PREFACE

Corporate dividend decisions appear to be the most intriguing compared to the other two major financial decisions, i.e. financing and investment that a professional corporate manager has to take. Interestingly, out of these three, dividends seem to be the most innocent, simple and straightforward, in the sense that when a profit is made, the whole of it or a part of it is distributed among the shareholders.

But, in actual practice, the ground realities are quite otherwise; and this decision is adjudged the most complicated and challenging financial decision in corporate parlance. The reason for this also, ironically, is not very far to seek.

Financing decisions, involving design of capital and finance structures have a sense of certainty and stability, unless, of course, there is a drastic variability in interest rates and myriad other related variables, at least, for a few years. And, so, has the investment decision.

Technology dictates the manufacturing process which, in turn, dictates the plant and machinery. Once they are acquired, the corporate entity is under a fixed cost and the accompanying depreciation structure which continues for several years.

In contrast, dividends, borne out of profitability but paid out of liquidity, is a real challenge to the competence and dexterity of the finance manager mainly because, profitability and liquidity move opposite to each other. And, almost in each financial year, the scenario may change, calling for fresh decisions.

Moreover, almost all the stakeholders in the corporate world view and interpret a dividend declaration differently depending upon their interest and stake involved in the concerned corporate entity.
This research project attempts to unravel certain confounding issues pertaining to dividend decisions, albeit confining it to only the engineering industry.

At the very outset, it appears that engineering industry, as a class by itself, should pose certain unique challenges to its corporate managers in the matters of dividend payments in the sense that it has, characteristically, high fixed cost, elaborate plant and machinery, longer operating, cash and working capital cycle, high debt to equity ratio, heavy term loans from financial institutions under stringent and sometimes highly restrictive covenants.

This research study handles the problem from three angles, i.e. from the markets, depending upon historical data and statistics, from the corporate managers’ perspective and view points, and thirdly, from the investors communities perspective and outlook. Obviously, the first angle of approach depends upon published data gathered from the financial press and the commercial databases and second and the third on the primary data collected through questionnaires, designed meticulously addressing the two classes of respondents, i.e. the corporate finance managers and the investors.

The corresponding findings are no less confounding. As far as the capital market is concerned, it is found that, a good number of high performing and renowned companies in the engineering industry do not pay any dividend at all, and that fact has, in no way, affected their performance adversely. On the other hand, those who pay, range from meager to moderate to high dividends and growing steadily over the years reckoned from the aftermath of economic liberalization in 1994.

By delving into the corporate managers’ perspective, it is found that, dividends, can, at times, be used as strategic weapon to outsmart competitors and it, indeed, tests the competence and dexterity of the finance managers. According to them, interest payments and net cash inflow are the principal deterrents, but nevertheless, dividend payments do, indeed boost the value of the company in terms of higher liquidity, higher share value and higher market capitalization. Though, intriguingly, there is no concrete evidence in the market to support this view.

The third approach, i.e. from the point of view of the investors, they prefer stability and continuity rather than going by sensation created by high dividend
declaration and subsequently bringing in drastic variation in tune with the profitability and other such compelling circumstances. They do track the profit and the dividend payment records of the companies targeted for investment for sometimes.

But, as far as the engineering industry is concerned, they have many reasons to favour or disfavour it other than dividends. These reasons can be anything like diversity and depth of product range, product/services qualities and features, brand equity, professionalism and transparency in management, human resources management records, etc. When compared with the corresponding market responses, it is found that, investors’ perceptions are more in tune with the market rather than with those of the company bosses.

This research work does more than just adequate justice to the topic in terms of usage of statistical tools and techniques in analyzing data and deriving inferences and conclusions. The reliability and consistency of the questionnaires have been tested by the "Cronbach Alpha" test and validated before being administered at large. The analysis is replete with the usage of techniques like correlation, regression- both linear and exponential, presentations like Pie-charts, Bar-charts, Graphs, Tables, etc. and inferential techniques like "Kolmogorov-Smirnov One Sample Test", ‘t’, ‘Z’ and Chi-Square tests to test sixteen hypotheses in total.

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