation process, Indian corporate had learnt slowly and adapted changes in finance gradually. It would be a mistake to believe that this slow process of migration implementation will last long. Rather Indian companies will have to use this breathing space to prepare themselves for further changes that lie ahead on account of major changes that will happen in corporate finance due to the amendment to the Companies Act in 2013. Companies are required to prepare themselves so that in the end, Indian corporates should not find themselves ill equipped to operate in a highly competitive and demanding financial marketplace due to reforms in banking licenses and Companies Act. Otherwise they will have to blame only themselves .It will be challenging to companies to forecast and understand implications of the Companies Act on corporate finance and take wise decisions from long term perspective as the amendments to the Companies Act in 2013 have taken place after almost five decades. Certain provisions in the revised Companies Act will definitely create an impact on certain financial dimensions of corporates viz. public deposits, loans, repayments mechanism which ultimately will affect capital structure, capital budgeting and dividend decisions of companies because of the penal provisions, such as heavy fines and imprisonments, incorporates in the new corporate law for Indian Inc.

The use of traditional method of dividend policies (market price increases with declaration of dividend (2.89)) has dominant use Followed by a MM Method (dividend policy is irrelevant rather depend on investment policy) (2.57). the other models have shown moderate use which gives mean values as follows Walter Model (impact of dividend on share price depends on the IRR and cost of capital (2.21)). Gordon Method (dividend policy has an impact on share valuation) (2.33)).

Scope for Future Research

Future research can be carried out in Indian companies to understand the effect of tax rate differentials on the relationship between dividend payout, financial leverage and firm value. The research can also be undertaken to study effect of the dividend tax rate and capital gains tax rate on dividend payout and the value-enhancing effects of leverage.

There is also scope for further research in dividend policy and payout by testing four different income tax rates: corporate income, personal interest, cash dividends and capital gains.

After accounting for debt capacity, the pecking order theory appears to give a good description of financing behavior for a large sample of companies examined over an extended time period.

The present research focus was on dividend policies of Indian corporate. The important area of dividend policy justifies further research. Future studies may conduct on dividend behaviour of various sectors such as Indian banking sector, and Indian Service sector, dividend trends of developing countries, Impact of corporate governance on dividend decision, Ownership concentration and dividend decision.

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