DIVIDEND POLICY AND STAKEHOLDERS' VALUE: VARIOUS THOUGHTS AND KEY DETERMINANTS

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[*The paper outlines the various thoughts of dividend policy and their impacts on the stakeholder's value. The methodology is a mix of both empirical and explorative in nature. In one hand some simple questions were asked to the experts whether dividend pay-out has any role in the stock market or not and if yes then does it positively react in the stock market or does it have any negative role in the stock market. One the other hand the existing principles were being discussed to relate with the present experts'/ stock analysts' opinions those who are dealing with the present stock markets or having some knowledge about the stock market. It has been observed in different studies that dividend announcement has significant role in the market capitalization of the firm. The state policies, declaration of budget, corporate tax pattern, tax on income and tax on capital gain also the reasons for variation of stock prices and declaration of dividend. It is an issue of interest in financial literature since joint stock companies came into existence. Since then, the area of corporate dividend policy draws attention to various academics, scholars, economists and even modern management too culminating into theoretical modelling and empirical examination. Numerous academics, adopting either a behavioural or empirical approach, have provided rationales to address the issue of why companies pay dividends and whether the market response to the announcements can be predicted. It will examine various factors affecting dividend policy and their impact on stakeholders' value. For theoretical and conceptual work, has been depended on the available literature on this field in the form of books and research publications, company annual reports, important journals etc.*

Keywords: *Dividend Policy, Value of Shares, Pay-outs, Determinants, Earnings.*]

Introduction

Dividend is the pay-outs to the stakeholders out of firm's earning or from any accumulates. Such pay-out may be of any form i.e., cash dividend or any bonus issues. Here in the study the cash dividend has been considered through which the firm's liquid money goes out. On the other hand, the stakeholders mean those who have any stakes to the firm either monetary or in other form.

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Generally, the owners or creditors hold the monetary stakes whereas the government, suppliers, and unions even the society as a whole hold the non-monetary stakes of the firm. Thus, to determine the stakeholders' value the market value of shares has been considered which is reflected through the stock markets. Here, the monetary stakes shareholders i.e., dividend pay-outs are being considered in the study. Dividend policy including value of the firm is related with economic policies with references to pay dividend with a higher rate at the subsequent stage. The issue of dividends is dogged or settled predominantly on the basis of inadequate profit over the company and affected by the long term income of a company. If the excess is remained and not required by the firm, the management is habituated to pay out all those excess earnings just as to emancipate the staple of the companies throughout a share-purchase programme. Moreover, the management must requisite the bonus interest distribution such as buy-back share and dividends. The economic theory also recommends that the dividend policy ought to establish depending on the company type and the dedication of management is the best utility of those dividend assets on behalf of the firm to its shareholders. Generally, the shareholders of established companies always used to prefer the managers of having buy-back share schedule while the secondary staple used to choose the management of those companies to contribute excess earnings just as capital dividends.

Literature Review

Lintner (1956) found in his study that dividend policy and value of the firm has positive relation. As with an increased rate of dividend market reacts positively and vice versa.

Miller and Modigliani (1961) observed that practically declaration of dividend is irrelevance in the value of firm. The study revealed that dividend policy has no effect on the value of the firm.

Chottiner and Young (1971) studied the effect of stock distribution by analyzing the immediate price reaction, i.e., comparing the ex-date opening price with the theoretical price and with the prior day closing price.

Pettit (1972) observed that dividend has a positive impact on the value of the firm. The study admits increased rate of dividend raised the stake holders' value and ultimately value of the firm.

Black and Scholes (1974) observed that dividend policy has no effect on the value of the firm with an unfavorable tax environment where tax on income is higher than that of capital gain.

Black (1976) admitted that dividend policy is one the most ambiguous policies in finance decision. The study attempts to simplify the dividend puzzle.

Foster and Vickery (1978) were among the first researchers to study the daily share price behavior on announcement of stock dividends by examining the market reaction around the declaration date and ex-date. They studied a sample of 82 companies that paid stock dividends to

firms during 1972-74. They observed a positive unexpected return subsequent to the declaration date but not ex-date.

Litzenberger and Ramaswamy (1979) observed that dividend has a negative impact on the value of the firm. The study explored that the tax mechanism brings down the value of the firm when it pays dividend.

Woolridge (1983) analyzed the effect of stock dividend announcements on stock returns.

Poterba and Summers (1984) observed that an increase rate of dividend reduced the value of the firm when tax on income is higher than that of capital gain.

Grinblatt et al. (1984) examined the stock dividends during 1967-76 to study the market response.

Woolridge and Ghosh (1985) developed a theory where they explored that dividend and stake holders' value negatively related. The study reveals that with the increased rate of dividend the stake holders' value gets decreased.

Lakonishok and Lev (1987) analyzed data for 20-year period (1963-82) and concluded that stock dividends were not distributed by highly successful firms.

Sloan (1987) conducted a study on the Australian share price behaviour on and around ex-date of stock dividends.

Lasfer (1995) observed that declaration of dividend puts a negative impact on the value of the firm. Thus, increased rate of dividend brings down the value of the firm.

Dhatt et al. (1996) further explored the Korean market and found positive abnormal returns on stock dividend ex-day.

Soter et al. (1996) observed that dividends and value of the firm are negatively related as with the payment of dividend the liquid money gets exhausted and firm manages its liquid money from out sides. Automatically, liability along with fix obligations increased and firm losses its value gradually.

Papaioannou et al. (2000) analyzed the impact of stock dividend distributions on market price and trading volume pertaining to the companies listed on Athens Stock Exchange.

Bell and Jenkinson (2002) extended that dividend and value of the firm have an opposite relation in an unfavorable tax environment where tax on income is higher than that of capital gain.

Cluskey et al. (2006) observed in their study that dividend and value of the firm are correlated to each other and there is a positive relation between them. Thus, with the increase of the rate of dividend the value of the firm gets increased.

Brealey et al. (2008) observed a negative relation with dividend and value of the firm in an environment where tax on income is higher than that of capital gain.

Joshipura (2009) investigated the impact of the stock dividends on stock price and liquidity. The study observed significant positive abnormal returns just prior to and on the bonus announcement day.

Hafeez and Attiya (2009) identified that

non-financial companies listed with KSE, adopt the policy of relying not only upon current earnings per share but also upon past dividend per share payments.

Connelly et al. (2010) observed that dividends as a device to signal to outside shareholders that they are willing to forego their private benefits of control.

Mustafa and Al-Qudah (2011) examined the determinants of capital structure of Jordanian mining and extraction industries.

Nirmala et al. (2011) found in their study that dividend and stakeholders value are positively related to each other. With the increased rate of dividend stakeholders' value get increased.

Ray (2011) found in his study that dividend can't play any role towards investors. Dividend and stakeholders value are not related to each other. The study concludes that investors cannot gain with the stock dividends announcements.

Khan (2011) found in his study that the dividend announcement was irrelevant to the investors. The study observed that dividend has no role in stakeholders' value.

Jain (2012) found though the firms are reluctant to decrease the rate of dividend, pay little and even may be nil having high growth and investment opportunities to finance those investments opportunities.

Mehta et al. (2014) found as puzzle in their study. The study found a positive relation of the declaration of dividend and stakeholders value. The findings also show that the announcement of stock dividends in India reduces viability of returns in the short run as well as long run.

Abbas (2015) observed a positive association between dividend policy and share price. Though, the relation carries a negative impact also, it has a comparative lower effect than the positive association.

Ullah et al. (2015) found that dividend has zero effect to the market signal and share price. Study shows that the positive signal of payment of dividend reduces the earning capability of the firm which has a negative signalling effect.

Yahya and Ghazali (2015) argued that the best measure of firm performance is shareholder return and Dividend carries a positive signal to the market.

Ahmad et al. (2015) dividend pay-out holds a negative impact on firm's earnings.

Donatiello et al. (2016) found that though the stock returns have a positive signal the accounting-based operating measures more effectual.

Rizwan et al. (2016) study suggested that there is no association between dividend policy and the return on equity.

Tahir et al. (2016) found a positive association between dividend policy and firm's performances.

Shah and Mehta (2016) analysed a positive association between dividend policy and share price.

Thirunavukkarasu (2016) found a

positive relation between dividend policy and share price.

Osamwonyi and Lola-Ebueku (2016) found that firm's earnings and dividend policy have a negative association and in long it may be continued to share price too.

Widyastuti (2016) found a positive relation between dividend policy and firm's value.

Chaabouni (2017) argued that a positive dividend policy has a favourable impact on market as it gives the information about company to the market.

Farrukh et al. (2017) found a consistent dividend pay-out carries a positive signal to the market and automatically shareholders' value gets maximised.

Swarnalatha and Babu (2017) found a positive association between dividend pay-out and share price.

Masry et al. (2018) found that dividend decision differs from company to company as such decision is taken after careful consideration of a number of factors (legal and financial).

Venkataramanaiah et al. (2018) study found a positive relationship between the firm's economic performances and dividend policy where as leverage and liquidity is negatively related with the dividend policy.

Objectives of the Study

The primary objective of this study is to observe the relationship between dividend policy and value of the share. It has been observed in different studies that dividend announcement has significant impact on market capitalization of the firm. The state policies, declaration of budget, corporate tax pattern, tax on income and tax on capital gain also the reasons for variation of stock prices and declaration of dividend. The main objective of the study is to analyse the role of dividend policy on the value of the firm, more specifically the objective is to study the:

- Various thoughts of dividend policy
- Key determinants of dividend policy
- Relationship between the dividend policy and stakeholders value

Various thoughts of Dividend and Value of the Share

Dividend Irrelevance Theory

Dividend irrelevance theory suggests that the dividend policy has no impact on the share price of the company as well as on the value of the firm. Those theories which argue about the irrelevancy of dividend and the value of the firm are:

- Residual Theory
- Miller and Modigliani(MM) Model
- Dividend Clientele Effect
- Rational Experience Model

Residual Theory of Dividend Policy:

The residual theory is a kind of dividend policy where throughout the policy a company management always uses to capitalize their expenditures with accessible earnings before contributing dividend to its shareholders and this

policy generates more dryness in the dividend amount contributed to investors each year. The first preference is to utilize revenues to cash flow capital consumption and the dividends are contributed with any resting profits originated by the firm.

Dividend, investment and financing decisions are absolutely free and in case of long-run process a trade-off must be made. Because a firm cannot grant:

- Forego profitable investment;
- Operate with non-optimal capital structure;
- Finance dividends by issuing new shares.

The only policy that keeps away from among the above choices is to consider dividends as a residual.

The residual theory of dividend imagines that whether the firm has maintained earnings after capitalizing all considerable investment chances, then these earnings would be dispersed to shareholders in the Firm of cash dividends. If the fund is not left, there will be no dividend. In such case the dividend policy strictly results to take an investment decision. But the dividend policy is considered as a financing decision while the mode of payment dividends is a passive residual. The analysis of dividend policy as a passive residual dictated rigorously through the accessibility of manageable investment offers involves that dividends are not relevant, the shareholders are not serious between dividends and property. The observation of residual dividend theory means alterations in the dividend pay-out system from time to time in keeping with oscillations in the amount of considerable capitalization chances are convenient to the firm. If the opportunities are huge, the dividend pay-out percent is assumed to be zero. On the contrary, if the firm is not able to find out the profitable investment then the dividend pay-out ratio is probably to be one. For the circumstances between these two opposites, the ratio of pay-out system will be a fragment between zero and one.

The residual theory of dividend policy unnecessarily means that the dividends require fluctuation from period of time in keeping with the opportunities of investment. A firm may contribute the actual payments smoothly by saving some money in excess years in prediction of deficit ones.

In respect of the suitability of investment chances, it may be said that the firm would continue earnings for investment in new projects up to the point where the minimal reciprocal on new investment parallels the tiny cost of capital. If the expected returns, on the availability of investment opportunity, are more than the minimal cost of firm then the firm will accept a lot of investors as many as possible within its financial capability and in such a way no dividends will have to be paid to its shareholders. Consequently, if the expected returns are less than the minimal cost of the firm, the firm will not accept the opportunities of investment. The whole income will be distributed throughout the way of dividend.

Miller and Modigliani Model

Miller and Modigliani (1961) have strengthened the view that the necessity of a firm relies merely on its earning power and is not affected by the manner in which its incomes are divided between the dividends and continued earnings. The view, referred as theorem of MM Dividend irrelevance, is manifested in their celebrated 1961 Article.

The assumption of Modigliani and Miller signifies that the market price of a company is measured utilizing its earning capability and the underlying risks of its resources throughout an autonomous way including investment and dividend distribution. Realistically, a firm can prefer to invest for improvement by the three classifications such as accepting a loan, distribution of profits and direct share issuance. The assumption, whenever entangled, in its ordinary form is formulated on the concept incorporating fixed hypothesis in place as there is no distinction between a firm investing itself along with debt or equity.

In time of the 1950s, Merton Miller and Franco Modigliani thought about the development of this analysis with the publication of The Cost of Capital, corporation finance and The Theory of Investment according to the American conception in the late 1950s. Simultaneously, both of them were well known professors at The Gradual School of Industrial Administration under Carnegie Mellon University to teach corporate finance for business students. Having studied the concepts and objective explained to the students, the two professors inaugurated the information continuously together with the correctness of their flaws and faults. As a result, the revolutionary article was published in the review journal and the information was incidentally agreed to become the M&M hypothesis. Furthermore, the two professors had a lot of follow up papers representing these activities incorporating "Corporate Income Taxes and the Cost of Capital: A Correction," published in the year of 1960s.

Dividend Clientele Effect

The theory of a clientele effect represents that how the stock of a company will move in accordance with the demands and aims of investors in reaction to a tax, dividend or another policy change. Firstly, it assumes that particular investors are fascinated by various company policies, but whenever the policy changes then the investors will be able to maintain their stock holdings appropriately. According to, this arrangement the stock price may move up and down. The greatest way to comprehend the clientele effect is to represent how the effect analyses investor reactions. The equities of public are generally classified in various ways, such as dividend-paying stocks, high-growth stocks, mature-stocks of blue-chip stocks. Each classification aids to describe the life-cycle of a business, hence in such away the returns are provided to the investors consequently. For example, a high growth stock will not be able to contribute a dividend, but obviously it may have enough swings in price acknowledgement as per the growth of a company. There

are two important sides of the clientele effect. The first part of the clientele effect explains the way in which some of the investors or clients try to find out stocks in a particular category whereas the second portion of the clientele effect explains about the reaction of current investors in case of changes to the policies and procedures of a company rules.

a) Tax-Induced Clientele–Effects

A genre of tax that increases or decreases depended on the gross domestic product of a nation. The government has the power to utilize induced taxes to accomplish economic challenges such as tax raising in a strong economy to captivate supplementary revenue and reducing them in a backward economy to a stimulate or prompt consumption. Whenever a large number of investors are affected by after tax returns, the alternative tax treatment of dividends and capital gains might impact their likings for capital gains versus dividends.

b) Transaction Cost-Induced Clientele

A transaction cost, in economics and related disciplines, is a cost by any economical trading during the participation in a market. As for example, the buyer of an old car encounters diverse transaction costs. The search costs denote the costs of searching a car and confirming the condition of the car. The bargaining costs manifest the price negotiation costs with the seller. The policing and enforcement costs imply the costs of assurance that the delivered car by the seller in a promised condition. According to Douglas C North the institutions, supposed as the set of rules in a society, are the key in the arbitrator of transaction costs. Hence, the institutions facilitate low transaction costs and also boost up the economic growth.

Rational Experience Model

The Rational Experience Model of dividend is market linked model. It suggests when market expectation and firm's dividend pay-out are same there is no impact on value of the share and subsequently no impact on the value of the firm. The model suggests that the Dividend rate is a comparative matter. Simply the rate is not important. It needs to be compared with market expectation. If it is higher than the market expectation the value of share will move to the upwards in the other case it will move the downward. Thus, Rational Experience Model suggests us that before taking any dividend decision we need to aware of market expectation to get a better response and it will automatically be maximised the market value of the share.

Dividend Relevance Theory

Dividend relevance theory suggests that the dividend policy has a role on the share price of the company as well as on the value of the firm. Those theories which argue about the relevancy of dividend and the value of the firm are:

- Traditional Position
- Walter Model
- Gordon Model
- The Bird-in-Hand Argument
- Dividend Signalling Theory

- Agency Cost Theory
- Linter Model
- Tax Preference Theory

Traditional Position

An argument goes through 'within reason' that the investors intend higher dividends to lower dividends because the dividend is confirming whereas the capital gains are not certain. A number of shares transacted everyday as there is the availability of seller and buyer so that one can think of the trading volume as half of the number of shares transacted.

Walter Model

The model of Walter on dividend policy always conjectures or surmises in the relevance idea of a dividend. According to this idea, a dividend decision of the company effects its valuation. The companies which are paying higher dividends have more demand as compared to the lower dividends paying or without dividends paying companies. Moreover, the theory of Walter also analyses this idea through a mathematical model.

Gordon Model

The Gordon growth model is utilised to persuade the inherent value of a stock depended on an incoming series of dividends which grow at a stable rate. The model elucidates for the current value of an endless series for future dividends through a payable dividend per share in one year and the growth of dividend at a stable rate in perpetuity.

This model also conducts a company's stock using an indication of stable growth in payments a company accomplishes to its common share-holders. The fundamental information is displayed as dividends per share, growth rate in dividends per share and required rate of return. The dividends per share exemplifies the annual payments of a company and makes to its familiar equity shareholders whereas the growth rate in dividends per share is increased, how much dividend per share, from one year to another. The demand of return rate is a minimum return rate which is expected and accepted by most of the investors whenever purchasing a stock of an appropriate company where the huge type of investors uses to estimate this rate. Moreover, the model indicates that a company survives perpetually and contributes dividends per share increasing at a stable rate. Having estimated the value of a stock, this model takes an endless series of dividends per share and rebates them back into the present utilizing the needed rate of return.

The Bird-in-Hand Argument

The Bird-in-hand theory clearly represents that the investors intend dividends from a stock to probable capital gains due to the indispensable unpredictability of the latter. Based on the apothegm, a bird-in-hand is equivalent with two in the thicket. The theory also occurs that the investors like the certainty of dividend payments to the probability of essentially prosperous future capital gains.

Bird-in-hand theory is one of the most important theories regarding dividend

policy in a company or business. And this theory was advanced by Myron Gordon in 1963 and John Linter in 1964 respectively as an acknowledgement to Modigliani and Miller's dividend impertinence theory. Lintner and Gordon proclaimed that Modigliani and Miller did a mistake by domineering lack of impingement of dividend policy on the firm's cost of capital. They suggested that decreased pay-outs affect in the increased cost of capital. It is also recommended by them the investors want dividend as it is more perfect than capital gains which might or might not appear whether they let the firm can maintain its earnings. The authors determined that the increased capital gains or dividend ratio is, the highest total return is needed by the investors, on the grounds of increased risk. Alternatively, Gordon and Linter asserted that one percent drop in dividend return has to be countervailed by more than one percent of further improvement. Investors always use to avoid risk and admit that incomes from dividends are assured rather than the incomes from incoming capital gains, hence they foretell future capital gains as some precarious presentations. They rebate the future capital gains at a higher return rate than the earnings of the firm, thereby estimating a higher amount of the share.

Dividend Signalling Theory

The Dividend Signalling theory conjectures that when a company declares an increment in dividend pay-outs, it specifies the positive future calculations. The concept bringing up this theory is directly clinched to game theory and the well investment potential managers are more preferable to signal. While the dividend signalling concept has been extensively argued yet the theory is still a crucial idea used by exponents or enthusiasts of inefficient markets.

A company's lengthy history of dividend grows each year is signalling to the market and its management including board observe profits in the future. Though, the increased dividends are not sure unless the board is confirmed that the cost can be sustained. There are a few stocks in the history that looks like an important bet for investors searching ever increasing dividends such as the FedEx Corporation, the Franco-Nevada Corporation and National Fuel Gas.

Agency Cost Theory

Agency costs denote a genre of internal cost that originates from, or essentially has to be paid to, an agent acting on behalf of a principal. These costs are emanated by' the core problems just as conflicts of interest between shareholders and management. The shareholders always intend towards the management so that the company can run in a way that grows the value of a shareholder, where the management may want to grow the company in ways that enlarge their personal power and property that may not be in the exquisite interests of the shareholders. Agency costs incorporate any expense which is related with managing the correlation and determining distinguished priorities. Whenever the shareholders are essentially related with increasing share value, the management can be more related with

developing the business in the ways that grow their personal wealth. There may be any changes in the business activities that may lead to the low amount of share prices are likely to be concern with the impediment by shareholders who control profit as a primary concern. The conflict is established on the basic difference in the destinations related with the individuals on each side of the affinity, pointed out as the main-agent applicability. Whenever the most familiar reference .to the main-agent relationship incorporate management as the agent and shareholder as the principal, but other relationships accommodate same features, just as the affinity between politicians those who are operating as the agent and the voters those who are operating as the principal.

Linter Model

Linter Model is a model which proposes that dividend policy has two frameworks such as the target pay-out ratio and the acceleration at which present dividends harmonize to the target. In 1956, John Linter advanced this theory depending on two vital things illuminating about dividend policy. First of all, the companies conduce to fix a long-run objective 'dividends to earnings' ratios as per the volume of positive net present value projects according to the availability. Secondly, the growth of earnings is not always continuous.

The Linter dividend theory is absolutely one of the most surviving illustrations in finance. This model or its variations can be originated in the earlier empirical literature studies of Britain in 1966. The most essential reason for the common consent is its dexterity to contribute a very probable interpretation or description of the dividend procedure contemplated materialistically. However, the Linter's model is only a repetitive affiliation. The aim of its instructional representation is to display that by obtaining the rational solution of the model, a higher explanation can be received.

Tax Preference Theory

Tax preference theory is one of the most important theories regarding the dividend policy in an institution. This theory was first improved by R.H Litzenberger and K. Ramaswamy. It also proclaims that the investors intend lesser pay-out companies due to tax reasons. Having based on American stock market they formulated and presented three major augmentations pertaining to the preference of investors to reduced pay-out companies. In the first place the long-term capital gains, unlike dividend, permit the investor to delay tax payment until they determine to sell the stock. By means of time value impacts, tax paid instantaneously has a greater impressive capital cost than the same tax paid in the next. Hence, the investors may prefer the companies to keep or hold their earnings for the sake of skip taxes.

Findings from Primary Survey

We conducted a primary survey on structured questionnaire on Dividend Policy and Stock Market Reaction. Opinion of 70 experts/analysts were considered in Kolkata and the respondents were being asked to give

their opinion through the structured questionnaire. The Questionnaire was divided into four segments, namely General Information, Dividend Pay-outs, Determinants of Dividend Decisions and Other Questions.

A) General Information regarding the Respondents

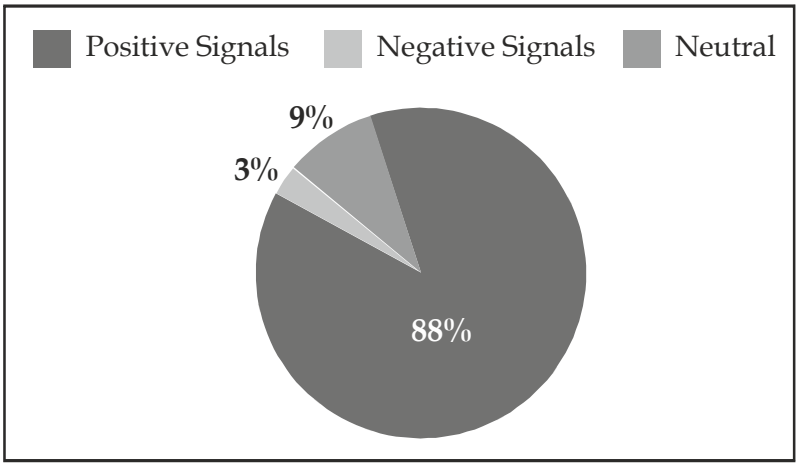
The respondents were from the Kolkata. The majority (90%) are service holder and they were from the Commerce background. A significant portion (60%) of the respondents is investor. They do invest their surplus amount in the stock market and they have the basic knowledge about the stock market.

B) Dividend Pay-outs Relevant to the Stock Market

The term "Dividend Policy" is a kind of strategy in which a firm or a company or an institution controls to organise its dividend pay-outs to the shareholders. In one hand, one school of thoughts argued that the dividend policy may be inconvenient or irrelevant as the consumers can sell a part of their shares as per their necessity of the funds or capitals. They even argued that the positive signals carried by the dividend pay-outs are compensated with the sacrifice of new reinvestment opportunities through the outflow of liquid money. In the other hand, another school of thoughts argued favourably and they found that dividend pay-outs in short run definitely has a positive vibration in the market and even it extends in the long run too that is when an increased rate of dividend is given. Thus, Black (1976) admitted that dividend policy is the most ambiguous policies in the finance. Here, the study through the questionnaire attempts to simplify the dividend puzzle. The outcomes of the questionnaire are as under:

i) Dividend Pay-outs and probable Market Signal in short run period i.e., one year or lesser period

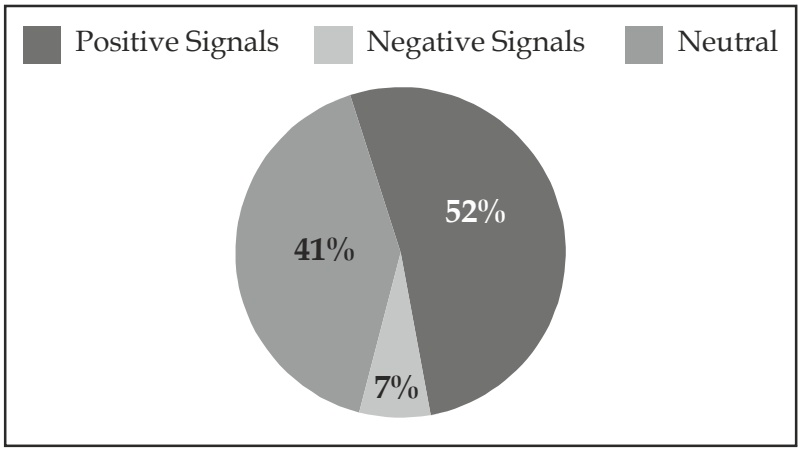
Figure 1 : Market Signals in Short Run



The above diagram shows that in short run i.e., one year or lesser period dividend pay-outs react positively in the market. That is the value of shares get increased with the higher pay-outs of dividend and vice versa.

ii) Dividend Pay-outs and probable market signal in long run period i.e., more than one-year period

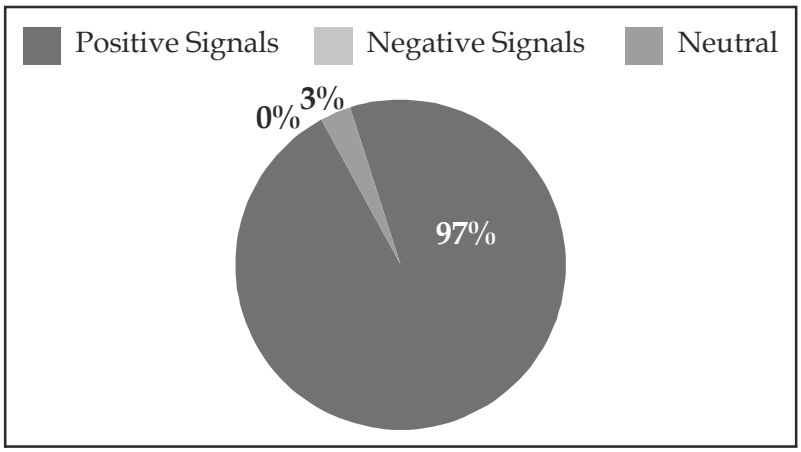
Figure 2 : Market Signals in Long Run



The above diagramme shows that majority of the respondents (52%) opined favourably. It implies that even in the long run dividend pay-out has a positive vibration in the market i.e., the value of the share and subsequently value of the firm gets increased with the higher payment of dividend.

iii) Higher EBIT and probable market signals both in short and long run

Figure 3 : Market Signals of Higher EBIT



From the above diagram it may be unanimously concluded that Earnings Before Interest and Tax (EBIT) has a positive signal towards the stakeholders. The majority of the respondents (97%) supported favourably that EBIT has a positive vibration in the market i.e., value per share and subsequently value of the firm gets increased with the higher EBIT level.

C) Determinants of Dividend Decisions

Table 1: Experts'/ Stock analysts' Opinion

Sl. No.	Dividend Decisions Depends on	Opinion in Favour(%)
1	Amount of earning of the firm	100
2	Cash Flow of the firm	91
3	Financial Needs of the firm	80
4	Debt Policy of the firm	69
5	Investment Opportunity of the firm	69
6	Investor Behaviour	69
7	Taxation Policy of the country	66
8	Age and Size of the firm	66
9	Lifecycle stage of the firm	57
10	Contractual and Legal Constraints of the firm	51
11	Risk take-over bids of the firm	51
12	Ownership position of the firm	51

From the above table the dividend determinants and experts' degree of acceptance have been shown. The table depicts that dividend decision is much more influenced by the amount of earnings of the firm, cash flow and financial needs of the firm. It also depends upon the behaviour of the investor.

D) Other Questions

From the last section of the questionnaire were found that regular flow of income of the firm with a consistent and increasing rate of dividend pay-outs give a positive signal towards market and subsequently the stakeholders values gets increased. The major areas which are being considered by the investors critically before taking any investment decision i.e., regular income, consistent and increasing rate of dividend pay-outs of the firm, share value appreciation over the period, earning per share (EPS), cash flow of the firm, fund flow of the firm, debt-equity ratio of the firm, age and size of the firm, ownership position of the firm, Industry,

growth and even taxation policy of the country. Thus, these are important to the investors as well as the stakeholders.

A Case Study

In another survey we studied the psychological behaviour of investor. 100 students pursuing Post-graduation in commerce were conveyed that a portion of their admission fees (Rs.1, 000/-) being invested in the stock market through which their university earned Rs.200/- as dividend. They were given two options – they take back the earned money or reinvest in the stock market as before and accordingly they will get back the money. Surprisingly, none of them opted to give another chance to the university and wanted to take back the money. The whole story favoured liquidity preferences. From the test it may be concluded that the Indian people still follow liquidity preference i.e., they are rational and they know well the time value of money.

Concluding Remarks

Liquidity preference exists among the Indian peoples (from the psychological test). The same phenomenon may also be in the Indian stock market too. It was found relevant and exists in the Indian stock market from the Expert/ stock analysts' opinions. And there are several schools of thoughts in the dividend decision. Some are concentrating toward the positive impact of dividend. They argued that paying dividend gives a positive signal to the market and thus share price moves upward. Whereas the other school of thoughts argued that with the payment of dividend the liquid cash goes out through which firm's expansion activities may halt and it impacts negatively towards the firm as well as the stakeholder's value. Other school of thoughts is in the middle of the road. They argued that there is no role of dividend pay out to the share price and subsequently in the value of the firm. Though the expert argued that in short run dividend pay-out has a greater positive impact in the stock market. From the above discussion it may be concluded that the theoretical framework of dividend policies is an outline though the key factors of dividend determinants need to be considered. The main factors the earning level of the firm, cash flow, financial needs of the firm, the existing tax policy of the country, Debt policy of the firm, investment opportunity, age and size of the firm and investors behaviour of the firm have to be considered before taking any dividend decision.

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