CHAPTER 2

REVIEW OF LITERATURE

There is an extensive literature that highlighted the capital market behavior based on the nature of information asymmetric and signaling effect. Dividend announcement is one of most significant signal to shareholders in the panorama view of identifying the firm performance and future prospects of the firm and it might influence the movement of share prices in the capital market. Various stream of theories like dividend models, dividend determinant, impact of dividend in share price, investor attitude, agency cost signaling effect, etc., are reviewed in this chapter.

Lintner (1956) conducted a classic study on how U.S. managers obtain dividend decisions based on financial variables such profit, sale, tax and other external factors. He developed a suitable mathematical model called as Lintner model based on survey of 28 well established industrial in U.S. Industries which are selected as sample is based on well maintaining norms of U.S finance standard. According to him dividend value are determined by the current year earnings along with previous year dividends. Managers influence to balance the earning and previous year dividend value before determining the value of current year dividend of a firm.

Gordon (1959) introduced Gordon model for evaluating the stock value. The model explained that the fair value of a stock should equal to the dividend per share and the variation stock should focus towards the discount rate and the target long-term dividend growth rate. The model depict that the
firms should follow stable dividend policy and will rise at a constant rate and that the discount rate remains the same forever. The author concluded that if there will be a raise in dividend rate there will be concurrently it reflect an increase value of the firm shares.

Miller & Modigliani (1961) in his article identify the simplified assumptions that dividend policy decision does not affect the value of the firm. Authors strongly projected the nonexistence of any significant impact in the dividend payout policy towards the determinant of shares value in the market because its strike the offset exactly by other way of financing and thus dividend is consider as irrelevant in nature. This theory was developed by accepting the condition of perfect market situation, which not consider the situation of imperfect market like taxes, transaction cost or asymmetric information. As a result, dividend policies have less impact on the value of firm shares. In a perfect competitive market situation both the company and shareholder focus on profit retention and less value of dividends respectively, companies profit might invest in the same resources, and hence, it increase the level of internal earnings while compare of distributing the amount in the view of dividends, who’s creating the investment does not subject of the economy as a whole. However, the market is neither perfect nor complete the dividend irrelevance theory needs to be practical used by focusing on possessions of taxes, information content, agency cost and other significant affecting elements.

Solomon (1963) concluded that dividend payout always highlight the firm performance to investors. It consider as signaling for investors about the present and future activity of the corporate decision. Dividend payment could be superior disseminate the information about its predictable earnings growth of the firms. It conveyed the sense of the earning profits of the company..
Walter (1963) argued that the selection of dividend policy always influences the value of the firm. He clearly mentioned the association between the firm’s rate of return and its cost of capital \((r + k)\) in manipulating the dividend policy that will increase the wealth of the investors. In case of a expansion firm, if the firm’s rate of return \((r)\) is greater than its cost of capital \((k)\) then value of per share will increases if the policy is to retain earnings for expansion investment. In case of normal firms, where the firm’s rate of return \((r)\) is equal to its cost of capital \((k)\) a dividend policy has no effect on the market value of the share. In declining firms, where internal rate of return \((r)\) is less than the cost of capital \((k)\) a healthy dividend policy impact in the market value of per share.

Black & Scholes (1974) investigated 496 bonus issues in the year of 1948 to 1971. It was identified that bonus shares were provide by firm not essentially with outlook to raise total dividend distribution. The companies in India showed a tremendous level of diversity in this respect. It was experimental that one third of the firms issuing shares do not boost the total value of dividend on the base of huge capital, a considerable number of firm even though minimize the total value of dividend distribution. Bonus shares issued at irregular period of time and widely range of difference in payout ratios. High dividend paying companies are found that more number of times bonus shares are issued with high dividend payout ratio. The study exposed that majority of India firms are issued the bonus shares in the percentage of 20 per cent and above, which is greatest level while compare with American companies generally practice of paying 2-5 per cent of stock dividend. Author tested the impact on announcement of bonus issue in the share market. It was reflected that speculative prices increase immediately after announcement of bonus issues because of not so much on a realistic evaluation on the essential factors leading the dividend and earnings on the bases of variables of psychology and rumour. The author finally concluded that the speculative
price change that took place immediately after bonus announcement was not sufficiently discriminating.

Aharony & Swary (1980) analysis the applicability of lintner model and test the empirical nature of determinants the investment, savings, dividends and share prices behavior respectively. The study is based on secondary data which collected from Reserve Bank of India and share prices movement collected from Bombay Stock Exchange official directory. Author applied cross section and time series analysis have been carry along with profit allocation model and Lintner’s model were used to examine research data. The author revealed that Lintner’s model of constant and vibrant dividend policy performed well in Indian firms for the period under study.

John & Williams (1985) analysed the excess return measured in applying traditionally event method. Study revealed that investors were seeking to withhold the asset over a risk period and expected security return. He interested to test the research objective is there any significant difference between the mean return during the event studies and any other likely day. Author statistically used market model and the mean adjusted model with the sample of 302 events of dividend announcements. The results showed that there was a significantly relationship between higher mean return during the event period. They statistically related the higher return of stock with high risk in the same event period.

Rock & Miller (1985) in his study screened the dividend attitude in Indian companies by classifying variables according to industry, size of the firm, growth and control capacity. Author selected sample of 158 public limited companies which is registered in Indian Stock Exchanges. The researcher tested lintner model for the period 1962-1972. The study shows that there was no statistically effect in relationship between amount of dividend payout by applying the industry and size of the industry. Growth
was closely related to dividend payout and has more significant effect. In addition, dividends values adjusted towards bonus and right issues and it direct relationship with industry growth and size. His main conclusion was that dividend payout policies are clear utilized by Lintner’s model with current earnings and dividend as descriptive elements.

Arriff & Finn (1986) attempted to extend a theoretical structure to identify the problem in primacy of dividend decision. He identified the theme of dividend decision primacy and analysis the relationship of the primacy concept with intention of the shareholders and the firm managers. The basis objective of study, describing the modeling structure towards each and every decision makers have a idea of short run and long run objective and the dividend decision is goal to the every management and the shareholders aspects. In the study, the researcher tested two objectives, short run objective was included in the maximization of share prices and long run objective examine in the basis of net worth. The short run objective and the long run objective evaluated at the level of the single companies on the platform of the time series analysis for a elected sample of 71 companies. The sample companies belong to general engineering, electrical equipments, chemical, cotton, sugar and paper industry in Singapore. The study concluded that the shareholder and the management together have a short run objective for increasing the share price and long-term objective for increasing the of net worth.

Shleifer & Vishny (1988) in this article analysed the link between investors’ protection and dividend payout around 33 countries. They examined with help of two hypotheses. In the first hypotheses stated that, in high protection countries investors have superior power to observe the firm activity and enforce their opinion on management decision, in this countries investor force the management to disgorge more amounts. The second
hypothesis, firm managers wants to continue the capacity to earn more cash according to markets environment or wants to sustain a share price in higher level in the market. They adopted statistical measure along with countries economical variables to know the overall result. The author concluded that firm should interest to pay higher dividends to their shareholders in low investors protection countries.

Lang & Linzenberger (1989) attempted to analyze the relationship between investor reactions to change in dividend payout by corporate managers support of over investing. Author used Tobin’s Q ratio to investigate managers optimally invest decision to generate increasing market return. From the author point of view, Tobin Q ratio that exceeds more than value of one indicates that market value reflects the positive net present value of the optimal investment. Using the common logic, a Q ratio of less than one reflect over investment. An increase in dividend payout by a firm with Q ratio of minimum value of one is positive news because the firm decided to invest minimum cash out flow in the project. If the Q ratio increases more than value of one it means firm dividend value will decrease purely based on investment decisions. They concluded that the response to dividend changes by firms maintaining a low level of Q ratio and that dividend may restrict management aptitude to invest beyond the levels of shareholders desire.

Obaidullah (1990) in his research investigated the impact of dividend in particular of blue chip companies which is listed in Bombay Stock Exchange. The study aimed on the impact of dividend for fifteen year period from 1976 to 1990. It was found that majority of the firms liable to follow a stable dividend policy for their study period. They materialize to maintain a target long-term dividend payout policy and take minor changes in actual dividends payment to reach the target payout ratio. Current dividends will depend on current and past year earnings potential. The findings of the study
clearly showed the evidence that the Lintner’s model will support in determining the dividend model is suitable well in Indian context.

Agrawal (1991) identified the approach to examining the hypothesis that dividends decrease the chance for managers to utilize cash in a self serving manner. Interest payments and dividends decrease the level of excess cash that managers can abuse the excess cash. He applied the dividend policies of debt free firms to high leveraged firm by using debt equity ratio and statistical measures like F-Test, Chi-square. He find out that dividend policy is influenced by the firm managers to over invest excess cash in leveraged firm, unleveraged firms should share out more of their earnings as dividends than the high debt firms. In line with this anticipation, author analyses with another criteria that group of firm managers have significant impact in maintaining the major shareholdings in the firms decision, while compare with little shareholding in the firm. He found that firms have high managerial shareholdings, most probably the interests of shareholders and managers more closely associated while compared with low shareholdings firm. Author concluded that dividends will help to reduce the agency conflicts between managers and shareholders on the subject of the using the excess cash flows, if the firm maintaining low debt are considerable to pay high dividend to their shareholders.

Isa & Subramanian (1992) initiated the work to decide the effect of dividend and earning announcement on stock prices. They examined market reaction to dividend increases, dividend decreases, earning increases and decrease and their empirical results showed that dividend and earning increase were associated with positive effects, whereas dividend and earning decrease led to negative reactions. New samples were created by further grouping the original sample into four sub sample groups. A standard event study method was adopted by classifying the dividend and earnings based on increase and
decrease, the researchers concluded that none of the abnormal returns provided a significant effect when the dividend and earnings changes were in the opposite direction.

Jensen et al (1992) examined the various factors that determining the dividends policy of firm such as shareholders pattern, sales, profit level, cash position, debt and retained earnings. They provided empirical evidence that dividends act as mode of minimizing the agency cost. Dividend brings same attitude between investors and corporate managers of the firms. Author introduced Jensen's free cash flow model to determine the dividend policy by combination the internal variables with growth aspect and level of investment opportunities. He concluded that dividends are unrelated to particular variable like debt and share holder patters or no impact on such altering of such variables.

Leithner & Zimmermann (1993) analysed the dividend trend and market portfolio value for four major markets in European such as, West Germany, the United Kingdom, France, and Switzerland. They applied the firm internal variables and market determined variables for analysis, In Switzerland, firms were openly formulated a stable dividend policy for their share. Variance ratio tests were applied and analyses the objective of the study that management undertakes to deliver the time path of stable dividends policy in all four markets. They analyses the relationship between long-term target payout ratios, market portfolio value along with firm potential earnings. Author concluded that dividends policy and market portfolio values have a long-term inter link in the United Kingdom but not in any other countries due to the higher investor participant and awareness

Mahapatra (1993) in their study emphasized the dividend behavior in the Indian situation with reference to three particular sectors namely, paper, cotton and sugar industry. The result explains that dividend payout is mostly
determined by cash flow and the dividend payout in the earlier year. The impact of cash outflow in dividend decision is considered to be most important in paper industry. Cotton industries are most affected by the liquidity factor to turn out dividend payout. Interest payment was most significantly impact the dividend payments of sugar and paper industry. However, demand of the investment and behavior of the share price have less impact in the dividend payout decision of the sample particular sectors. The target payout ratio and immediate change of coefficients in the selected sectors indicate wide fluctuations. The low target payout ratio presented in the paper and cotton industries highlight more on internal financing. The high speed of change in coefficient indicated in paper industry it shows that particular industry strives to maintain a stable dividend policy.

Bhat & Pandey (1994) studied the firm managers’ attitude about the intention of dividends decision form selected Indian companies for the period of 1986-87 to 1990-91. They found that, the average profit-making companies have allocated its one-third of their net profit as dividend payout ratio is averagely 43.6 percent. In additional to this, the dividend payout ratio for both profit making and loss-making companies in sample firms averagely 54 percent and the average dividend rate in between level of 14.3 percent to 19.2 percent. They also identified that various pattern of dividend policy followed in different industry. Further, author used questionnaire and selected sample of 425 top level financial managers, only 31 questionnaires have been received and 28 questionable are amenable for further studies. The finding shows that managers observe current year earnings as the important factor in influencing dividend payout decision based on the patterns of earlier dividends payout. They identify two other important significant elements influencing the dividend payout decision such as rising equity base value and expected future profit. However, they concluded that industry have minimum
influence on the dividend payment, which has been opposite result to the expectations.

Hansen et al (1994) examined the major influence in considering the value of dividend payout by applicable of target payout ratios in the Indian corporate sector. The study aimed on four industries: general Engineering, Chemicals, Electricals and Cotton Textiles for the study period of three years form 1969, 1970 and 1971. Author applied well know concept of Lintner’s model and Brittain’s cash flow model have been applied in this study. The study concluded that in chemicals and general engineering industries variables of earnings and cash flow variable are lagged payment of dividend in large portion. However, in electrical and cotton textiles the earnings are supported to pay high and better variation in payout ratio. Dividend was found to be statistically significant in the movement of share prices for all the industries under period of study.

Barclay & Smith (1995) in their article analysis the capital structure and dividend impact of the particular companies. Author found that high growth firms have lower dividend payouts policy and maintaining the low debt ratios than the low growth companies also paying higher dividend, Author concluded that investors are highly prefer dividend paying companies and have constant earnings with less risk in capital gain.

DeBondt & Thaler (1995) in the chapter, financial decision making in markets and firms: a behavioral perspective explained that besides firms paying stock dividends rather than to pay cash dividends. Stock dividends are much more comparable like as stock splits. Stock dividends can show more advantageous relative to the lower transaction costs with paying stock dividend. The transaction costs are lower because the dividend is invested again in the same portfolio. However, the disadvantage of a stock dividend is that for the small individual investor it could show a more expensive solution.
Kok & Goh (1995) indicated that a weak form efficiency test on the Malaysia stock market by applying daily returns, weekly and monthly data sample of seven Malaysian stock indices over the period of 1984-92. He applied various tools to validate the data by run test, serial correlation test, Ljung box pierce Q test and Von neumann’s ratio test in this study. The findings suggested that market efficiency increase with longer temporal aggregation of sample data. The authors explained that market inefficiency does not continue over a long time period. Corporate News and information may not be impact immediately in the stock price series over a short time, but they are impounded in the prices of shares after a week and chances to prevail for a month also.

Eugene Fama (1998) as the supporter of modern corporate finance theory, which he implied that firms should be managed in the view of increase the value and wealth of the shareholders. Here the value indicated the total price of a firm by gathering of the sum value of its equity and debt floating in the market. The financial decision of management based on the motto of wealth and profit maximization of the firm. In theory, value maximization is attractive because it is linked with efficient allocation of resources it direct connotes with the capital market operates efficiently. That is, it boosts the most to firms that to guide their resources to the best uses. Wide empirical work on capital Market behavior shows that the prices of firm shares certainly respond to firms announcement decisions in a system that looks to be consistent with expectations about the appreciation or depreciation of value in the market. The theory emphasizes the importance of corporate financing decisions on the value of the firm in the market.

Dewenter & Warther (1998) examines the relationship between dividend policies followed in Japan companies in the U.S. They observed that Japanese companies are changing their dividends according to changes in
earnings more quickly than U.S. firms. They identified that the Japanese firms are involved in paying larger dividend changes due to increase or decrease of profit changes, which bring highly reflect in the result of dividend pattern and share price movement in the market. In fact, Japanese firms are unwilling to omit or decrease the value of dividend than their U.S. firms do. They concluded that dividend reduction and omission is lesser in Japan than in the U. S. firms, that is related with the conjecture of Japanese firms involve minimum asymmetry information and agency conflicts than the U.S. firms

Mohanty (1999) analysed the impact of dividend behavior in 200 selected companies for the period of 15 years. He investigate the research in view of two different period 1982-1991 and 1991-1996. He found that most of the firms are like to issue bonus shares. Interestingly, these firms are identically to maintain the level of pre-bonus level or minimize it marginally position there by increasing the dividend payout to their shareholders. The study monitored and observed that companies that declared bonus issue during the year of 1982-1991. Author found that, firms are too high earnings capabilities when compared with the firms are not issue bonus shares but these bonus issue firm are stabilize the growth of the dividend also. He examined and found the facts for a turnaround in the year of 1992-96. He endorsed the result that reversal in course to the changing pattern and approach of multi-national corporations and to hesitate to issue bonus shares.

Chaturvedi (2000) studied various issue associated with half yearly financial results and share prices movement in India. In this study, the author used event studies to known the movement of share price along with using CAPM, market model and other dividend related model like lintner, from his conclusion author clearly indicates the significance of information contents is influencing the share price behavior and he obtained cumulative abnormal returns in a post-announcement period of 21 days to 40 days, mentioning the
stock prices movement do not change appropriate to the Earning ratio information.

La Porta & Vishny (2000) explained that dividend policy bring out the place for ‘Agency problem’. Dividend payout creates a chain of stability between management and outside shareholders. If management follows unpaid dividend policy, then the money can be utilized for the use of some risky projects which may bring advantage the insiders at the cost of outside shareholders. Therefore, the function of dividend policy cannot be discounted at all. In sight of this, this article makes an effort to bring the platform to the firm managers to identifying the effect of dividend information in share prices movement. Authors find out the common conflict between investment decisions along with dividend policies.

Nissim & Ziv (2001) analysed the conflict of the information content towards the dividend payout decision, some of the previous studies is due to omitted variables in applying in their regression models. In their study, authors presumed that profit follow a consistent mean reversion cycle with linear autocorrelation. They used regression models include variables on share return and past changes in earnings to manage the mean reversion and autocorrelation in earnings. With these changes in applied in this model, they found facts of information that extremely optimistic relationship between changes in dividend and changes in earnings in the years follow the path to dividend changes. They concluded that rise in dividend are signaling the increasing in future profit for at least four years, while dividend decreases are not related to signaling of future earnings.

Baker et al (2002) in their article clearly discussed about dividend policy of U.S. firms. Author collected the data through a survey method form 240 managers of NASDAQ firms that are consistently paying cash dividends to their shareholders. The survey concluded that managers generally know the
historical pattern of dividends and earnings of the firm capability. So, the manager wants to design their dividend policies after considering earnings level.

Ho (2002) studies focused on the dividend policy of the Australian and Japanese firms. Authors used the panel data approach and regression model for 345 firms to analysis research data. Author found that the positive correlation between dividend decision and size of Australian firm and liquidity position of Japanese firms. He concluded that negative impact between dividend policy and risk in major associated in Japanese firms. The overall industrial have significant impact in Australia and Japanese firm.

Newman (2002) found that dividends communicate the value of firms and other financial variables failed to communicate by examine the various variable of financial factors determining the dividend. He concluded that in this case that earning patterns are highly irregular while dividends payout are regular and stabilized, dividends can better portray profitability potential of the firms to market participants.

Allen & Michaely (2003) elucidate the attitude of shareholders based on dividend. Investor wants to receive a regular and fixed income from their investments, he find out that behavior of investor can depends upon the two alternatives, The first was to buy back stocks that pay dividends regularly in order to receive income in the form of cash. The second was to buy stocks that do not pay dividends and regularly, on a scheduled and regular basis to sell part of his portfolio of stocks to receive income.

Gugler (2003) systematically analysed the relationship between corporate payout policy and availability of excess funds. He distinguish that value of dividend will increase if firms has abnormal cash in their hand while compare with same firms in particular industry. He also explored that the
market behavior towards the announcement of high dividends reflects in positively signal and indicate negative impact towards firm’s excess amount should motive on investment opportunity. The results in this study explained that dividend decision dependable with the objective that limited potential over firms’ investment by distribution of cash, especially if firms have minimum opportunity to investment by the aim of improving the shareholder wealth.

Reddy (2003) explained on dividend performance in Indian corporate over the period 1990 to 2003 showed a contradictory picture of the dividend policy of firms across different industries. The study depends on dividend movement for a huge sample of shares traded on the NSE and BSE, He identified that the corporate allocating dividends has reduced from 60.5% in year of 1990 to 32.1% in year of 2003 and that only a minimum number of companies have subsequently allocating the same levels of dividends. Further, dividend-paying companies are more earnings, large in size and growth doesn't appear to determine Indian firms from paying higher dividends. Additional, impact of changes in tax regime on dividend performance indicate that the tradeoff or tax-preference theory does not emerge to grasp in the Indian context. The limitations of these papers are they have taken only cash dividends for analyzing the determinant behavior.

Yurtoglu (2003) focused on that firm managers are too optimistic about future investment projects and they rights to direct the movement of the firm by highly committed. Because of this positive behavior and attitude, external markets analysis the value of the projects, firms manager want to access external funds for their project and it’s too expensive also Therefore, firm managers like to use internal funds mostly and protect internal cash flows for that future investment purpose. This approach express that value of dividends will increased when managers think adequate internal fund will be
available to finance all projects. However, if managers are too optimistic about cash position these projects will generate in value in dividends and maintain the value of firms in the market. Therefore, author concluded that management can fix dividend high with favorable reaction in the market by analyze the available optimistic return in the investment. These implications are suitable to exempted agency cost in the organization.

Anand Manoj (2004) examined the factors that determining the dividend policy decisions of the India firm survey from eighty one CFOs in business today. He used factor analytic framework to determine the significant factors that affect the dividend policy of Indian corporate by the response of different the CFOs. The findings exposed that many of the companies follow target dividend payout ratio and were in applicability with Lintner approach on dividend payout. CFOs response dividend policy as signaling tools to inform on the existing and future prospects of the company and thus impacts on its market value. The firm managers decided the dividend policy to take into consideration about the preference of the investors towards distribution of dividends and clientele effect.

Bahramfar & Mehrani (2004) study reviewed the association between earning per share, dividend and investment between the movements of share prices in selected companies listed in Tehran stock exchange. Author applied statistical tools of event method and lintner model to analysis the data. Author selected the sample of 450 companies which are largely traded volume of share in Tehran stock exchange. Author concluded that there are significant relationships between dividend, earning per share and projected profit with the share price movement in market. Study strongly depict that share price should be determined by the firm position of profit, dividend and investment.
Yi Zhang et al (2004) Study investigated the effect of the dividend tax cut in the year of 2003, which take off the disparity tax between dividends and capital appreciation for individual investors, authors found that on ex–dividend day price and volume are influenced by taxes, risk and transaction costs. The ex–dividend day share price will increases or decreases it will affect the value of paying dividend, and chances to create the atmosphere of clienteles effect. On other hand, ex–dividend day abnormal volume of traded with the motive of high dividend yield decreases value after the reduction or omit of tax dependable with a motivation for reduction or induced the trading. Author concluded that individual investors have significant effect on the ex-dividend day price and trading volume.

Brav et al (2005) authors conducted survey to 384 various levels of financial executives and conducted interviews with an additional 23 top level financial executive to conclude the factors that determine the dividend and share repurchase decisions in the market. They suggested that keeping the dividend decision is on a similarity with investment decisions, while repurchases are work out of the residual cash flow after investment expenses. They determined that stability in the firm earnings still affects dividend policy. Author described that many managers are support to repurchase the shares because they are considered as more flexible than dividends and can be utilized in the increasing time of equity market. They concluded that maintaining that firms manager opinion that institutions are indifferent between dividends and repurchases action and those dividend and earning policies have impact on their investors belief and behavior.

Dong et al (2005) surveyed a Dutch group of family members to answer on individual opinion about the finance and consumption pattern. They did not include institutional investors in their survey, this study focus on individual investor behavior and decisions making in their financial area who
hold share of listed companies in the Athens stock exchange directly or indirect linked through investments. The study concluded that there like to be an inconsistency between the signaling theory and the uncertainty resolution theory. However, they stated that the essential point of the discrepancy is the change in dividend payments and not the level of dividends that signals the future prospects and earnings of a company. They concluded that the belief of investors that dividend-paying stocks are more risky and is not opposing to the signaling effect of the dividend.

Grullon et al (2005) criticized and argue studies by Elgers & Lo (1994), Fama & French (2000) had shown that the mean reversion process and the level of autocorrelation in earnings are nonlinear. Using the nonlinearity assumption Authors found that dividend increase does not signal better future earnings. They concluded that dividend changes contain no information about future earning changes; they even suggested that investor may be better off not using dividend changes when they forecast earnings changes.

Monica (2005) study examines the pattern in dividend decision of particular Indian companies for the year of 1992-2004. An effort has been taken to know the holistic approach in find the consequences related to dividend payout decision by adopting a systematic evaluation of courses in dividend payout. The study selected a sample of 590 companies pinned in the Bombay Stock Exchange, and the researched data is gathered from the CMIE Prowess database. Dividend Payout Ratio according to changes in bonus and right issue are consider as important variable for the objective of determining the trends in dividend payment pattern. Author identified that dividend in any given study period, down trends prevailing over the period of study from 448 companies in 1992 to 376 companies in 2004. In fact, the stabilize dividend payout ratio rise considerably along with impulsive trend of movement from
about 25-68% during 1992-2004. In study author concluded that large industry wise fluctuation were identified in major proportion of the selected samples companies and these companies followed a dividend decision on part retention capacity and part allocation of profits

Myers & Bacon (2005) conducted the survey only to examine directly by the preferences and attitude of individual investors and not the managers and financial executives’ point of view in the Netherlands. The data collection method based on a questionnaire survey they utilized to the internet-based panel of CentERdata and was presented to 2,723 members of CentERdata in 2002. Almost 61 per cent of the respondents say that they like to receive dividend for their stocks revealing in that way a strong favorite for cash dividends. This study enlightened the importance of dividend policy does not validate the dividend irrelevance theory of Miller and Modigliani

Subba Reddy & Rath Subhrendu (2005) examined trends and pattern in dividend for large firm of share volume traded in Indian capital markets. Study clearly indicated that the percentage of dividend pay firms are reduced from over 57% in 1991 to 32% in 2001, and that only a minimum firms followed stabilize provide the dividends to their shareholders. In his research, he stated that dividend paying companies are likely to be more profitable than non paying dividend companies, author identified in many of Indian firm the earnings capabilities and future opportunities does not have any significantly impact in the dividend announcement. They concluded that large number of corporate not paying dividends due to not supported by the adequate level of cash position for future investments

Das (2006) had made an attempt to study about the dividend policy used in ACC ltd for the year 1985-2005 and he further test the conservative policy followed by the management along with other financial variables like dividend per share, retain earning, EPS and capital employed by adopting
correlation technique and find out that co-efficient of correction between DPS, EPS and capital employed showed high degree of variation towards the announcement of dividend and the dividend value is not have influence by certain financial variables, its depends upon the earning and management decision.

Reilly (2006) found that the decision to modify in dividend and the scale of the change in dividend depend on the premium that the corporate placed in capital market. They also identified that the share market movement to dividend changes depends on the premium paid for dividend. The capital market appreciates the managers for bearing investors demand for dividends when making decisions about the level of dividends. Therefore, prevailed a high sensitivity of the share price to change in dividend should results in a full dividend payment solution, while a low sensitivity might bring to dividends cuts or omission of the dividend payout.

Naeem & Nasr (2007) studied examine the dividend policy of the companies registered in the Karachi stock exchange for the year of 1999-2004. Authors access the data sample of 108 firms by applied the statistical tools of lintner and factor model in the study. Author concluded that there was inconsistency in dividends payments in between the companies in Pakistani. Authors found a down trend in dividend trends in year of 2004. Interrelation between earnings and dividends payout ratio recommended that firms with higher profit are more seems to distribute dividends. Liquidity position also an important determinant of dividend payout identified to be insignificant in this study.

Ravi Jain (2007) study represented that individual investors wish to invest in high yielding dividend shares and the taxed paying institutional investors are interest to like buy low dividend yield shares and non-paying firms for their investment. He applied high dividend paying firm and low
dividend paying firm based on earning and dividend yield by statistical model, they find that, superior institutional investors are feel that the earning should used by the firm for share repurchase activity whereas individual investors do not like to buy back the shares. He concluded that firms are different view on the widely tax-based firms and non-tax-based firm and that firm pay dividends to involve in buy back motivated by institutional investors, and the personal tax bracket on equity is minimum and nearest to zero

Sharma (2007) empirically analysed the dividend behavior of select Indian industries listed on BSE from 1990 to 2005. The study examined whether or not the dividends are still trend in India and tried to judge the suitability of one of the two important opposite schools of thoughts relevance and irrelevance of dividend decision. The study also examined the theory of tax in the Indian scenario. The findings indicated the diverse about tax concept and theory mentioning that the alteration in the tax structure will not bring a considerable effect on dividend behavior of firms.

Husam (2008) research paper investigated the influencing variables of corporate dividend decisions of publicly listed companies in Jordan. The study is based on fifteen year panel data selection of sample was 1137 firms for the study of observations covering 1989 and 2003. The study framed five research objectives and used the market model and specific model to analysis the select data in between the opposing hypotheses. Author calculated the influencing variables form a selected sample firm to identifying the result of determining the dividends to its shareholders through Profit allocation. The variables that influence dividend policy in emerging markets likely to affect the other variables of the firms also such as size, earnings, and age raise the likelihood to pay dividends. Author concluded that after applying various variables, the firm leverage position will decreases the chance to pay high dividends without the effect of agency cost.
Nateson & Manickam (2008) conducted a study about dividend behaviour of ten major industries like automobile, chemical, cotton, textiles, electrical, metal and alloy, paper, sugar and synthetic textiles industries based on the convenience sampling method for the period of ten years from 1991 to 2001. They concluded that the frequency distribution of dividend per share that maximum number of companies followed medium category of dividend value from Rs 0.50 to Rs 5 according to class interval. The study concluded that maximum number of companies follow dividend stabilization method and has paid dividend per share within range of Rs 5.

Park & Kim (2008) studies tested the outlook of specified events of CG influence on firm performance during a crisis. Author identified that the economic crisis in Korea has important and negative impact in the market value of firms, but with a huge cross sectional disparity. Firms with huge equity ownership by foreign investors mandate a minimum fall in share value. Firms with goodwill and ability access to the sources of external financing also suffer less from the price fall. Authors suggested that firms controlling shareholder’s voting rights have a capability to control exceed cash flow. The study suggested that differences in firm level in CG action play a significant role in shaping changes in the firm value during the financial crisis in Korea.

Puah et al (2008) studied explained the trends in dividend announcement, author selected sample of 100 firms in Bursa Malaysia. He used the coefficient of correlation method to determine the movement of share price. Author selected various variables such as growth prospects, profitability, size of the firm, risk, debt capacity and share pattern. The results show that signaling theory has no impact or significant relationship between dividend rise and prospects of future earnings. Author concluded that dividend paying companies are earning more profit, stable, less risky in business, and as compared to non dividend paying companies.
Rafiq (2008) in his study examined the annual earnings and dividends on randomly for sixty firms during the period of 1975 to 1989. Author applied two models, in the Simple Model used to find the association between changes in current dividends and changes in current and past profit. The second model was applied and analyse Lintner’s model for examine the changes in current dividend linked to changes in present and past earning and dividend. From the study author find out that Simple Model indicated that rise in earning have keen relationship with the decision of increase dividends values and the fall of dividends is followed by the decreasing decision in earning. Author suggested that firms are having target long-term payout decision which is collected by their earnings performance and decision.

Shahrin & Othman (2008) studied focus on the nature of dividend paying firms in Malaysia country. Author identified results of their study that dividend paying companies are more profitable, less risk and more stable in their action as compare to non dividend paying companies. Author concluded that managers of Malaysian firms recognize the significance of paying dividends and they pay stable dividends even though are not earning profit.

Syeda & Nousheen (2008) analysed the associate between dividend announcements and stock prices movement. It is hypothesized that dividend information positively affects the movement of stock prices. They classified the dividend announcements as positive, negative or neutral based on model of naive. They find out the overall positive movement in the 21 day event window after the increase in dividend announcement and negative movement after the announcement of low level of dividend. There is no impact in neutral dividends in any abnormal returns of the announcement in the result of negative both before and after dividend information. The effect of announcement of dividend is common because of the addition of all types of dividend announcements. Cumulative Average Abnormal Returns are more
impact than the Average Abnormal Returns because of the cumulative effect of returns on a announcement day.

Kent Baker (2009) applied the statistically tool of regression model to find the firm payout ratio on bases of five variables that against for agency and transaction costs. Agency costs in the model depicted by two variables that alternative for the agency costs. First, the portion of a companies’ stock held by firm mangers, as a substitute for insider ownership and is likely to be negatively related to the target payout ratio. Second, the natural number of ordinary stockholders of a firm is a substitute for ownership dispersion. It is anticipated to be positively correlated with the target payout ratio due to the higher the diffusion, the more combined action of problem in monitoring the agency cost of insider.

Gill et al (2010) investigate the variables of dividend payout ratios applied and select the sample data of American service and manufacturing firms. The data used in this study for the period of 2007 and select 612 firms which are engaged in service and manufacturing activity, author used various variables such as profitability, cash flow, tax, sales growth, market to book value and debt to equity ratio were used to analysis the dividend payout ratio. Author indicate the conclusion that in manufacturing industry the variable such as corporate tax and profitability were more influencing factors and in service industry the sales growth was influencing the dividend policy.

Mistry (2010) study focus on influencing variables of dividend decision in the pharmacy sector in India. Author considers various variables like profit, debt turnover, and liquidity position by adopting the factors and other statistical tools of Regress and ANOVAs to test the variables. Author concluded that the dividends payment is more dependent upon the decision of the firm manger. Author found that the relation between dividend payout ratio and profit of most of companies are negative impact in the market. Author
concluded that association between cash flow and dividend are positive impact, it suggest that companies have adequate cash from operating activities to pay dividend. In fact, relationship between the dividend payout and liquidity was negative showed because of having cash to pay dividends, it is responsibility of the management to pay or not pay the dividends to their shareholders.

Montek (2010) survey disclosed that this environment is not just limited to just poor or middleclass households, but is widespread in rich households too. The survey discover that most Indians citizens like to keep 65 percent of their savings in liquid assets like bank deposit or post office deposits and cash at home, while investing 23 percent in physical investments like real estate and gold and only 12 percent in financial instruments. For getting safety income on their investment most of the Indians prefer to invest the money in bank saving account for the share 51 percent while 36 percent of households still like to hold money at home. The post offices investment schemes, other guaranteed return schemes and plans gets minimum part of total savings. Only 5 percent of household prefer to invest their money in post offices, while 2 percent buy insurance policies and 0.5 percent invests in interest in share market, though life insurance policy is among the most admired financial instruments to the investors, only about 78 percent of the households are aware of life insurance, yet 24 percent of households have a life insurance policy. The survey which covered 342 towns and almost 2,000 villages across 250 districts and 2,255 wards, author suggested that Indian households have a firm in saving habit. While earning level is an important reason in pathway the saving habit of households, difference in savings behavior are evenly decided by education level and occupation,
Mohammad (2010) study investigated the share price reactions to the announcement of dividend in the banking sector of Bangladesh. This study examined empirically movement of share price reactions of particular Private Commercial Banks operated in Bangladesh around 44 event days of the dividend announcement event. The main objective of this research is to analysis announcement of dividend carry any information to the market that reflect in a movement of share price. The author applied empirical part of standard event study methodology to examine the impact of stock price towards the dividend announcement. Author selected sample of 25 listed banks in the study period. Author concluded that market changes its stock price declines towards the announcement for 11 banks, increase for 6 banks and no adjustment for 8 banks. In additional, statistical pooled t-test also showed that share price reaction to dividend announcement are not statistically influence the market. Finally, author suggested that dividend announcement does not communicate any information due to strong support of the insider trading as well as other influencing variables in the stock market.

Okpara & Chigozie (2010) in their research study analysis the determinants of dividend payouts in Nigeria firms. Author selected 354 firm listed and largely traded in the stock exchange. Most of the selected firms are following constant dividend policy, profitable investment and constant earnings are considered for the research study and the study period covered 2001-2007. The authors used factor analysis and econometrics techniques to analysis the variable that determine the dividend payout in Nigeria. Authors concluded that the current ratio, earnings are very important determinants variables for deciding the dividend payout.

Saeedi & Behnam (2010) in their study discuss about the determining factors on dividend decision in Tehran stock exchange, study
mention that there is a significant link between dividend decision and some other variables such as, size of company, stability of dividend, investment prospects, earnings capabilities and inflation. Author applied factor analysis tool to determine the variables. Author concluded that there is significant relationship between dividend decision and other factors like average rate of earnings, percentage of stock traded, cash flow from operational activities, finance debt of company, earning per share and average profit of rival companies.

Selvan et al (2010) studied the behavior of market towards the announcement of buyback of shares and dividend announcements in the circumstance of Indian Corporate sector during the year of 2002 to 2004. The study analysed the excess returns across various announcement of buyback and dividend information. Author selected sample of companies which enrolled in the Bombay stock exchange index for the analysis of empirical investigation. The study analysed the movement of firm share prices before five days and after the earnings and dividend announcement made. The study exhibited the results of increasing trend in the share price movement after positive announcement of the dividend. The significant information identify from their research study is that effect of positive signaling existing only for a day after the dividend announcements. After that amount of positivism of shares prices begin to decreases. Author finally concluded that market reaction in the environment of Indian context towards positive or negative events or announcements such as share buyback and announcement of dividends generally rise and fall in share price around day or two.

Yip (2010) analysed the market impact in 1088 dividend and earning announcements. Author selected sample of 230 firms in the year of 2004 and 2008 in the Malaysian stock market by employing the market model. In this study, market model shows positive abnormal return by the
way of dividend rise and unchanged of earnings. Author suggest symmetry are independently affect both dividend and earning announcement in share price before the announcement event is happen.

Pegah & Sin (2011) examined the mode of distributing surplus cash among investors is resolute by dividend policies involved by the firms. Usually, there are three alternatives mode of the surplus cash distribution; contribution of special dividend or increasing value of regular dividend and buy back of shares. Special dividend that is a one-time expense rather than the permanent augment in cash payment, it indicates the positive information of existing financial situation of the company might not be sustainable, supply of the special dividend decrease the free cash flow problems. In addition, allocation of excess cash via a special dividend would recommend by firm managers believe that the current market price of firm is not undervalued. This study focused on impact of the special dividend and announcement on the share returns in the Malaysian stock market. Author used standard event study methodology to analysis the excess return in market, the findings point out that, the special dividend announcement signals positive information to share holders in the overall market. Special dividend announcement causes the market impact to respond positively and instantly when the information is announced. These findings are same in line with the findings of previous studies carried out in US and Australia.

Abdul Rehman (2012) study investigate the determinants variable of dividend payout decision in the biggest stock exchange of Pakistan, formally called as Karachi Stock Exchange (KSE). The impact of Debt to equity ratio, Operating cash flow and profit capability, market to book value ratio, current ratio and corporate tax on dividend payout ratio was examined for the year 2009 for 50 firms that announced of dividend made in the year of 2009. Author concluded that firms profitability position, debt to equity,
market to book ratios are the important variable to determinants the dividend payout ratio. Interlink of current ratio, debt to equity ratio, corporate tax and profitability was found to be positive impact with dividend payout ratio, while operating cash flow and market to book value ratio has a negative relationship with dividend payout ratio.

Ali Sheikhbahaei et al (2012) study investigated the market response to the announcement of dividend changes at the Malaysia stock exchange officially called Bursa Malaysia. For this study, data is gathered from 356 dividend announcement made by 138 companies listed in the market between the years of 2008 to 2011. The results indicated that the market reacts positively towards the value of dividend increasing but no significant impact in the stable dividend shares or market react negatively towards decreasing in dividend announcements. They clear concluded that during the announcement day that there is a chance for outflow of information by the insider of the firms, so it reflects immediately in the market movement.

Majid & Monireh (2012) study examined the relationship between dividend and performance of the firm on equity stock markets in Iran, there are two groups of market indexes based on economical valuation and accounting valuation consider in this studied. Author used library method to collect the data from 93 companies. The required research sample period were chosen in between the year of during 2004 to 2009. In this study, correlations based method were used by author and according to nature research hypothesis author has been used correlation and regression tests to investigation the research. Performance evaluation was work out with two sets of parameters: accounting and economic parameters. Author concluded that there is a positive relationship between economic and accounting indication and dividend policy, and that accounting performance index also
more descriptive power in the economic performance to predict the dividend in Iranian capital market.

Siew et al (2012) studies focused on dividends signaling in Malaysia; there is number of related confirmation to dividend changes the firms’ profitability. In this study, a total of 2,396 dividend changes of companies listed on Bursa Malaysia over the period 1998-2007. This study analysed the relationship between changes in dividend and impact of profitability of firms in future. Author find out that dividend changes are strongly related with changes at the times of earnings, furthermore, within the one year large number of weekly changes in earnings are identified but earnings are not changes beyond one year after the past information. Further, they state that weak data motive to move the size of dividend changes towards the future profitability. Authors suggested that dividend constancy may be directly link with information content on future profitability.

Alayemi (2013) research paper attempted to analysis the relationship between dividend payout and stock price movement. Dividend policy mention the allocation of profit should share to shareholders in form of cash, Author tested two hypotheses they are no significant relationship between profit and market stock price and there should be relationship between profit and market stock price. For the purpose of this study, secondary data gathered from the available financial report of the companies under circumstance to support against bias and manipulation of the result, thereby. Quantitative technique analysis used by the tool of StataSE was employed to find out the result of the study. Study interesting to focus on relationship exists if any dividend announcement and reaction of market share. On other hand, author examined the relationship between profitable and market share price. The study concluded that there was negative relationship
between share price and profitability and positive relationship between share price and dividend payment.

Demeh (2013) study aims to investigate the correlation between corporate governance actions and dividends decision of the firm, along with other factors such as tax rate, growth rate, Market rate, book value and profit. Author selected sample of all banks listed in Amman Stock Exchange during the study period of 2001-2009, the author analysis is evaluate by applying each of the variables like institutional ownership and individual investor. Separately, Author used a proxy of Corporate Governance (GC) and Dividends Payout Ratio (DPR) as alternative for the dividends decision. The empirical results indicate that high proof on the significance of one GC measure, i.e. institutional ownership focus on bank’s DPR. Similarly, there were proof on the impact of tax rate charges, total assets growth rate, Market Valuation and profitability by the determining of dividends policy. Thus, banks with more institutional investors or high shareholders have top rate of DPR. In fact, corporate taxes, market rate and firm earning are negatively related with DPR, which is reliable with stock valuation models.

Hamid (2013) study analysed the impact of dividend policy on market value of the shares. Author used empirically data to collect from sample of 45 firms in the Tehran Security Exchange (TSE) for the period of 2006-2011. Author applied Multiple regressions technique is used for analyses the stated research objective along with three Ohlson equity valuation models. The first model is focus on permanent earning and the second model is focus towards the expected future earnings and third model is focused on current earnings. The correlation between profit and dividends has evaluated the information for the companies. Author collected the data through the financial reports of the firm using official bulletins of the Tehran stock exchange. The study concluded that based on the models, corporate
credit level, constant income and operating cash flows, investment are interlink with stock prices determinant, Author identified significant positively result in all samples firms with comparison of three models.

Mahmoud (2013) study examines to decide whether ownership structure is connected to the dividend policy on companies are listed in Amman Stock Exchange. The study sample consisted of 62 companies listed in ASE from the year of (2000-2006). The research data are collected from annual report of selected firms. Author used Tobit model or Censored regression model to validate study hypotheses for the range of dividends paid. The author was found than 55 percentage of the firm observation in our sample have zero dividends announcement. Study shows that ownership spread as measured by the natural registration of the number of stockholders likely to be unrelated to dividend policy in Jordan. Since, the result was unrelated to both analyses, Tobit and OLS. The division taken by insiders has negative relation on the level of dividends paid. The institution is optimistic and significant impact on the dividend policy, the multiple ownership pattern also show in negative and insignificant, the pattern of foreigner also positive and in effective.