ANALYTICAL STUDY ON DETERMINANTS OF DIVIDEND POLICY FOR STAKEHOLDERS PERSPECTIVE IN INDIA

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ABSTRACT
Dividends are very important to management, stakeholders, and future investors. In this context, the current study aims to explain different financial aspects influencing Indian firms' dividend choices and give critical consequences. The OLS panel regression approach with two approaches was used. In this research, we looked at the top 20 firms in terms of market value. The article provided facts regarding the three most important financial factors that have a favourable and substantial impact on Indian corporations' dividend policies. Dividend history, present profitability, and investment prospects are all important factors in determining a company's dividend policy. Dividend considerations are one of the most important financial managerial decisions, with major consequences for managers, shareholders, as well as academics. Boss has to calibrate their scheme for pay-out depending on previous distribution patterns and assure dividend payment reliability to retain credibility in the capital market. Investors seeking a high dividend yield should consider investing in firms with stronger profitability, a track record of prior dividend payments, and investment prospects. These findings are valuable in forecasting corporate practices during the COVID-19 economic meltdown.
Keywords: Dividend, Stakeholders, OLS Panel Regression, Financial Factors, Profitability, Investment Prospects & Reliability

Introduction

Dividends are one of the most important elements of finance, affecting a wide range of stakeholders such as executives, investors, regulators, and academics. Shareholders provide money to a corporation, and dividends are one of the primary tools for returning that investment. As a result, management must make comprehensive judgments on the number, timing, and type of shareholder rewards. It may take the form of a cash dividend, a bonus issue, stock buybacks, or DRIPs. However, it is not as straightforward as it seems. There are several elements that influence the firm's dividend policy, and previous research has shown no agreement. Dividends, according to [1] are a riddle that has been unanswered for more than four decades. The majority of dividend analyses are from sophisticated nations such as the United States, Tokyo, Seoul, and London. In the sphere of dividends, however, developing nations such as India have been overlooked. The current research attempts to address this hole by giving actual data from India's standpoint. Furthermore, recent adjustments in special dividends made by firms in light of the economic meltdown may be addressed using circumstances influencing a firm's dividend choice.

The article is presented in a methodical way. First, we discussed the importance and purpose of our research, followed by a review of known literature on variables influencing dividend practise throughout the globe. As a result, we may infer numerous major aspects influencing dividend distributions and construct our hypothesis in accordance with our aims. Following that, we reported on the approach we used to evaluate this theory. Finally, the findings of the exploratory study, as well as their reliability, have been addressed, and closing observations and consequences have been provided.

Significance Of The Study

The significance of dividend payments may be deduced from the concept that they influence the profitability of the company under unsatisfactory circumstances (Modigliani and Miller). Furthermore, it has an impact on the company's financial statements since cash dividends reduce the amount of money accessible to the organisation. There are several elements that influence Indian corporations' dividend and pay-out policies. However, it is critical to determine which criteria are substantially essential in dividend policy. Understanding the elements that affect pay-out, either adversely or favourably, would benefit investors wishing to invest in Indian firms. Furthermore, a company's executives must consider the factors that influence pay-out procedures. These studies would provide critical information and valuable perceptions for shareholders to consider when making decisions during a pandemic crisis. It will be of great interest to politicians, academics, business executives, and a variety of other parties.

Literature Review

This section of the literature review presents the arguments put forth by various researchers looking at the significance and existence of dividend payments across businesses. Furthermore, we will identify significant dividend policy determinants that will aid us in developing our article's hypotheses. Baker (1985) discovered two of the most critical variables: the expected amount of future company revenues as well as a guide to historical rewards, which is congruent with the Lintner framework. According to Nur and Karnen (2011), organisations that pay dividends are characterised by their size, big cash reserves, great efficiency, minimal debt, and rapid development. Lee (2001) and Ganguli (2014) discovered that dividend announcements influence enterprises. Brav (2005), discovered that dividend choices are still made cautiously. In an incomplete information context, Bhattacharya (1979), devised a framework in which dividend payments reflect projected cash flow. According to Jenson (1986), dividend payments to shareholders limit the funds under management's authority and require them to watch the capital market for new capital. It implies that dividends serve as a governance instrument. Moore and Braggion (2008), discovered significant support for the data asymmetries model of reward payment in the United Kingdom, as well as low sustain for the advertising copy. In publicly listed Indian banks, Bodla (2007), find support for the Lintner model. According to Dewenter and Warther (1998), Keiretsu firms are particularly supportive of the idea of reduced agency costs and data mismatch. Japanese businesses are open to modifying their dividend strategy. According to 2011 research by Wang, companies that paid dividends had higher earnings, property growth rates, and market-to-book ratios than those that didn't from 1992 to 2007. According to Jeong (2013), the major causes of dividends in South Korea are institutionalised financial sector characteristics such as bank rate level and tax rate. In their examination of dividend policy in six developed financial markets, including Canada, UK, France, Germany, US, and Japan, Denis and Osobov (2007) discovered a correlation between business size, profitability, and firm maturity in these six countries. According to DeAngelo and Skinner (2007), the largest and wealthiest American firms are primarily responsible for making cumulative payments.

Variables Influencing A Company's Dividend And Distribution Strategy

1. Income, in his famous research, According to Lintner (1956), a company's net earnings are the main factor influencing dividend variations. According to Reddy (2005) [11], businesses that pay dividends are more lucrative. As a result, present-year profits are a significant predictor of dividends. Present profits and dividend payments appear to have a favourable association.

2. Use leverage. Several studies have shown that economic powers (using a lot of credit) have a negative effect on dividend policy (Al-Malkawi, 2007), [12] since financial power raises financial responsibilities in addition to operating expenses, forcing businesses to pay a smaller amount of bonus. Arrears holders attempt to compel the corporation to pay a smaller bonus.

3. Liquidity is accessible. According to La Porta. (2000), business managers will invest in wasteful projects that have a negative net present value when free cash flow is abundant. It is therefore conceivable to claim that the agency cost of cash flow is substantial. Dividends may contribute to lowering the cash flow agency cost. It lessens management's ability to manage resources. We might expect a favourable correlation between cash flow and the dividend pay-out ratio based on current research.

4. Firm size is likely to have a positive link with dividend distribution. However, significant sales growth may require capital investment, lowering the payment. In the instance of rapid-growth corporations, according to La Porta. (2000), businesses with better legal protection should have lower dividend pay-outs. Large corporations, on average, pay more dividends than smaller companies since they are more mature in terms of growth.

5. Age because reputation grows with age, the link between age and reward is complicated. This, in turn, will help corporations reach out for financing more cheaply, allowing them to improve their payments. Firms with a greater age will attain maturity and pay out bigger dividends. As a result, we anticipate a positive association between age and dividend payments.

6. Investment Possibilities: In general, dividend distribution and investment opportunities are inversely connected. The rationale for such a link is self-evident, given that investment possibilities are funded by retained profits. The more the retained profits, the lesser the dividend distribution. However, the consistency, as well as the reputation for paying dividends, may make it unimportant.

7. History of dividend payments in accordance with a number of empirical research, management considers dividend payments while establishing the current-year pay-out. The current-year pay-out is expected to have a favourable correlation with dividend history. In other words, dividend payments benefit from a delayed pay-out.

Objectives Of The Study
The following are the aims of the study:

1. To comprehend the key elements influencing a company's payment practices, as evidenced by prior examination and research.

2. To clarify essential macroeconomic determinants influencing a firm's dividend choice in India and present statistical findings in favour of it.

3. Using two concepts, assure coherence and durability of the results.

4. Explicitly consider and provide for executives, investors, and scholars.

Hypothesis Development
Taking into account the article's aims and drawing on existing research in the dividend sector, the study attempts to investigate the theoretical model appended below:-
H01: Earnings and profitability have no bearing on the dividend policy.
H02: The dividend payment is unaffected by the preceding year's pay out.
H03: Leverage has no influence on the firm's dividend policy.
H04: Equity funds have no bearing on the dividend policy.
H04: Size does not matter in dividend policy.

Data Analysis
The research attempts to determine if payment is influenced by profits, dividend distribution, debt, investing possibilities, and scale. Dividend served as a predictor factor in our research, whereas profitability, payment history, impact, savings potential, moreover size served as irrelevant variables. The variable has been chosen for the BSE 100 companies from 2008 to 2018. Table 1 in the appendices contains sector-specific information on the chosen firms. The subsequent prototype was created to test a few of the aspects that were previously mentioned: DPSt = a+b1 EPS+b2 PDPS+b3 DE+b4 PB+b5 SALES.

Model1: Everywhere, DPS denotes pay-out each equity, EPS denotes earnings each equity, DE denotes debt equity ratio, and PDPS denotes past year pay-out, PB denotes price-book value ratio (signify savings potential), moreover the term SALES refers to the normal log of sales, DPSBt.

Model 2: Is defined as a + b1 EPSB + b2 PDPSB + b3 DE + b4 PB + b5 SALES.

Using the second model to address the heteroscedasticity issue as well as lessen the impact of the BSE 100 companies' fluctuating manuscript values. The terms "EPSB" and "DPSB" stand for "per-share earnings downscaled by valuation" and "per-share dividend downscaled by valuation," respectively. The acronym DE stands for debt equity ratio and PDPSB is for the previous manuscript value-based annual dividend scale. SALES is for "natural log of sales," while PB refers to "price book value ratio" (which represents investment potential). (Size)

Region	Number of Companies
Services for Communication	2
Discretionary to the consumer	5
Consumer Products	2
Power	3
Health Care	1
Industrial	2
IT	2
Materials	3

Table 1. Division-Specific Directory Of Firms

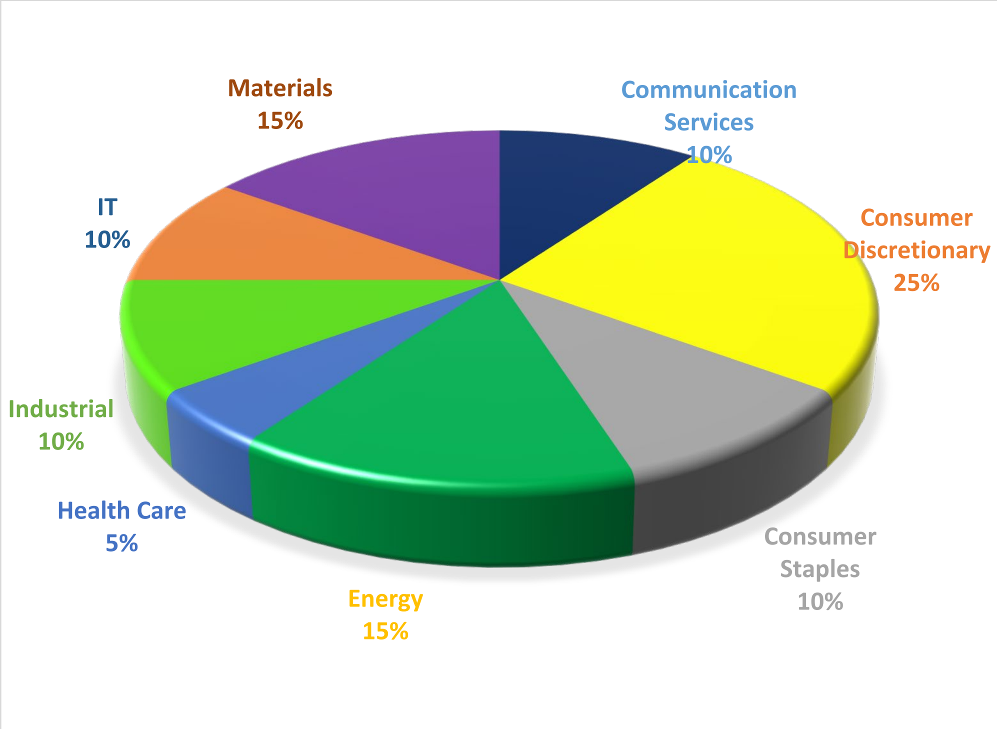

Fig. 1: List of Firms Division-Wise

Outcome Of Model 1

The adjusted R square in this analysis is quite excellent at 0.64, indicating that the predictor variables explain 64% of the variance in the dependent variable. Significant F = 0.0, indicating that all predictor parameters included in the analysis influence the pay-out each equity. Lagged DPS, leverage, and size all have an impact. As predicted, the delayed dividend is linked positively. Size and indebtedness are inversely associated with dividend pay-out, which is consistent with our prior forecast. As projected, the lag between dividends and earnings in the current year is favourable. Interestingly, the individual investor provided by the P/B ratio factor is favourably and strongly associated with dividend distribution. There is no synchronization, as shown by the Durbin-Watson score of 1.887. This implies the pay-out distribution is favourably connected to dividend history, revenue, and investment prospects.

Because LM statistics were negligible for Model 1, we pooled the data. The pooled data suggest that the EPS coefficient of 0.096 is also important at the 5% stage. Because dividends per share and profits per share are closely related, this means that if EPS increases with one unit, DPS increases about 00.094. At 0.64, the ratio of delayed payment for each equity is also significant. The loan equity coefficient and the log of sales are both negligible. The "P/B" coefficient was beneficial and significant, with a value of 0.33, showing an appreciative association between savings and chance, as well as dividend payments. This is not what we expected. This implies that, despite attractive investment alternatives, corporations carry on raising dividends. This might be because of the company's desire to maintain its image in the capital market in order to get financing for capital investments since dividends indicate the firm's future potential.

Outcome Of Model 2

Table 2 depicts the outcome of type 2 to provide a more reliable image. The corrected R square of 0.855 as well as the important f of 0.0 indicates that the concept is sound. Both EPS and lagging DPS for each manuscript worth have a positive and significant impact on present DPS for each manuscript worth. Even though it has a little effect on loan sales and debt equity, the P/B ratio has a positive and significant influence. The results closely match model 1. F has zero significance, indicating that not every standard is nothing. Current DPS per book value is significantly and favourably impacted by both lagged DPS per book value and EPS per book value. The P/B ratio has a favourable and considerable impact, whereas the results for loan sales and debt equity are small. When the findings of both models are combined, we can see that there are three explanatory factors that determine dividend pay-out: dividend past performance, current earnings per share (EPS), and investment options. Other variables, such as in-store sales and the debt-to-equity ratio, contain a shaky and irrelevant association through the present dividend each distributes. Although the effects are minimal, there is occasionally an inverse relationship between leverage and dividend distribution.

Parameters	Type 1		Type 2	
	Coefficients	Total Value	Coefficients	Total Value
consistent	0.42	-	4.73	-
Incomes	0.096	6.32	0.135	3.84
Dividend history	0.64	15.54	0.611	8.02
Leverage	-0.006	-0.87	-0.0065	0.72
Saving prospects	0.33	4.29	0.59	3.01
Scope	-0.09	-0.42	0.17	0.61
Typical Error	7.21	-	5.91	-
Impact F	0	-	0	-
Adjusted R^2	0.64	-	0.851	-
DW Indicators	1.85	-	1.84	-

TABLE 2: OBSERVED OUTCOMES OF TYPE 1 AND TYPE 2

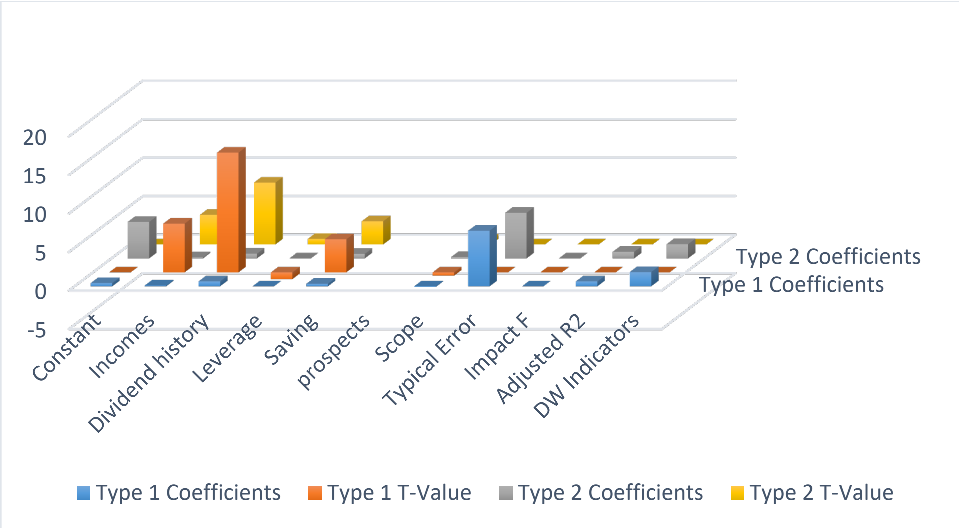

Fig. 2: Observed Outcomes of Type 1 and Type 2

Robustness Of Results

Because the LM parameters are negligible in both models, the OLSR regression model is chosen. In this work, we employed solid standard errors to get dependable and repeatable data devoid of homoscedasticity. According to Durbin Watson Statistics, the correlation coefficient is not a cause for concern. Combining big data with spanning the period methods reduces a variety of additional issues, such as unknown parameters and non-normality. It provides more flexibility and gives an indication of effectiveness. The employment of models and cross-checking the findings for consistency confirms the rigour and reliability of our outcomes.

Conclusion

Dividend history, present profitability, and investment prospects are the three primary aspects that substantially and positively influence Indian firms' dividend policies. Contrary to our expectations, the link connecting savings chance and dividend pay-out be favourable. Explanation for this link is that pay-outs are consistent. When there are investment prospects, corporations are engaged in delivering consistent dividends while paying smaller dividends to continue their image on the stock sector. In model 1, leverage is inversely associated with dividend payment for a few years only, which is generally inconsequential overall. The link between business structure and pay-out policies is negligible. Because our database primarily contains large corporations, company size may be an insignificant determinant of dividend policy. Size-related concerns, whether severe or trivial, must be considered in terms of size, for important conclusions to emerge. Ultimately, shareholders seeking dividend stocks in Indian firms should seek out companies with high EPS, a long dividend history, and a wide range of investment choices. It also implies that the indicating model is appropriate in the condition of our Nation corporations, where dividend adjustments are considered a signal of future company success.

Presumption

This article offers three insightful ideas on dividend policy. To begin, profitability has a positive and significant impact on a company's payment practices. This conclusion is widespread and is supported by the majority of investigations. Second, dividend history has a favourable and considerable impact on pay-out strategy. This shows the management is cautious in adjusting their pay-out strategy in response to changes in profits. Third, investing potential is positively associated with pay-out strategy, which contradicts the MM assumption premises to say that if there are increased prospects, the firm will keep earnings and pay a lower dividend. However, in the situation of India, we have noticed that if investment prospects are greater, corporations continue to pay dividends rather than cutting them. It might be because corporations desire to maintain their credibility from the perspective of outside shareholders in an information asymmetries situation. The preponderance of family businesses in large Indian enterprises poses a dilemma of agency knowledge and asymmetrical knowledge among scattered shareholders and the governing authority of management. That is why dividends in India are tenacious in character. Shareholders of a company with a high pay-out ratio must look for firms with higher revenue, a history of dividend payments, and financial value. As the COVID-19 financial meltdown reduces corporate profits, most notable corporations will undoubtedly slash dividend pay-outs. It will cause greater volatility in payment actions in the future. Development chances on behalf of a firm lean toward shrinking, which opens Pandora's Box for depositors seeking high-dividend stocks. However, a firm that retains its dividend during the financial crisis is an excellent investment to purchase since dividend adjustments reflect future profit sustainability. When developing a dividend policy, Indian company executives should keep these key things in mind. Investors seeking high dividend yields might invest in firms that have a high concentration of these important elements. Academicians should strive to reach greater unanimity in dividend research. Furthermore, we may include share repurchases as a mitigating element in dividend choices.

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