Chapter 6: Conclusions and Suggestions

6.1 Conclusions

Following conclusions are derived based on finding of empirical study of selected BSE listed companies.

1. Study indicates that companies do not prefer to decrease their cash dividends and would prefer to gradually increase them. Our sample of companies have stable dividend policies.

2. Firms decide their dividend payout on their liquidity position not merely by profits. Most of the firms prefer to retain their earning for their current and future needs.

3. The profit earned by a firm is used to reinvest in the profitable business opportunities and residual left are used to pay dividends. Ideally as profit increases firms prefer to capitalize on it by reinvesting and alongside keep reserves to stabilize dividend payments.

4. Firms with high growth and investment opportunities will need the internally generated funds to finance those investments, and thus tend to pay little or no dividends. In contrast, firms with slow growth and fewer investment opportunities are likely to pay more dividends.

5. High promoters ownership encourage the increase in retained earnings, thus lowering the value for minority shareholders. Policy is made by the management company which is a representative of shareholders in carrying out operational activities of the company. With high promoters ownership the dividend function as a marker on
the condition of the company becomes less relevant, so the company does not require a high dividend payment

6. Larger firms should have easier access to external capital markets and can borrow at better conditions. Even the conflicts between creditors and shareholders are more severe for smaller firms rather than larger ones. Debt holders seem to have more confidence in large firms as according to them, managers of such firms tend to have large shareholders and are better able to switch from one investment project to another. Besides, larger firms tend to be more diversified and their cash flows are more regular and less volatile. Thus, larger firms should be more willing to pay out higher dividends.

7. Generally speaking, mature companies are likely to be in their low-growth phase with less investment opportunities. These companies are relatively older and do not have the incentives to build-up reserves as a result of low growth and few capital expenditures, which enable them to follow a liberal dividend policy. On the contrary, new or young companies need to build-up reserves to face their rapid growth and financing requirements. Hence, they retain most of their earnings and pay low or no dividends.

8. When firm acquires debt financing it commits itself to fixed financial charges embodied in interest payments and the principal amount, and failure to meet these obligations may lead the firm into liquidation. The risk associated with high degrees of financial leverage may therefore result in low dividend payments. In addition, some debt covenants have restrictions on dividend payments.

9. When the firm entered the mature stage of life cycle, then the investment opportunity will be reduced, where it will impact on the
profitability in the future. At the time the company reached mature stage, then company will be a decline in systematic risk. This reduction in risk is due to the current assets decreased risk and the company faces the opportunity to grow slowly. Decrease in investment opportunities will be encouraged to increase free cash flow, so that ultimately impact on increasing the dividend payment.

10. When investment opportunity, growth, trust of shareholders are not present then firm will distribute dividend in case of high dividend tax.

11. That debt may decrease firm value because of the agency problem between shareholders and creditors. Debt obligations may discourage firms from taking on positive net present value growth opportunities. This may lead to under-investment problem.

12. Firm's current market value is a combination of existing assets plus the opportunity to grow in the future. Firms with high investment opportunity set has a significant positive response to share price.

13. High dividends bring high taxes and therefore reduce firm value, that is, dividend has a negative impact over share price. High dividend reduces funds available for projects to invest or may cause higher cost of raising funds from external market.

14. While firms in mature stage characterized higher dividend payments, low sales growth, lower capital expenditure, and the relatively older age leads to lower value of firm.

15. Old firms tend to make them inflexible and are unable to appreciate changes in the environment which will lead to low performance therefore low value of firm.

16. Larger firms can leverage their size to obtain better deals in financial as well as product or other factor markets. Large firms generate
greater returns on assets and sales. That will lead to decline in share price volatility.

17. With an increase in professionalism of management, firms might be operating for the managers' benefit rather than that of the owners. As the percentage of promoters increase, decision in favour of value of firm increase and they might forgo instant reward to long term gain.

18. Profit is the output of the policy pursued by the company either through an investment, financing and operational decisions. Profit obtained by these companies can be used to mark the investment in the future. High profit that can be used to increase shareholder welfare, by taking a chance on a positive NPV projects. Improved Profit used for investment in positive NPV projects will enhance the firm's stock price.

19. Change in retained earnings have marginal but significant impact on change in net fixed assets.

20. As the firm sizes increases dependence on retain earnings will decrease because larger size firms can access to capital market easily and also they can enjoy advantages of leverage.

21. When the profitability of the firm is less they prefer to use retain earnings to invest in fixed assets as they will avoid cost of raising funds from external market.

22. As the investment opportunities increases firms will also prefer to utilise their retain earning for financing fixed assets.
6.2 Suggestions

1. Proper guidelines should be laid by ICAI for the investors to bring in transparency and safety of dividend distribution and valuation of companies.

2. Strict regulation should be introduced by SEBI to put a check on the companies showing hypothetical value in financial statements.

3. Proper campaigns and educational seminars must be conducted by regulatory bodies like SEBI, ICAI for the benefit of the stakeholders involved in Capital market in order to enable them to get rid of their apprehensions.

4. With the passage of time, dividend and value models are evolved. Our present model can be utilized by the companies to achieve their objectives. These models can be used as a road map for future prediction and should be modified to suit the need of the market.

5. Promising agencies should be appointed by the regulatory bodies to apply different proposed research models in the market so as to come up with a promising models that will work for the welfare of investors and corporations.

6. Companies should use behavioural finance to understand the behaviour of investors investment plan.

6.3 Limitations of the Study

Just like any other study of social science, the present study is also not free from some limitations. Some of them are listed below:
1. The present study for determining the factors affecting dividend and value of firm covers only a period of ten years. Macro factors that have an impact on the dependent variable are not covered. Also there are factors in study that need further intensely analysis to know their impact like tax.

2. Non-availability of sufficient data for large number of years has been one of the major limitations. Also non-availability of information from managers.

3. Dividend analysis has not been compared with other countries. It was not been possible to collect the Annual Reports of all the firms for all the years. Therefore financial data has been collected from other secondary sources like CMIE.

6.4 Scope for Further Research

It has been felt that this is a vast subject so it has tremendous research potential in years to come in the following areas:-

1. Is Indian dividend pattern in concurrent with rest of the world.

2. Insiders view point (like managers) on dividend.

3. Macro and Micro driven factors for dividend and value of firm.

4. Investors preference regarding interest or dividend income.

5. Corporate Social Responsibility in relation to value of firm.