CHAPTER SIX
SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS
6.1 INTRODUCTION

This chapter is dedicated to summarize the salient and important findings of the study, presented in the serial order in accordance with the sequences of the objective. At the end of each individual analysis in the three sub chapters of the main chapter 'Analysis and Interpretation', respective inferences have been drawn from the presentation and analysis / processing of the observed data.

This chapter is a compilation / collection of the salient, important, relevant and outstanding inferences drawn and findings obtained, of course, in accordance with the objectives.

In the next section valuable conclusions have been derived from this consolidated list of findings, which are required for the fulfillment of the objective. These conclusions answer the issues raised in the three objectives of the study.

The chapter next to that endeavours to offer suggestions, wherever there are discrepancies & incongruities observed.

In this research work, in particular, these discrepancies can arise between what are being observed in the market place in actuality i.e. external to the corporate enterprise and of course to some extent, beyond the control, desire and expectation of the investors; what are perceived by the corporate finance managers inside the enterprise concerned, and thirdly what is going on in the psyche of the investors community at large.

In this context, it may be worthwhile to reproduce the objectives here, so that ready reference can be made.
i) To study the trend in dividend payout in the various sectors of the engineering industry over a time period.

ii) To analyze the influence of sector specific characteristics on dividend payment pattern.

iii) a) To study the motivation of the Indian engineering industry for adopting/formulating their respective dividend policies.

(b) To study the perception / attitude of the investing community regarding and towards the dividend policies & practices adopted by the management.

6.2 SUMMARY OF FINDINGS

All the outstanding findings from all the inferences / interpretations drawn in the analysis chapter have been summarized objective wise here under:

I- Trend and Influence on Dividend Pay-out

The summary of findings have been divided into three categories which is in line with the objectives of the study. The first category of finding is based on the secondary data and their analysis which is satisfying the first and second objectives of the study. The second category of the findings are based on the data collected from higher level of corporate finance managers regarding dividend pay-out. The third and last category of findings are based on the data collected from the equity investors. The last two categories of findings satisfy the third objectives.

i. Dividend payout pattern has been investigated since the time economic liberalization, privatization and globalization had set in i.e. 1994 and for a period of 12 years (1994-2006) and it has been found
that about 40% of Indian engineering industries in numbers which have been performing extremely well other wise, do not pay any dividend and that constitute the peak of the dividend distribution pattern percentage wise. The next highest peak in the slab of 75% - 100% in which about 20% of the top performing industries fall; maximum dividend payout has been 3000% (L & T).

ii. The highest dividend payout among the eight sectors of the engineering industry under study has been automotive followed by non ferrous metals and engineering, further followed by chemical / petro chemical / paint ; steel / ferro alloys and electronic hardware constitute the bottom rank i.e. last but one and the lowest dividend payer has been consumer durable.

iii. Dividend payout in engineering industry has been consistently growing over the past 12 years and now, it is about three times what it used to be during the turn of the century yielding a compounded annual growth rate of about 16%.

iv. The time series regression for automobile sector indicates a linear fitted trend, but it is expected that with the future years this dividend may grow exponentially.

v. For auto component sectors, the fitted trend indicates that over the years, dividend payout has grown almost linearly and quite likely to continue to grow so.

vi. For the engineering / machine building sector dividend payout has increased exponentially with time, or time, as independent variable.
has been a logarithmic function of dividend payments. It only indicates that dividend payment in this sector is going to increase in leaps and bounds in future.

vii. For chemical / petro chemical / paint industries, the time series regression of dividend payout resemble a linear trend and continue to grow moderately.

viii. For consumer durable sector, dividend payout has been moderate but the trend is linear, growth is also moderate.

ix. For steel / ferro alloys growth is logarithmic / exponential and hence a very high growth in future is expected.

x. For non-ferrous metals / aluminum the dividend growth with the year has been fairly linear.

xi. In electronic / telecom hardware the growth is minimal but nevertheless, logarithmic / non linear.

xii. For the overall engineering industry, the growth has been approximated to be fairly linear.

xiii. Out of the determining factors specific to engineering industry, there is no overwhelming support that dividend can be used as a strategic weapon to outsmart competition and there is a kind of hesitant support as this dividend policy is an active residual policy rather than passive one.

xiv. These findings also support the M-M – hypotheses of dividend irrelevance, albeit in Indian conditions. Dividend payout does not
positively influence internal or external wealth creation in terms of net
worth or market capitalization.

xv. Net worth and market capitalization have got a very weak co-relation
with dividend.

xvi. Fixed cost of plant and machinery and the accompanying depreciation
do not influence dividend payout significantly whereas promoters
holding does effect dividend payment inversely though to a moderate
extent.

xvii. Financial institutions stake and dictates do affect dividend payment
although very mildly and directly.

xviii. Liquidity, in terms of net cash inflow, positively and significantly
influence dividend decisions whereas interest payment has a moderate
direct influence.

xix. Out of the seven identified factors, i.e. networth, market cap, plant and
machinery, promoters stake, institutional stake, cash inflow and
interest paid that should influence dividend payments, net cash inflow
and interest payment have got the most potent influence.

xx. A ‘multi variate regression analysis’ involving five of the seven
determining variables i.e. net worth, plant and machinery, promoter’s
stake, net cash in flow and interest paid demonstrate a slightly
different scenario in the sense that under this models promoter’s stake
and interest payment have the highest regression coefficient.
II- Finance Executives on Dividend Pay-out

i. According to the finance managers, dividend decision indeed reflects the competence and dexterity of the finance managers in managing profitability and liquidity together.

ii. As far as dividend payment is concerned stability, continuity and moderate growth are more important than the quantum of dividend in creating investors confidence.

iii. Corporate dividend policy is not influenced by cost structure, capital structure or the share holding pattern of the company.

iv. Dividend decision concerns all the stake holders of the company and not only the equity share holders.

v. Higher dividend does add higher value to the company in terms of trading volume and liquidity.

vi. Higher dividend does add higher value to the company in terms of share value and market capitalization.

vii. The products and services manufactured and rendered by the company are very important determinants of its dividend policy.

viii. In engineering industry, dividend payment has to be sector specific.

ix. Market performance of a company’s share is more of a fundamental issue and dividend payout can influence it.

III- Equity Investors on Dividend Pay-out
i. As far as investors are concerned, they are more impressed and inspired by a company’s fundamentals than market technicalities and moods while investing in the equity share of a company.

ii. Investors do track the DPS & EPS records of a company before investing in the company’s share.

iii. Investors do overlook the absolute quantum of dividend payments provided it is stable and consistently increasing over time.

iv. Higher dividend payment can’t eliminate completely this bad impression of inconsistency.

v. Investors do favour a consistent and moderately high dividend payout.

vi. For engineering industry dividend payout is not the right yard stick to judge its performance and taking investment decision by the investor.

vii. The investors by and large, have many considerations other than dividends to invest in the equity of a company. These considerations may be excellent quality and reliability, excellent product differentiation and high brand equity, excellent growth and diversification record and professional management, highly innovative and supportive culture and superb human resources management.

6.3 CONCLUSIONS

From the foregoing discussion on the summarized findings and keeping in view the objectives of the research study, we can arrive at and consolidate our conclusions as follows:
Modigliani and Miller (M-M) hypothesis concerning dividend irrelevance is applicable to the Indian capital market as much as it is in its western counterpart and a company can be, otherwise, an excellent performer without paying dividend and hence dividend payment does not constitute an important dimension of excellence, and more so in engineering industry where there are myriad other dimensions to constitute yardsticks of excellence.

As far as dividend performance and trend in the engineering industry is concerned, post liberalization, dividend payment in engineering industry in India has been consistently growing fairly linearly with time albeit at a moderate pace. Notwithstanding, a few commonalities that can be evolved, every constituent sector of the engineering industry has its own reasons and peculiarities i.e. singularities for its dividend payment. Commonalities, whatsoever, that can be identified, do not seem to influence their dividend payment in a significant manner.

As far as the perceptions, view points and outlook of the corporate managers are concerned they seem to be under the impression that higher dividend add higher value to the company in terms of trading volume, liquidity, share value and hence market capitalization, but market behaviour does not seem to subscribe to this view. In this sense investors’ perceptions are more in tune with the market.

Otherwise, there is not much of a discrepancy, between what the market data throw up and what the corporate managers think and feel. In other words, by and large, the corporate managers understanding and outlook towards dividends are in tune with the market.
As far as dividend payments are concerned, managers in otherwise brilliantly performing companies are rendered passive functionaries comparatively and a new incumbent finance manager has to get accustomed with the dividend payment culture of his company and then try to innovate.

Sound dividend decisions really demand agility, dexterity and ability to manage liquidity and profitability together as the compulsion of maintaining liquidity in the face of huge expansion / capital expenditure plans do affect dividend respectively as much as the abilities to sustain and grow.

When promoters stake is high in a closely held company, dividend payout seems to be limited disregarding the interest of the minority stake holders and it is also limited some times governed by statutory provisions and restrictive covenants of the financial institutions when they have a significant stake.

As far as the investors’ perceptions and preferences are concerned in a monopolistic competitive market in which the Indian engineering industry functions, dividend decision is not a strategic weapon to beat the competition and dividend payment is not the right yard stick to judge the performance and dimensions of excellence for engineering industry. There are myriad more potent yard sticks like product differentiation, market leadership, product and services quality, reliability, brand equity, growth and diversification record, innovation, supportive culture, excellent human resources management etc.

Investors also derive positive signals from consistency and growth rather than the absolute amount of dividends and they do track the company’s EPS & DPS records along with the myriad other dimensions of excellence before putting their hard earned money into a company’s equity.
6.4 SUGGESTIONS

As far as this section of this chapter is concerned, it is addressed to corporate finance managers and the investor community at large, to whomsoever, out of these, it may concern.

Keeping in view the ultimate fact that the aim of corporate finance is to create value and hence, wealth for all the stakeholders in the society e.g. the corporate with its employee base at any level, customers, investors and the regulators i.e. government, any misunderstanding in the stakes involved, on the part of the stakeholders will only hamper the process of wealth and value creation. Dividend decisions are no exception to this dictum. The following suggestions are humbly offered:

i. Many of the companies in engineering industry in India are more than thirty years old and during this period, have built-up an established traditions and trend in dividend payments. So, it is suggested that any drastic change in dividend payment under exigencies of circumstances should be avoided.

ii. Corporate manager should use dividend as a strategic weapon to win over the competitor only after all other strategic avenues are tested and exhausted. We have found in this research study that, in the almost perfect and highly developed Indian capital market, fundamental strengths like innovation, product differentiation, brand equity, product range expansion and diversification, excellent human relations management track record are far more impressive in creating value than dividend. So, value creation should be attempted in any of the
areas where a company has core competence rather than dividend payment.

iii. When the mobility of the company’s share is suddenly sluggish due to unforeseen shifts in market mood, declaration of interim dividend may bring about a higher mobility.

iv. Despite having high and some times out of tune profits, it is more advisable to declare a lower dividend only to maintain continuity in growth even when this out of tune profit disappears.

v. To extract the maximum benefit of signaling effect the management should publicize fundamental strengths and highlight how the dividend declared supplement and compliment rather than substitute the fundamental parameters.

vi. For closely held companies the majority may have their way, but nevertheless the minority must have their say, hence their interest should not be overlooked while declaring dividend. Hence, by adopting dividend policy minority share holders should be protected.

vii. If a particular company’s shares enjoy a higher price-earning ratio in the market, for a company under engineering industry perennially suffering from liquidity and cash flow problem, can, as well declare scrip dividends / bonus shares as a viable alternative rather than skipping dividend.

viii. Finance managers in a particular sector of the engineering industry should identify the market leader in that segment and establish a benchmark dividend practice in keeping with that of the leader.
ix. To give credence to the ‘bird in the hand theory’ despite there being a huge capital expenditure forthcoming, best efforts should be made to maintain dividend payments, however meager and thorough publicity should be given to the importance and necessity of the capital expenditure.

x. Maintenance of liquidity and capital investment plans do affect dividend restrictively. As capital investment is needed for growth and liquidity is needed for day to day running a balance between the two should be maintained to continue dividend payment as far established tradition.

xi. For dividend payout consistency is important rather than the absolute amount for signaling effect. For dividend payment, consistency should be given priority over absolute amount for signaling effect.

### 6.5 SCOPE FOR FURTHER RESEARCH

After objective analysis of the work done so far in the research project, there are many more areas related with dividend payment that can be undertaken. In the following few areas have been identified for further research.

1. This study is engineering sector specific. There are a number of other sectors for which the study may be extended further namely, construction, refractory, and service sector.

2. This study is mainly concerned with large engineering organizations. There is a further scope to study small and medium size companies.

3. Non dividend paying companies have not been studied. A similar study can be conducted to probe into the motivation of the management as to
why they do not declare dividend and also the attitude and perception of investors towards these categories of companies under engineering and other industries.

4. The companies dividend and inter-relationship with the $\beta$-value of its share can be studied. A regression relation can be evolved between the $\beta$-value of the company’s share in the market and its dividend payment.