Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, Impact Factor: 5.647, Volume 10, No. 03, July, 2020, pp. 67-70

CORPORATE DIVIDEND - AN EARNIGN WITHOUT TAX: BENEFIT OR LOSS

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ABSTRACT

Dividend Policy determines whether company will going to distribute its earning or self finance the dividend through the retained earnings. Dividend Policy always has been identified as an integral part of the company's Financial Policy determination. This have an empirical impact on the company's decision making since it has two broad areas on which it directly impact. The first one is Investments made by the investors in the company and by the company, and the second one is the financing decision which is taken by the company for financing it capital. Over a period of 2 decade, especially after the recession of 2008, it attracted the attention of researchers, analyst, academics and various corporate practitioners. Even after the long study on Dividend policy from different aspect still inconclusive results have been shown over the period. The one major factor which has been accepted throughout the world economy is Dividend policy is as such not of very important or rather to say not at all important but in competitive economy it plays a vital role. This study has been taken with object to find out the effect of Corporate Dividend Policy on market value of the company and effect of the dividend on share prices in the market. For the purpose of this study various statistical techniques have been used to analyze the data of different nature companies including Banking Sector, Information Technology, Pharmaceuticals and some other sectors. Based on the study that the net profit and Equity dividend has been found as the most critical factor to be the part of Dividend Policy. However both factors do not have similar impact in all industries. Their impact varies industry to industry.

KEYWORDS: *Dividend Policy, Market Value, Equity, Cash Dividend, Market Capitalization.*

Introduction

The investors or share holders, make investment in the capital of the company, which becomes the main funding for any business. In this sense they are the true owner of the company. Whatever company earns (net of Interest and Tax) belongs to shareholders only. Company pay the same to Shareholders in two ways, either as cash payment or as accumulation to retained earning which is given either in form of Bonus shares or automatically moves to share holder as increased share price. However despite of Tax disadvantages, the Share holders prefer the cash dividend as it do not leave any future uncertainty regarding accumulation or Receipt of earning. The payment method of earnings i.e. whether as Dividend or as retained earrings is solely of Board of Directors of the company. There is no statutory requirement regarding payment of Dividend. The decision of the Board is undoubtedly subject to the dividend policy of the company. Some times company pays dividend even when no profit in the company, from the retained earning which was accumulated in previous years and not distributed as dividend in previous years. Hence the Dividend Policy of the company plays a significant role in Dividend decision. Cash Dividend do not have only micro impact i.e. impact on the shareholder only, but it also has micro level impact. Cash dividend given to shareholders becomes the part of National Income as well as any fluctuations in Dividend payout by the company also hampers the reputation and propensity which ultimately impacts future investment in the company. Various factors need to be considered while framing a Dividend Policy, such as Financial Position of the company, Statutory Restrictions, Liquidity problem faced by the company, any covenant in debt instruments/Agreements of the company, Shareholder's Expectation of the company, Earning Expectations of the company in future periods stimulated with shareholders expectations for dividend etc.

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Review of Litreature

Dobrovolsky (1951) has conducted a research on corporate earnings retention and has developed a model to elucidate a model of corporate Dividend Behaviour. This model uses net current earnings (After Tax) and kept the dividend as percentage of average Net worth along with operating expansion as percentage of operating Assets, as other variables. The dependent variable which is Dividend for the current year, by the average net worth of the company.

Darling (1957) he has come out with an alternative dividend policy framework by incorporating two extra variable which are current Investments and the usage of external Financing into his model. His theory a\based on his hypothesis was that in large span of industries of varied nature the dividend amount in aggregate tends to vary depending upon their Current year profit, Past year Profits, Depreciation, and amortization recoveries and will also tend to change persistently with change in sales.

Fama and Babiak (1968) They conducted a research analysis of data for around 300 US firms over the period 20 years. They used various statistical techniques such as regression, simulation, and prediction to test different models of dividend which changes to improve on the Dividend equation. The results of the research showed that net income earned seems to provide a better measurement of dividend compare to cash flows or net income.

Rao and Sarma (1981) They enquired into the determinants of dividends in a combination of public and private limited enterprises. Their study revealed that the Lintner model was appropriate for explaining the dividend behavior in the case of many industries such as coal mining, sugar, jute textiles, chemicals, and cement industries.

Bhattacharya (1989) recommended that the reason used in the theory of the bird in the hand hypothesis (BIHH) is false. He has given his opinion and said that only the firm's risk level affects the level of dividend and not any other factor. The hypothesis that those firms which faces greater uncertainty of their future cash flows and or on high risks, adopts a lower payout ratios, is seems to be theoretically plausible.

Mishra and Narender (2006) they has conducted their study on dividend behavior pattern of State Owned Enterprise (SOEs) in India by applying Lintner's model. They find a conclusion that total number of dividend paying State Owned Enterprise in india are comparatively less compare to the total profit sharing State Owned Enterprise. In majority of the State Owned Enterprise, the Dividend Per Share has remained constant even though there are continuous increase in the Earning Per Share.

Pruitt and Gitman (2017) in their research they surveyed financial managers of the around 1000 largest U.S. Firms and concluded that, current year's and past years' profits are the only important factors which influences dividend payments and found that risk also determine the firms' dividend policy.

Objectives of Study

The main objective of this research is to find out whether the dividend policy of various companies is beneficial to Corporates and investment along with their impact on various factors. Along with this main objective the other sub-objectives have been considered which are:

- To identify and make an analysis of the determinants of corporate dividend policy,
- To evaluate the impact of dividend policy on market value of stock,
- To investigate the stock price movement to cash dividend, and
- To make an empirical analyses of views of various Researchers, practitioners, and academicians on various aspects of corporate dividend policy.

Rational of Study

As we said earlier that dividend policy is one of the most crucial decision for the company as it has a wider impact on companies future and to communicate with market participants and stand in competition. Investors too likes to invest in those companies which promises in form of strong expectation for dividend and if such expectation do not get fulfill due to improper Dividend Policy, then it gives an adverse impact on company portfolio. Number of studies has been conducted on this topic what mainly on developed economies. Even the Dividend policies presently available are also from developed economies such as Miller and Miller. Present study has been conducted in light of developing Economies such as India and that why researcher has considered almost all types of industries in his research. The findings of the study will have an important implication for researchers, Analytics and professionals and Experts.

Hypothesis for Study

The Study has been conducted using following hypothesis, as researcher has set out his objective in the light of below hypothesis:

H_{01}: There is no variation on factors affecting the Dividend Policy in Different Sectors.

H_{02}: There is no relationship exist Divided pay out and Market Price of the share.

H_{03}: There is no Relation exist between Retained Earnings and Market price of the share.

H_{04}: There is no Relation exist between Liquidity Position of the company and Market price of the share.

H_{05}: There exists no impact of Cash Dividend Declaration on Market price of the share.

Scope of the Study

The study is based on Secondary data available. A Non Probability Techniques has been used. Any company which has been selected for the company is fulfilling certain criteria such as it is a listed company, financial Data relating to selected company is available, the company has paid dividend for any 2 consecutive years. Since we have selected the few companies specially the listed done, hence small companies and those listed companies which are not paying Dividend have not been included in the sample. Another factor which has not considered in this study is the other factors which show their presence sometimes as equal as Dividend. These may include Stock Dividend announcement, Right shares, Earnings Announcement, and new public issue announcements.

Research Methodology

Research methodology is a process through which a study comes on conclusions with solution of a problem, along with the suggestions and recommendations. It is science based approach where data and results are scientifically analyzed based on various ratios and trends.

For the purpose of this study, various statistical Techniques has been used including factor analysis, correlation analysis, regression analysis (Multiple) to evaluate and analyze the factors affecting dividend policy. Researcher has also used a modified version of Friend and Puckett's model identified in 1964, to Evaluate and examines the effect of Dividend Policy on the market Price of share of company. To analyze the Sock Price Movement or reaction on the Dividend declaration, to some extent Event Study Methodology has been also used. We have used the prices of shares and returns on them over a period of time.

Data Collection

The study is descriptive in nature and based on both secondary and primary data. Few companies have been selected for the purpose of the study using convenience sampling technique. Market capitalization has been used as the significant factor in selecting companies for the purpose of the study. The companies have been selected form different sector which includes Banking, Information Technology, Pharmaceuticals, Automobiles and others. Since one of the research objectives is to find out the impact of Dividend on Market Price of the Stock, Hence Financials has been also used for above selected companies with their market price trend.

In obtaining the primary Data various questionnaire has been prepared and response has been taken from various practitioners, researchers and executives.

Results and Analysis

A sample of few companies have been taken and a period of 21 days i.e. 10 days before the date of declaration of dividend, the day of Dividend and 10 days after date of declaration of dividend, has been taken into account and stock prices on these days has been analysed to see that what is the impact of declaration of cash dividend. For the stock prices, the researcher has used moneycontrol.com as source of data. The secondary data collected from the website of Stock Exchanges. Further, the cumulative average abnormal returns of cash dividend announcement in 21 days window are estimated by summing the average abnormal returns in the respective period. We observed that most of the T-Statistics are not close to zero and found very significant which shows that prices reacts to the Dividend declaration. The same results are observed when evaluating the data of banking sector, automobile sector, Pharmaceutical Sector and IT sector companies.

Conclusion and Recommendations

The overall conclusion is based on the results of t values of AAR and CAAR for the selected period of 21 days. As we said that most of the T-Statistics for almost all types of industries and in general are not close to zero and found very significant, which shows that prices reacts to the dividend declaration, significantly. The study strongly supports the dividend and market price relationship. Hence the Hypothesis H05 is rejected.

Based on above study researcher suggested some recommendations, which are listed below as follows:

- A proper cash or bank balance shall be maintained to ensure liquidity so that no liquidity crunch has arise after declaration of dividend.
- Instead of dividend company may work out on alternative methods of distributing the earnings such as issue of Bonus shares by capitalizing the retained earnings.
- A consistency shall be maintained in rate of dividend on year to year basis. However a sustained increase shall also be ensured.
- The Dividend decisions shall be given priority like the priority is given to the other management decisions regarding investments and financing decisions.
- If cash position of the company is found to be good, than company shall pay cash dividend so the wealth of shareholders can be maximized.

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