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A STUDY ON DIVIDENT POLICY AND IT'S IMPACT ON SHARE HOLDERS WEALTH

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ABSTRACT

Not a single person has yet provided an answer to the age-old subject in corporate finance, which is whether or not dividend policy has an effect on the wealth of shareholders. One of the primary objectives of this research paper is to investigate the extent to which dividend policy in India has an impact on the wealth of shareholders and the performance of companies. The execution of dividend policy is one of the most contentious themes that can be found in the financial literature on corporate finance. In spite of the fact that a great number of academics have attempted to shed light on concerns regarding dividend policy, there has not been any explanation that is suitable for the acts that the policy has conducted. A number of criteria, including dividend policy, shareholder wealth, and corporate performance, were taken into consideration for this study. Both dividend yield and dividend per share are two methods that can be utilized to evaluate a company's dividend policy. For the purpose of proxies for shareholder wealth, profits per share and share price are utilized. One way to evaluate the success of a firm is to look at its return on equity. According to the findings of the regression analysis, dividend policy has a substantial impact not only on the accumulation of wealth among shareholders but also on the achievement of the organization. This research provided support for a number of different ideas, including the theories of dividend relevance, signaling influence, bird in hand, and clientele result. According to the findings of the study, in order to enhance the performance of businesses and the wealth of their shareholders in India, regulatory bodies for the capital market should establish a supervisory framework that is effective, and financial managers should implement a dividend policy that is consistent, efficient, managed, and focused on achieving specific goals. A appropriate company disclosure on dividend distribution and dividend per share is essential in order to protect potential investors from making poor investment decisions in publicly traded companies because of the potential for those investors to lose money.

Keywords: dividend policy, shareholders wealthshare price, returns on equity

INTRODUCTION

In every sector of the Indian economy, fierce rivalry has been developed as a result of the rapid development of information technology, as well as privatization, liberalization, and globalization. As a result of this, businesses in India are experiencing feelings of confusion, fear, bewilderment, and anxiety. Increasing their value is necessary for businesses that wish to continue operating in the market. Finance managers are required to make a number of

essential decisions regarding the company's budget and commercial operations if they wish to grow the wealth of shareholders and the worth of the company. Consequently, the most important thing is to make money.

The fundamental economic driver for enterprises, profit, might be distributed in one of two ways: either it could be kept within the company to fuel its expansion, or it could be distributed to shareholders. Both the repurchase of circulating shares and the distribution of dividends are viable options for accomplishing this distribution. As a consequence of this, companies are required to formulate a dividend policy in order to regulate the timing and distribution of dividend payments.

The dividend policy has been the subject of investigation in a number of studies. The subject of what ultimately decides the dividend policy of corporations has not been answered, despite the fact that various assessments have been conducted. According to Black (1976), the dividend policy of a company is extremely important since it demonstrates the strength of the organization and provides information about the growth potential of the company. For potential investors and shareholders, conducting research on the company's ability to pay dividends is a vital step to take. The implementation of dividend policy is another method that may be utilized to cut down on agency costs. Due to the fact that the success of a company is directly related to the wealth of its shareholders, management is required to have a comprehensive understanding of dividend policy. Despite the fact that dividend policy is essential to the success of any firm, there is a paucity of research that investigates the ways in which dividend policies in India influence the wealth of shareholders and the profitability of enterprises. This research intends to examine the dividend policy of companies that are traded on the India Stock Exchange (PSX). The companies that are the focus of this research are those firms.

OBJECTIVES

1. To study divident policy
2. To study impact on share holders wealth

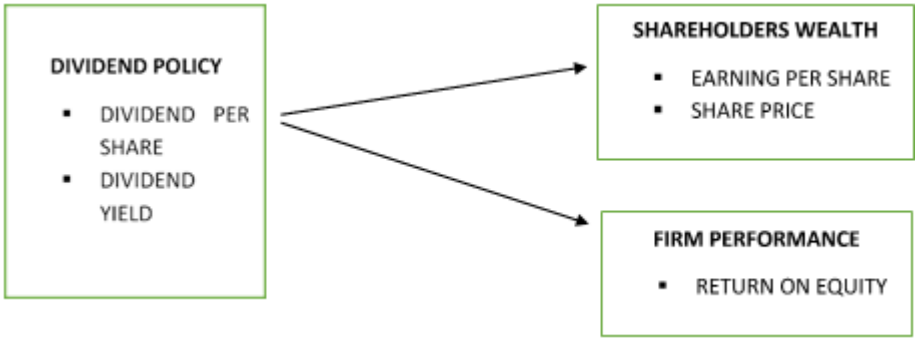
RESEARCH METHODOLOGY

Data collection and sampling

In order to be considered for inclusion in the sample, a total of 51 firms that are listed on the Indian stock exchange were taken into consideration. These companies were required to have maintained a consistent dividend policy and paid dividends for a minimum of ten years in a row or with a duration of no more than two years between each dividend payment. The selection of firms that only pay dividends was based on the research purpose of examining the impact of dividend policy on the wealth of shareholders and the performance of the company. Companies whose dividend payments are not consecutive are not included in this sample and are therefore excluded. Companies that are able to pay dividends as a result of

their consistent positive returns were selected from among the top 51 corporations that are listed on the PSX. The years 2006 through 2015 were covered by this study. The information is gathered on an annual basis. The total number of observations covered in this study was 510. For the purpose of minimizing the impact of survivorship bias, we included not only businesses that paid dividends on a consistent basis but also those that paid dividends with a gap of one or two years between each payment. In this study, data from 2006 to 2015 were tracked using E-Views for multiple regression statistical analysis.

Research model



The models that are shown here have been developed in order to gather information on the connection that exists between dividend policy, the wealth of shareholders, and the success of the firm.:

$$d(SP)i,t = \beta0 + \beta1\ d(DPS)i,t + \beta2DYi,t + ei,t$$

The wealth of shareholders is determined using this model, which uses the share price as the dependent variable. The model is used to calculate the wealth of shareholders. In this particular model, the dividend policy is the independent variable that is being considered. When it comes to examining dividend policy, there are two proxies that can be used. These are the dividend yield and the dividend per share percentage.

$$EPSi,t = \beta0 + \beta1d(DPS)i,t + \beta2DYi,t + ei,t$$

Earnings per share is the dependent variable that is used in this model for the purpose of determining the wealth of shareholders. Two of the criteria that are used in the process of evaluating dividend policy are the dividend yield and the dividend per share.

$$d(ROE)i,t = \beta0 + \beta1d(DPS)i,t + \beta2DYi,t + ei,t$$

With regard to the architecture of this model, the return on equity serves as the dependent variable that is used in order to assess the success of the organisation. In addition, dividend yield and dividend per share are used in the process of evaluating the dividend policy.

Descriptive statistics

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The overall summary of the descriptive statistics is presented in Table 1. A standard deviation of 0.04131 and an average earnings per share (EPS) of 34.83800 are found among the companies that trade on the PSX. The panel data is extremely distributed, as demonstrated by both of these numbers. According to the findings of the standard deviation and the mean value, it would appear that there is some variety in the profits per share of the companies that form the sample. A standard deviation of 0.099995 is associated with the average return on equity of companies, which is 0.277880. The results show that the standard deviations are different, despite the fact that the means are comparable to one another. A stock's price, both on average and with respect to its standard deviation

Table 1. Statistic for description

	Mean	**Median**	**Maximum**	**Minimum**	**Std. dev.**
EPS	34.83800	33.52500	328.8000	6.170000	0.041310
ROE	0.277880	0.293000	0.454000	0.084300	0.099995
SP	31.42900	31.69000	470.0000	20.20000	0.020860
DY	0.039746	0.028333	0.110032	0.015606	0.026811
DPS	4.550000	4.450000	475.0000	0.000000	0.156586

Table 2. Analysis of correlations

	EPS	**ROE**	**SP**	**DY**	**DPS**
EPS	1.000000				
ROE	0.006698	1.000000			
SP	−0.159879	0.227322	1.000000		
DY	0.098678	0.479216	0.442407	1.000000	
DPS	−0.024484	0.344938	0.137214	−0.293427	1.000000

There is a median value of 31.69000, and the dispersion measures are 31.42900 and 0.02086. A standard deviation of 0.156586, a median value of 4.450000, and an average value of 4.550000 are all associated with dividends per share. The largest possible dividend per share is 475, but the dividend per share might range anywhere from 0 to 475. "0" is displayed by the corporation whenever it is not paying dividends to shareholders. The mean dividend yield is 0.039746, the median dividend yield is 0.028333, and the standard deviation of the dividend yield is 0.02681.

Table 2 displays the coefficients of correlation across all of the variables that were investigated in this study. That the value of the correlation coefficient between the two independent variables is -29.34% is evidence that the model does not exhibit multi-collinearity. This is proved by the fact that the value of the correlation coefficient exists.

Model selection

Through the use of a redundant fixed effect test, we were able to determine which of the two models, namely the common constant model and the fixed effect model, was the most advantageous choice. It is possible to pick the appropriate model, which might be either the common constant or the fixed effect, after it has been determined whether the null hypothesis of the redundant fixed effect test is accepted or rejected at the conclusion of the test. By establishing whether or not the null hypothesis of the redundant fixed effect test is accepted, one may ascertain whether or not the fixed effect model is adequate. In addition to the redundant fixed effect test, the Breusch-Pagan test is used in the case that the null hypothesis is accepted as the correct explanation. After this, the Breusch-Pagan test is carried out in order to determine which of the two models—the random effect model or the universal constant model—is better suitable. Assuming, on the other hand, that the Breusch-pagen test also supported the common constant model, then the common constant model would be the only choice that would be left.

This is due to the fact that the null hypothesis was not accepted, which indicated that the random effect model was suitable. In order to accomplish the goals of this inquiry, the panel data were subjected to a Breusch-Pagan test in addition to a redundant fixed effect test. A common constant model seems to be the most acceptable approach to explain the variables that were supplied, as shown by the outcomes of both tests, which both accepted the null hypothesis. This is the conclusion that can be drawn from the data.

The results of the re-dundant fixed effect test and the Breusch-pagen test both indicate that the null hypothesis is accurate. This is shown in Table 3, which can be found here. When it comes to offering an explanation for the link that exists between the three models that were presented, this suggests that the common constant model is the most suitable model to use.

Common constant model

The purpose of the common constant model is to determine whether or not there is a connection between the variables that are explained and the predictors that are involved in the explanation of those variables. The slope of the common constant model is the same for all of the individuals, but the intercepts of their slopes are influenced by a variety of different circumstances. One of the key goals of the fixed effect model is to categorise the distinct effects differently from one another. There are three tables that show the results of the common constant model. These tables are numbered 4a, 4b, and 4c accordingly.

As can be seen in the table that is located above, the results of the regression analysis have been shown. Specifically, it demonstrates that the share price will rise by 0.04 units for every

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unit increase in the dividend that is paid out per share at the same time. If, on the other hand, the dividend yield is increased by one unit, the share price will rise by 0.69 units whenever the dividend yield is increased.

Table 3. Values of probability

Tests	Relations	Prob.	Status
Redundant fixed effect/F-test	DP-SP	1.000	Common constant model
Redundant fixed effect/F-test	DP-EPS	1.000	Common constant model
Redundant fixed effect/F-test	DP-ROE	1.000	Common constant model

Table 4a. The dependent variable d(SP)*

Variable	Coefficient	Std. error	t-statistic	Prob.
C	0.128673	0.069942	1.839717	0.0000
d(DPS)	0.041542	0.019411	2.140121	0.0328
DY	0.695218	0.131486	5.287286	0.0000

Table 4b. The EPS is the dependent variable*

Variable	Coefficient	Std. error	t-statistic	Prob.
C	−0.119922	0.045735	−2.622093	0.0090
d(DPS)	0.184626	0.012693	14.54548	0.0000
DY	0.264393	0.085979	3.075083	0.0022

Table 4c. The dependent variable d(ROE)*

Variable	Coefficient	Std. error	t-statistic	Prob.
C	−0.004775	0.006536	−0.730640	0.4654
d(DPS)	0.006120	0.001814	3.373799	0.0008
DY	0.104942	0.012287	8.540796	0.0000

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The results of the regression analysis may be found in Table 4b, which displays the price per share. This indicates that there will be a 0.18 unit increase in earnings per share for every one unit increase in dividends per share; this is the case. An alternative is that the increase in dividend yield will result in a 0.26-unit increase in earnings per share for every unit increase. As shown in Table 4c, a return on equity of 0.104 units can be accomplished by increasing the dividend yield by one unit and increasing the dividend per share by 0.006 units. The results of the regression analysis are presented in Tables 4a, 4b, and 4c. These tables also provide the correlation that exists between the independent factors and the dependent variables. There are no relationships that are unfavorable.

Interpretation of regression results

We came to the conclusion that the common constant model did the greatest job of describing the data after conducting repetitive fixed effect tests. This was something that we discovered by observing that all three equations indicate that the likelihood of a redundant fixed effect test being 1 is true. In light of the fact that we are required to accept the null hypothesis, this data suggests that the technique of the common constant is the superior option. In order to determine the extent to which dividend policy influenced the financial performance of businesses and the wealth of shareholders for PSX index companies between the years 2006 and 2015, we computed regression using a frequent constant effect model.

The data demonstrates that there is a positive connection between dividend policy and return on equity (DY-β = 0.104, p = 0.00; DPS-β = 0.006, p = 0.00). This may be shown by doing a statistical analysis. When the relevance threshold is set at 5%, both the dividend per share and the dividend yield begin to become meaningful. This is because the dividend yield is increased. According to this, an increase in dividend payments is associated with an improvement in the results of a corporation. One significant body of data, on the other hand, reveals that there is absolutely no connection between dividend payout and the profitability of a company.

According to the negative relation, the dividend payments made by companies have an impact on retained earnings, which in turn leads to a reduction in the funds that are kept by the companies themselves. There is a positive correlation between dividend policy and shareholder wealth, according to the findings of the research, which demonstrate that this link exists. The findings of DY- β = 0.69, p = 0.00, and DPS- β = 0.041, p = 0.03 provide evidence that supports this assertion. The method by which a corporation distributes dividends has a beneficial effect on the price of its shares. This is due to the fact that investors are informed about the positive reputation of the company, and because a company can obtain funds by issuing extra shares. Companies see an improvement in their bottom lines, which in turn leads to an increase in share price.

Table 5. Combined results of three models

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	d(SP)	EPS	d(ROE)
R2	0.057796	0.328869	0.138045
Adjusted R2	0.053663	0.325925	0.134264
F-statistic	13.98579	111.7249	36.51483
Prob(F-statistic)	0.000001	0.000000	0.000000

Furthermore, the findings indicate that there exists a positive connection between earnings per share and the dividend policy. The DY-β value is 0.26, and the DPS-β value is 0.18. The p-values for both of these variables are determined to be 0.000. When dividend payments are increased, it indicates that the wealth of shareholders or earnings per share (EPS) increases. Therefore, dividends are an excellent method for firms to increase the wealth of their shareholders.

You may view the R2 and F-statistics after they have been corrected in Table 5. The value of R2 after correction is 0.325, which shows that the dividend payment strategy of the company was responsible for 32.80% of the variance in earnings per share. The conclusion that can be drawn from this is that the variables that are responsible for explaining the model account for 32 percent of the variation in profits per share. It may be concluded that the F-statistic of the model is significant at the 5% level of significance, which shows that it accurately captures the connection between dividend policy and profits per share. The second model, which has an adjusted R2 value of 0.0537, came to the conclusion that the dividend yield and dividend per share were responsible for 5.7% of the variance in share price occurrences. This was concluded based on the results of the second model.

There is a difference that may be considered statistically significant between the F statistics of this model and the 5% level. After rectification, it was found that the third model, which accounted for 13.8% of the variance and took into account dividend payments, had an R2 value of 0.134. This was discovered after the model was investigated. Taking into consideration all of this information, it is possible to draw the conclusion that the dividend yield and dividend per share are accountable for around 14% of the variance in return on equity. There is a difference that may be considered statistically significant between the F statistics of this model and the 5% level. As a consequence of this, the results of the regression analysis performed on each of these models reveal that there is a correlation that is both positive and statistically significant between dividend policy, the profitability of enterprises, and the wealth of shareholders.

CONCLUSION

The primary objective of this research is to figure out how dividend policy influences the

financial performance of businesses and the wealth of shareholders. Using a single constant effect model, a total of 51 companies from the PSX index were chosen to be included in the study beginning in 2006 and continuing through 2015. According to the findings of regression research, dividend policy has a positive relationship with both earnings per share and share price. A positive correlation exists between dividend policy and return on equity, which is another positive aspect of the relationship. According to the findings, the clien-tele effect theory, the theory of free cash flow, and the bird in hand hypothesis are all compatible with the features of shareholder wealth that have been identified. According to the hypothesis of the signaling influence, the data of dividend policy are consistent with the notion.

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