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Dividend Policy Decisions – Empirical Evidence From India

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Abstract

Purpose *– The purpose of this paper is to delve into the current dividend policies practiced by the 166 non-financial companies of the BSE 200 index (sample companies) and also to examine whether the sample companies follow a stable dividend policy. The period of the study is 2001-2011. The paper is primarily based on the research monograph (under publication) titled "Financial Management Practices: An Empirical Study of Indian Corporates" (ISBN 978-81-322-0989-8) by Springer. The study covers virtually all the major aspects of financial management, viz., capital budgeting, capital structure, dividend policies, working capital, corporate governance, global finance and risk management. The authors have obtained the requisite permission to publish this paper.*

Design/Methodology/Approach *– A questionnaire survey was administered to 166 non-financial companies of the BSE 200 index. Secondary data was also collated from 2001-2011. Link has been established with recent literature to lend credence to our findings.*

Findings *- Majority of the sample companies follow stable dividend policy. They seem to follow an approach similar to Lintner's model. This practice is in tune with the sound principles of financial management. The empirical evidence, further, suggests that the sample firms have dividend-payout ratio of much less than 25 per cent for the entire period of the study perhaps suggesting that the sample consists of companies with good growth opportunities. It is worthwhile to mention here that the dividend-payout ratios have been gradually decreasing over the past two decades (as is evident after comparing results with previous studies, viz., Jain and Kumar (1997), Jain and Yadav (2000) and Jain and Yadav (2005)), perhaps indicating better growth opportunities for companies now, necessitating the ploughing back of cash into the business.*

Research Limitations/Implications *– the limitations of the study are that it is country specific and a detailed sectoral analysis of the constituent sectors of the sample companies could have perhaps provided deeper insight into the subject.*

Practical Implications *– the findings of this research, decades of teaching experience of the authors and the literature reviewed have been utilized to evaluate current practices and suggest possible improvements in decision-making.*

Originality/Value *– The literature review revealed gaps for further inquiry into dividend decisions of companies. The available literature consists of examples of corporate practices from Western countries. To the best of our knowledge, there is no in-depth study regarding the dividend decisions and practices of Indian companies (covering the post-recession period). This paper is a modest attempt to fill this gap.*

Keywords: *Dividend policy, Stable dividend policy, Dividend payout, Bonus shares, Stock splits*

Introduction

Dividend policy/decision constitutes a major financial decision for corporate firms. Decision relates to the share of dividends to be paid out of profits earned. The company should prefer the decision which has a salutary effect on the wealth of the shareholders. What have been the practices followed by the sample companies in this regard? This apart, the objective of this paper is to examine, *inter-alia*, whether the sample companies follow a stable dividend policy.

For better exposition, this paper has been divided into six sections. Section I enumerates a brief literature review on the dividend decision. Section II contains the scope and methodology. Dividend payout ratios of the sample companies form the subject matter of section III. In section IV, data has been analyzed to determine the type of dividend policy followed. In particular, this section aims at ascertaining whether Indian companies are pursuing stable dividend policy or not. Section V examines considerations affecting dividend policy. Section VI recapitulates the major findings and links it to recent literature to lend credence to our findings.

Literature Review

Literature is rife with debates on the relevance of the dividend policy followed by a company and its impact on the future growth and valuation of the company. More theories and research do, however, indicate a relationship between dividend decisions and valuation. Walter (1956) concluded that if the return of a firm's investment was greater than the cost of capital, the company would do well to retain the earnings (as this way, the firm would be maximizing the wealth of its shareholders) and distribute its earnings in case the shareholders could earn more than the company. However, according to Miller and Modigliani (1961), dividend policy had no relevance and significance in determining the value of a company.

Jensen et al. (1997) explained that the size of the firm and the price-to-book value ratios were important determinants of stock returns' performance for companies. Examining historical returns, it was observed that the average return on the shares of small-capitalization firms with low price-to-book ratios exceeded the average return of large capitalization firms with high price-to-book ratios. Fama and French (1995) confirmed that high book-to-market equity ratio (BE/ME) signaled persistent poor earnings and a low BE/ME ratio signaled persistent good earnings. Consistent with the lifecycle theory of dividends, the percentage of companies paying dividends was high when retained earnings were a large portion of total equity and became almost negligible when the equity was contributed rather than earned (DeAngelo et al., 2006). On similar lines, Denis and Osobov (2008) stated that in the US, Canada, UK, Germany, France and Japan, the propensity to pay dividends was higher among larger, more profitable firms, and those for which retained earnings comprised a large fraction of total equity.

Aivazian et al. (2003) noted that firms in emerging markets had more unstable dividend payments than their US counterparts due to the institutional structures of these developing markets. Farinha (2003) analyzed the agency explanation for the cross-sectional variation of corporate dividend policy in the UK by looking at the managerial entrenchment hypothesis drawn from the agency literature. The results strongly suggested the possibility of managerial entrenchment when insider ownership reached a threshold of around 30 per cent.

Allen and Michaely (2003) suggested that the rise in the popularity of re-purchases increased overall payout and increased firms' financial flexibility.

Dutta and Reichelstein (2004) developed a multi-period, principal-agent model which suggested that the stock market drew information about future cash flows from current investments. The stock price is said to reflect all value-relevant information. On the other hand, Collins et al. (1999) raised questions about the basic equity capitalization model which works on the assumptions of a positive and homogeneous relationship between price and earnings. They also confirmed a negative price-earnings relationship for loss firms. Penman (1996) observed that the price/earnings (P/E) ratio indicated future growth in earnings and the price/book (P/B) values indicated only the expected future return on equity. The two could be reconciled on comparing the current and expected future return on equity.

Black and Scholes (1974) through their model emphasized the fact that investors paid a lot of importance to the dividends paid out by the companies and valued such investments higher than the companies that retained their earnings. Ezra Solomon (1969) also reflected the same views. Beaver (1968) stated that market prices reflected the investor sentiments as investors relied upon ratio analysis as the basis of their assessment. Lintner (1956) propounded the importance and significance of a stable dividend policy. Joy (1977) elaborated on the importance of a stable dividend policy. Pruitt and Gitman (1991) contended that the earnings risk faced by the company is an important determinant of the kind of dividend policy it adopted.

Brigham (1971) had focused on a trade-off between the concept of current income for investors and future investment potentials/growth of the company with the eventual aim of maximizing the wealth of the shareholders/owners of the company. Menzly and Ozbas (2010) provided evidence to support that value-relevant information diffused gradually in financial markets due to investor specialization and market segmentation. Fang and Peress (2008) observed that stocks with no media coverage earn higher returns than stocks with high media coverage even after controlling for well-known risk factors. Short et al. (2002) stated that a positive association exists between dividend payout policy and institutional ownership.

The literature review reveals gaps for further inquiry into dividend decisions of companies. The available literature consists of examples of corporate practices from Western countries. To the best of our knowledge, there is no in-depth study regarding the dividend decisions and practices of Indian companies (covering the post-recession period). This paper is a modest attempt to fill this gap.

Scope and Methodology

The Bombay Stock Exchange BSE 200 index comprises of the top 200 companies listed with the Bombay Stock Exchange, based on their market capitalization. The scope of this study is limited to the 166 non-financial BSE 200 companies engaged in manufacturing and service rendering businesses.

The relevant data (secondary) on the first aspect were collected from the Capitaline database, for eleven years (2001-2011). The period of the study is of particular importance because of the recession (originating due to the US financial crisis) that impacted the world economy towards the second-half of 2008. Consequently, phase 2 of the study (2007-2011) has been

divided into two sub-phases to ascertain the impact of recession. The two years from 2005-2006 to 2007-2008 denote the pre-recession phase (Phase 3) and the subsequent three years (2008-2009 to 2010-2011) denote the post recession phase (Phase 4) for the purpose of this study.

The 't' test as well as ANOVA (analysis of variance) has been administered to assess whether dividend policies changed during the second phase compared to the first phase, as well as during the fourth phase as compared to the third phase, for the sample companies. To study trends and its implications, the descriptive statistical values/positional values, i.e., mean, standard deviation, coefficient of variation, skew, kurtosis, median, quartile 1 and quartile 3 have been computed for each year.

The research instrument for primary data consisted of a questionnaire. This part of the analysis is based on 31 responses received out of 166 after 2 reminders (a response rate of 18.67 per cent). *Prima-facie*, the response rate may be seen as low. It should be borne in mind, however, that the number of respondents and the response rate are similar to previous studies using a similar method (Jain and Kumar, 1997; Jain and Yadav, 2000; Jain and Yadav, 2005). Further, it is becoming difficult to encourage GPs (general practitioners) to participate in surveys (Templeton et al., 1997). Also, considering that the survey was addressed to time-constrained CFOs, this may be considered a reasonable and adequate response.

The entire set of data has been analyzed using Microsoft Excel spreadsheets and the statistics software SPSS, namely, Statistical Package for Social Sciences.

Dividend Payout Ratio

A major aspect of the dividend policy of a company is the dividend payout (D/P) ratio, i.e., the percentage share of its net earnings after taxes distributed to the shareholders as dividends. In other words, dividend policy involves the decision to pay out earnings or to retain them for reinvestment in the firm itself.

The retained earnings constitute an easily accessible source of financing investment opportunities. In case the firm is unable to raise external funds, its growth is likely to be impeded as the payment of dividends entail cash outflow. At the same time, skipping dividends may also have an adverse impact on the market price per share (MPS). Witness in this context an apt observation: "The most common argument is that the corporation can increase the value of its share by increasing the payout ratio. The feeling is that the investors prefer a dollar of dividend to a dollar of capital gains because 'a bird in the hand is worth more than two in the bush' (Black and Scholes, 1974)". Also, as per Brigham (1971), the optimum dividend policy should strike a balance between current dividends and future growth (which maximizes the price of the firm's share).

Thus, the D/P ratio of a corporate should be determined with reference to two basic objectives – maximizing the wealth of the firm's owners and providing sufficient funds to finance growth. The practices of the sample companies (in this regard) have been enumerated in this section.

The relevant data in terms of mean, standard deviation, coefficient of variation, skewness, kurtosis, median and quartile values of D/P ratio contained in Table 1 indicate that the sample companies seem to have a policy of paying less than one-fourth (22.58 per cent) of net earnings to the equity shareholders during the entire 11 year period of the study under reference. This

is lower than the mean D/P ratio of 25.19 per cent reported by the Indian public sector enterprises for the period 1991-2003 (Jain and Yadav, 2005). It is notable that in the post-recession year of 2010-2011, the D/P ratio was at the highest level of 25.54 per cent.

This is in sharp contrast to the D/P ratio of 45 per cent reported by the private sector enterprises over a period of 1984-1995 (Jain and Kumar, 1997) and the subsequent D/P ratio of 32 per cent reported by the private sector companies studied over 1991-1998 (Jain and Yadav, 2000) probably indicating the decrease in dividend payouts over the past two decades.

Based on the median, the dividend payment is lower at less than one-fifth (19.91 per cent). Quartile values (7.50 - 32.78 per cent) further reinforce the assertion in that one-fourth of the sample companies (affiliated to the lower quartile) have only paid 7.50 per cent as dividends and even the top quartile affiliated corporate have paid less than one third (32.78 per cent) of their net earnings as dividends. Similar conclusions follow from frequency distribution table of D/P ratio for the period (Table 2). The sample companies (about 15-20 per cent) have dividend payout ratio of more than 40 per cent.

Skewness and kurtosis are moderate denoting that a large number of sample companies have not declared large dividends in terms of percentage of net earnings. The coefficient of variation figures are high probably due to the varying nature of the dividend policies being pursued by the constituent sectors of the sample.

The segregation of statistics related to D/P ratio of the sample companies on the basis of the four phases has also not been distinctly different. For instance, the mean D/P ratio in terms of paired t-test (the difference at 95% level of confidence) has been observed to be statistically insignificant.

In sum, the available data on the subject (in unmistakable terms) brings out the fact that the sample firms have a tendency to pay less than one-fourth of their earnings as dividends. This could perhaps be due to the fact that the sample companies are high growth firms and hence would do well to retain their earnings so as to maximize the wealth of its shareholders.

Table 1: Mean, Standard Deviation, Coefficient of Variation, Skewness, Kurtosis, Median and Quartile Values of Dividend Payout (D/P) Ratio of Sample Companies, 2001-2011

*Year Ending**	*Number*	*Mean*	*Standard Deviation*	*Coefficient of Variation (%)*	*Skewness*	*Kurtosis*	*Median*	*Quartile 1*	*Quartile 3*
2001	133	20.63	18.23	88.34	0.85	0.38	19.30	4.90	30.11
2002	136	23.39	21.55	92.13	0.82	-0.09	20.01	3.32	36.25
2003	141	22.65	19.34	85.40	0.70	-0.11	19.18	5.35	36.10
2004	148	22.46	19.52	86.94	0.92	0.45	18.96	7.07	33.08
2005	149	22.95	18.37	80.03	0.87	0.45	19.92	10.14	33.85
2006	154	24.17	18.30	75.70	0.80	0.36	21.04	11.47	34.64
2007	159	22.37	17.81	79.61	0.87	0.61	20.31	8.19	31.74
2008	159	21.75	17.92	82.38	0.98	0.83	19.87	7.68	31.32
2009	163	21.00	17.78	84.67	1.04	0.90	18.73	6.87	29.83
2010	157	21.52	18.17	84.44	1.03	0.80	18.85	7.46	30.04

*Year Ending**	*Number*	*Mean*	*Standard Deviation*	*Coefficient of Variation (%)*	*Skewness*	*Kurtosis*	*Median*	*Quartile 1*	*Quartile 3*
2011	157	25.54	20.99	82.20	1.08	1.00	22.80	10.02	33.67
2001-2011	151	22.58	18.91	83.80	0.91	0.51	19.91	7.50	32.78
Phase 1 (2000-2001 to 2005-2006)	144	22.71	19.22	84.76	0.83	0.24	19.74	7.04	34.01
Phase 2 (2006-2007 to 2010-2011)	159	22.44	18.53	82.66	1.00	0.83	20.11	8.04	31.32
Phase 3 (2006-2007 to 2007-2008)	159	22.06	17.86	81.00	0.93	0.72	20.09	7.94	31.53
Phase 4 (2008-2009 to 2010-2011)	159	22.69	18.98	83.77	1.05	0.90	20.13	8.12	31.18

*The Indian financial year begins on April 1 and ends on March 31 of the following year. The same holds true for all subsequent tables and notations.

	Paired Differences					*t*	*df*	*Significance (2-tailed)*
				95% Confidence Interval of the Difference				
	Mean	*Standard Deviation*	*Standard Error Mean*	*Lower*	*Upper*			
Phase 1 – Phase 2	4.26796	27.09980	2.13576	0.05004	8.48588	1.998	160	0.047
Phase 3 – Phase 4	3.85798	31.89973	2.47590	-1.03055	8.74650	1.558	165	0.121

*In the paired t-test, in case the value of significance (2-tailed) is 0.05 or less, the alternate hypothesis that there is significant difference in two phases is accepted; when its value exceeds 0.05, the alternate hypothesis is rejected implying that there is no significant difference in the two phases. The same holds true for all paired t-test tables.

Figure 1: Mean Values of Dividend Payout (D/P) Ratio of Sample Companies, 2001-2011

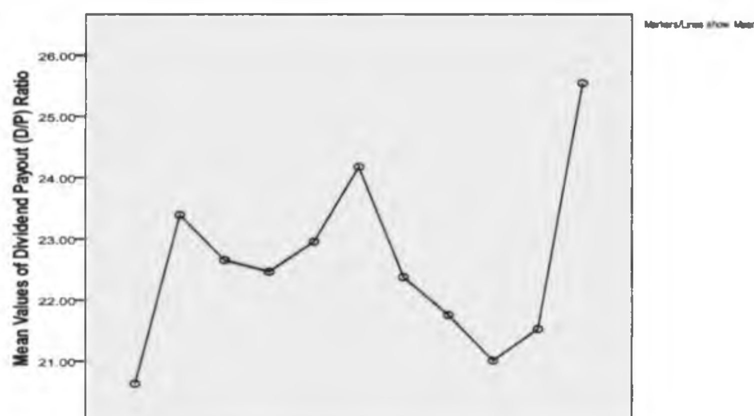

Table 2: Frequency Distribution Related to Dividend Payout (D/P) Ratio of Sample Companies, 2001-2011

(Figures are in percentages)

Dividend Payout (D/P)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Less than 10	33.81	30.77	29.05	26.80	23.72	20.63	30.67	34.15	33.54	30.25	24.22
10-20	15.11	16.78	19.59	25.49	25.00	21.88	15.95	14.63	18.90	20.37	18.63
20-30	21.58	15.38	15.54	13.73	17.95	21.88	20.86	20.73	21.95	21.60	23.60
30-40	11.51	11.19	9.46	15.03	12.82	13.75	16.56	11.59	10.98	10.49	11.80
40-50	6.47	7.69	14.86	5.88	7.05	8.13	5.52	8.54	6.71	4.32	6.21
50-80	7.19	13.29	6.76	9.80	8.97	10.00	7.98	7.32	7.32	9.88	11.80
Above 80	4.32	4.90	4.73	3.27	4.49	3.75	2.45	3.05	0.61	3.09	3.72
Total	100	100	100	100	100	100	100	100	100	100	100

Stable Dividend Policy

The term stability of dividends refers to the consistency or lack of variability in the stream of dividends. In operational terms, this policy means that a certain amount of dividend is paid out regularly. The corporate firms (while taking decisions on the payment of dividends) bear in mind the dividend sum paid in the previous years. There is resistance on their part to reduce dividends below the amount paid in previous years. Actually, firms practicing this policy, favor a policy of establishing a non-decreasing dividends-per-share stream over time. Firms are extremely careful not to raise dividends per share above a level than what can safely be sustained in the future. The cautious 'creep-up' of dividends per share results in a stable dividend per share pattern during fluctuating earnings per share periods and a rising 'step-function' pattern of dividends per share during increasing earnings per share periods (Joy, 1977).

Stable dividend policy is generally accepted as the best policy and is adopted by most firms, *inter-alia,* in view of the following: investors view constant dividends as a source of funds to meet their current living expenses; stability of dividends (where such dividends are based upon long-run earning power of the company) is a means of reducing share riskiness and consequently increasing share value to investors; also, financial institutions are constrained by rules to invest in only those equity shares which have good and stable dividend record and investments by these institutions (which represent a significant force in the market) can have an enhancing effect on the market price of the share of the firm.

Apart from theoretical postulates for the desirability of stable dividends, there are also many empirical studies, classic among them being that of Lintner (1956) to support the viewpoint that companies pursue a stable dividend policy. According to him, corporate firms make changes in dividend per share (DPS) slowly and these changes lag behind changes in earnings per share (EPS) by one or more periods. The firms generally have long-run dividend payout ratio regardless of its policy towards dividend stability which they attempt to achieve. The firms avoid reducing the dividends in a lean year and to ensure that they progress towards target D/P ratio, raise DPS gradually as the EPS rises. According to his model, DPS is a

function of EPS of that year, existing dividend rate, target payout ratio and speed of adjustment.

Lintner's model has been tested over the years by a number of other empirical research studies. For example, it has been applied to financial market data in the United States by Fama and Babiak (1968), in Canada by Chateau (1979), in the United Kingdom by Ryan (1974) and in Australia by Shelvin (1982). In general, the results of all these studies are consistent with the model (Kester et al., 1994).

In view of the above, it is believed, *ex-hypothesi,* that the corporate firms are likely to adopt stable dividend policy. This section examines the extent to which the sample companies (in India) are practicing stable dividend policy.

Each year's data was considered as one observation and was compared with the previous year's data. The firms were considered to be implementing stable dividend policy if they paid either constant dividend per year in the following year with fluctuating EPS or increased the dividend with increase in EPS. The relevant data so determined have been presented in Table 3.

The results support the hypothesis that nearly two-third (65.69 per cent) of the sample companies in India followed a stable dividend policy (akin to Lintner's model) during the period of the study. Indian public sector undertakings studied during 1991-2003 also reported 68.18 per cent companies carrying a preference for stable dividends (Jain and Yadav, 2005) as did 60 per cent of private sector companies studied over 1984-1995 (Jain and Kumar, 1997). As per trend (Figure 2) however, there appears a growth in the percentage of companies pursuing a stable dividend policy in phase 3 which declines in phase 4. The change is not statistically significant though (as per the paired t-test). The decline in phase 4 could be attributed to the recession during which the companies perhaps decided to retain earnings due to the uncertain economic and financial climate.

The survey findings on the subject of the desirability of following stable dividend policy are most revealing in that more than nine-tenth (92.59 per cent) of the respondent firms hold the view that a firm should strive to maintain uninterrupted dividend payments and should avoid making changes in dividends that might later have to be reversed (Table 4). This is similar to the findings on private sector companies studied by Jain and Kumar (1997) where 93.33 per cent pursued/desired stable dividend policy. However, the finding is in contrast with the much lower value of 75.59 per cent companies desiring to pursue stable dividend policy amongst the private sector enterprises studied over 1991-1998 (Jain and Yadav, 2000).

Further, the survey indicates that 86.20 per cent companies adopt a constant payout ratio (Table 5). Nearly two-third (64 per cent) of the sample companies (following a constant dividend payout ratio) pay-out one-fourth to half of their earnings as dividends to their shareholders (Table 6). These findings corroborate that the Indian companies, by and large, follow/desire to follow stable dividend policy; in operational terms, they have preference for such a policy.

Table 3: Percentage of Sample Companies Adhering to a Stable Dividend Policy, 2002-2011

Year Ending	*Total Observations*	*Observations Conforming to Stable Dividend Policy*	*Percentage of Companies Conforming to Stable Dividend Policy*
2002	109	64	58.72
2003	114	82	71.93
2004	122	97	79.51
2005	130	98	75.38
2006	135	85	62.96
2007	141	95	67.38
2008	143	106	74.13
2009	141	71	50.35
2010	142	93	65.49
2011	141	72	51.06
2001-2011	132	86	65.69
Phase 1 (2000-2001 to 2005-2006)	122	85	69.70
Phase 2 (2006-2007 to 2010-2011)	142	87	61.68
Phase 3 (2006-2007 to 2007-2008)	142	101	70.76
Phase 4 (2008-2009 to 2010-2011)	141	79	55.63

	Paired Differences							
				95% Confidence Interval of the Difference				
	Mean	*Standard Deviation*	*Standard Error Mean*	*Lower*	*Upper*	*t*	*df*	*Significance (2-tailed)*
Phase 1 – Phase 2	8.01800	14.56126	6.51200	-10.06220	26.09820	1.231	4	0.286
Phase 3 – Phase 4	12.83500	5.93263	4.19500	-40.46753	66.13753	3.060	1	0.201

Figure 2: Percentage of Companies Following Stable Dividend Policy, 2002-2011

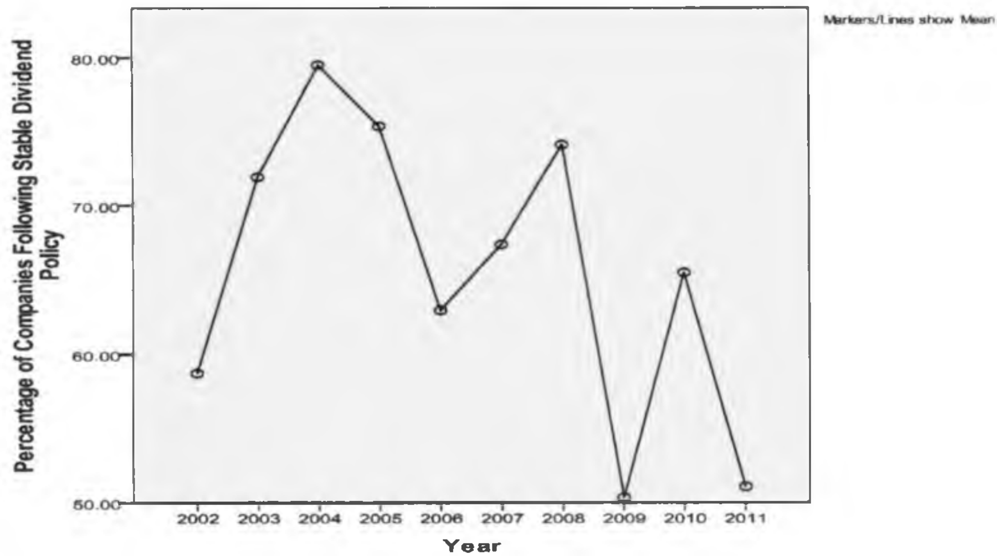

Table 4: Stable Dividend Policy Followed by Sample Companies

Options	*Percentage*
Yes	92.59
No	7.40

Table 5: Constant Payout Ratio Followed by Sample Companies

Options	*Percentage*
Yes	86.20
No	13.79

Table 6: Percentage of Earnings (if Constant Payout Ratio Followed) Paid Out as Dividends by Sample Companies

Percentage of earning	*Percentage*
Less than 10 per cent	4.00
10-25 per cent	16.00
25-50 per cent	64.00
Above 50 per cent	16.00

Considerations Affecting Dividend Policy

It was desirable to enquire about the considerations which affected dividend policy for the sample companies over the past decade (Table 7). Shareholders' returns emerged as the preferred choice for more than two-fifth (42.30 per cent) of companies (for 38.46 per cent as an exclusive consideration). Thus, the survey findings indicate that dividend policy in the case of two-fifth of the respondent companies (only) are guided by the consideration of returns to shareholders; this guiding factor is in tune with the sound tenets of financial management and the primary objective of maximizing the wealth of its shareholders. It is desired that a greater number of companies is influenced by such a consideration.

'Cash flow constraints' was the consideration affecting dividend policy for more than one-fourth companies. 'Government of India directives (in the case of public sector enterprises)', 'constant payout policy' and 'internal cash generations' remained the other factors considered by the sample companies in designing their dividend policy.

Table 7: Considerations Affecting the Dividend Policy in the Past Decade for the Sample Companies

Considerations	*Percentage*
Consideration of returns	42.30 (38.46)
Cash flow constraints	26.92 (23.07)
Consideration of taxes	7.69 (3.84)
Legal constraints	3.84 (-)
Contractual constraints	0.00 (-)
Any other*	26.92 (26.92)

* Includes 'Government of India directives', 'constant payout policy' and 'internal cash generation for future growth'.

Note: Figures in brackets indicate that the consideration is adopted exclusively by the sample companies. The same applies to other tables.

Sometimes, instead of paying cash dividends, companies issue bonus shares (stock dividends) by capitalizing reserves thereby conserving (the required) cash. The rationale/genesis of issuing bonus shares (instead of cash dividend), by and large, is that the company has growth plans; it desires to use that cash for investment (which would ultimately result in higher returns for the owners). As per Table 8, 40 per cent of the sample companies issued bonus shares in the past decade. As per a large majority (75 per cent) of respondents, the issue of bonus shares sent a positive signal about the firm's future prospects to the public and made the stock more attractive to the investors (58.33 per cent) as per Table 9.

Table 8: Issue of Bonus Shares in the Past Decade by the Sample Companies

Options	*Percentage*
Yes	40.00
No	60.00

Table 9: Benefits of Issuing Bonus Shares (if Issued) for Sample Companies

Benefits	*Percentage*
Sent a positive signal about the firm's future prospects	75.00 (25.00)
Made the stock more attractive to the investors	58.33 (8.33)
Eased the sale of new common stock	8.33 (8.33)
Helped conserve cash	8.33 (-)
Any other*	16.66 (8.33)

**Includes 'capitalization of reserves' and 'increased liquidity'.*

Table 10: Announcement of Stock Split in the Past Decade by Sample Companies

Options	*Percentage*
Yes	44.82
No	55.17

On the other hand, stock splits (breaking down the face value of the shares into smaller denominations) are issued by companies in order to bring the prevailing market price of the shares to popular trade-able levels. The majority of the companies (55.17 per cent) did not announce a stock split in the past decade (Table 10) indicating that there were perhaps no trading issues related to the prevalent price of their shares.

Concluding Observations

The important conclusions emerging out of the study may now be underlined.

It is gratifying to note from 11 years (2001-2011) period of the study that the majority of the sample companies follow stable dividend policy. They seem to follow an approach similar to Lintner's model. The survey findings on the preference to adopt stable dividend policy were in fact more revealing. This practice is in tune with the sound principles of financial management.

The empirical evidence, further, suggests that the sample firms have dividend-payout ratio of much less than 25 per cent for the entire period of the study perhaps suggesting that the sample consists of companies with good growth opportunities. It is worthwhile to mention here that the dividend-payout ratios have been gradually decreasing over the past two decades (as is evident after comparing results with previous studies, viz., Jain and Kumar (1997), Jain and Yadav (2000) and Jain and Yadav (2005)), perhaps indicating better growth opportunities

for companies now, necessitating the ploughing back of cash into the business. However, perhaps, in an attempt to reverse this trend and in an attempt to boost investor earnings, SEBI in 2014, is considering preparing a proposal on dividend policy that encourages large profitable companies to pay dividends (Varottil, 2014).

Normative Framework

Stable dividend policy is perhaps the best policy to follow for dividend paying firms in view of the following: investors view constant dividends as a source of cash/income to meet their current living expenses and stability of dividends is a means of reducing share riskiness (consequently increasing share value to investors). Further, financial institutions are constrained by rules to invest in only those equity shares which have good and stable dividend record and investments by these institutions (which represent a significant force in the market) can have an enhancing effect on the market price of the share of the firm. The sample firms not following hitherto a stable dividend policy would do well to change (keeping the above in mind) it. The same is supported by the findings of Baker and Kapoor (2014).

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