PREFACE

Dividend decision has been a subject of interest and enquiry of financial analysts, academicians and researchers for many decades. Dividend decision refers to the policy that the management formulates concerning earnings for distribution among shareholders. The Dividend decision is an important one for the firm as it may influence its capital structure and stock price. The proposition, which asserts that the corporate management maintains a constant target payout ratio, has been the most influential. The present study re-examines the applicability of dividend policy in five major industries in manufacturing sector of India.

Historically the manufacturing industries have been a safe haven during volatile times, with higher returns and smaller downside risk. These are few of the traditional defensive sectors, which the investors might find interesting - as fear and uncertainty cloud markets. Dividends are so interesting that even after deriving so many theories dividend policy and its impact is an unsolved query. For example, companies like Cisco and Microsoft until recently have for years operated with no dividends. Similarly, firms like General Electric, Anheuser-Busch, and Coca-Cola have had a long history of paying dividends while still maintaining relatively high growth. One reason is deciding the dividend always shows the face of firm’s manager. Selection of a proper dividend policy is crucial for all the areas of finance. The role of behavioral finance in explaining the existence of dividends is debated as a matter of academic dispute.

In fact interestingly all the theories of finance are also co-related with dividend i.e. CAPM, capital structure, mergers and acquisition etc. Reason? Dividend plays an important role in deciding the value of firm. Different firm pays dividend by different patterns. Chapter 1 –
introduces the subject matter of the research work and brings out salient features of finance.

After a brief introduction, the study turns, in Chapter 2, which deals with analysis of data. Various statistical techniques including multiple regression equation have been used. The analysis has been carried out for the aggregate i.e. taking all the companies together and also for the groups viz. cement, pharmaceuticals, chemicals, steel, textile and automobile. However care has been taken to avoid unnecessary numerical elegance.

While Chapter 3 as well as the other empirical chapters in this study is Indian based, the chapter starts with an inconclusive verdict on the dividend puzzle. In particular it is stated that despite of four decades of theoretical debate, and after very many attempts to empirically validate the various theories, the pile of evidence collected is not conclusive on the determinants of dividend policy. Indeed, nor does it fully clarify the impact of dividend policy on firm value.

Chapter 4 begins with introduction to the main theoretical and empirical work on the question of how dividend policy affects firm value. The leading theories of dividend include the transaction cost theory, the tax hypothesis, the bird in the hand argument, and signaling and agency theories. Discussed in length as a point of reference for many forwarding studies, particularly for whom those who focus on the signaling role of dividends. It is noted that the empirical literature has recorded systematic variations in dividend behavior across firms, countries and time, as well as in the type of dividend paid. Such variation can be expected in imperfect markets that are distorted by taxes, transaction costs, information and agency conflicts.
Chapter 5 synthesizes the transaction cost theory of dividend policy with the market failure and political economy theories of different industrial groups in emerging markets. While the former theory suggests that dividend policy is inversely related to dependency on external finance, the latter theories imply that dividend policies of grouped firms are mainly determined by group considerations. The sample consists of 121 firms with data related to the year 2012... However, in order to measure size and diversification levels, the sample is restricted to firms listed on the Bombay Stock Exchange/National Stock Exchange. The aim is in general to find the results suggest that while the decision to pay dividend is sensitive to transaction cost considerations regardless of group/sector.

Chapter 6 is about the conclusions drawn from an Ordinary Least Squares and multivariate analysis, which involves the estimation of two models on slightly smaller samples. The main results from the multivariate analysis can be summarized in results as the alternative tax shield proxy is the only variable whose sign is found to be opposite to expectations. Second, it is found that firm size and growth are not that much important for the divined decisions of group/sector. Third, no major differences are recorded between group firms in terms of the impact of age and size on dividend decisions.

This research work has implications both for academicians and future practicing managers.

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