

Dividend Policy Behaviour

Dr. Sanjay J. Bhat



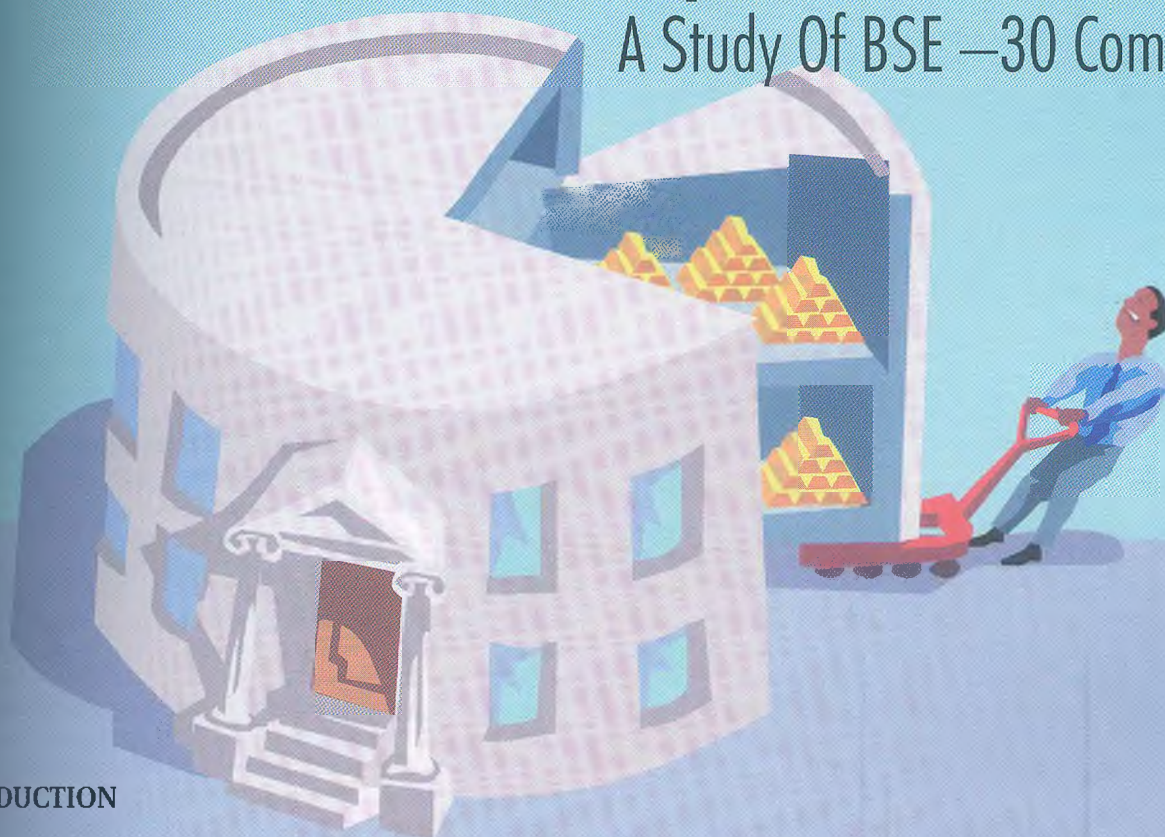
ABSTRACT

The numerous published theoretical and empirical papers have kept dividend policy in its prominent status in the corporate finance literature. Much of the empirical research has been applied on companies listed on advanced stock markets. Employing the multivariate regression analysis, this paper examines the dividend policy behaviour of companies listed on the Bombay Stock Exchange (BSE – 30) with Linter's model of dividend. Based on the time period 1996-97 to 2004-05, it is concluded that BSE – 30 Indian companies follow stable cash dividend policies. Moreover, the results indicate that the earning capacity of the companies is most influencing factor in determining dividend policies of the sample firms. The result of study clearly indicate that current year's dividend rate is positively correlated to dividend payout ratio, earning per share, and current year's profit and previous year's dividend rate (lagged dividend).

Keywords: *Dividend Policy, Indian Capital Market, Linter Model.*

In The Indian Capital Market :

A Study Of BSE —30 Companies



INTRODUCTION

Financing, Investment and Dividend decisions are the basic components of corporate financial management policy. Financing decisions require an appropriate selection and combination of capital from available sources, investment decisions are concerned with the efficient deployment of capital funds while, dividend decisions involve the periodic determination of proportion of a firm's total distributable earnings that is payable to its ordinary shareholders. The larger the dividend paid, the less funds are retained for reinvestment and the more the company will have to rely on other sources of long term funds [such as additional issues of equity and or debt capital] to finance projects. In developed countries, the decision between paying dividend and retaining earnings has been taken seriously by both investors and management, and has been the subject of considerable research by economists in the last four decades. [Lintner, 1956; Brittain, 1964; Modigliani and Miller, 1961; Pettit, 1972; Black and Scholes 1973, Michael, Thaler and Womack, 1995; Dhillon and Johnson, 1994; Amibud and Murgia, 1997; Charitou and Vafeas, 1998].

Financial economists have therefore, acknowledged the after tax earnings of any business firm as an important internal source of investible funds and also a basis for dividend payments to shareholders. The decision to retain, reinvest or pay out after tax earnings in form of cash or stock dividend is important for the realization of corporate goal which is the maximization of the value of the firm [Soyode [1975], Oyejide [1976], Ariyo [1983].

In this study we analyse the impact earning and lagged dividend on dividend behaviour of corporate firms in India. Initially, we examine the main determinants of dividend decisions of corporate firms in India using pooled cross sectional data and address shortcomings of prior studies by presenting a more comprehensive model of dividend policy, adjusting for stock dividend and using a considerably larger sample over a wider testing period. Despite these refinements, the result shows that there are no significant interactions between the conventional Lintner / Brittain model and dividend decisions of Indian firms.

The present study is divided into sixth section. Motivation of the study and related literature discuss in first section. Section two presents previous empirical findings Indian studies and its finding are explain in section three while in section four the research methodology is discussed, the model used is specified and the variables are defined. Section five provides the analysis of findings while the sixth section presents the summary and conclusion.

SECTION-I



MOTIVATIONS AND RELATED LITERATURE

Dividend policy has long been a subject of research and debate. There are many theoretical and empirical results describing the decisions companies make in this area. At the same time, however, there is no generally accepted model describing payout policy. Moreover, empirical findings are often contradictory or difficult to interpret in light of the theory.

In their seminal paper, Miller and Modigliani (1961) showed that under certain assumptions dividends are irrelevant, all that matters is the firm's investment opportunities. Miller and Modigliani considered the case of perfect capital markets (no transaction costs or tax differentials, no pricing power for any of the participants, no information asymmetries or costs), rational behaviour (more wealth being preferred to less, indifference between cash payments and share value increases) and perfect certainty (future investments and profits are given).

In the environment described above, Miller and Modigliani show that dividend policy does not affect the value of the firm. This is true whether one considers the value of the firm to be given by the discounted cash flow method, by the stream of future dividends or earnings or as a sum of current earnings and future investment opportunities. Given perfect capital markets, the firm will always be able to compensate the cash outflow by attracting new money (via new shares or debt) if this is required by its investment programme.

In real life, however, people seem to care about dividends. Lintner's (1956) classical study on dividend policy suggests that dividends represent the primary and active decision variable in most situations. The interviews and research conducted on 28 companies showed that firms set their current dividends based on their previous history. The main decision concerned the possible change in the payment rate and this decision was based on (expected future) earnings. Dividend policy seemed characterized by conservatism; managers seemed to think that investors reward stability and avoided making unsustainable changes in payout ratios. Lintner suggests a model of partial adjustment to a given payout rate.

In a recent study, Brav, Graham, Harvey and Michaely (2004) find that maintaining the dividend level is a priority on par with investment decisions and that less than half of the executives they interviewed agree that the availability of good investment opportunities is an important or very important factor affecting dividend decisions. Although to a somewhat lesser degree, Lintner's findings seem valid almost half a century later.

Researchers have tried to explain the importance of dividends by looking for imperfections that can undermine the irrelevance proposition. Modigliani and Miller they suggested that taxes can be a factor: dividends are taxed in a different way from capital gains. Information asymmetries

between the management of a company and its (prospective) shareholders can lead to dividends being used as costly signals. Agency problems between shareholders and management or shareholders and debt holders in a world of imperfect contracting - mean that dividends can be used as a way to control the behaviour of the other party. Incomplete markets could reduce the investors' ability to substitute between cash and capital gains depending on their liquidity needs.

Static models based on taxes suggest that there could be a clientele effect where high tax bracket investors' attempting to reduce their tax outlays. Individual investors in high tax brackets should choose low-dividend paying companies, while corporations should choose high dividend paying shares. In equilibrium, as Miller and Modigliani (1961) there will be no effect on share prices. There is however limited evidence that the tax clientele effect is very important (Allen and Michaely 2002). Crockett and Friend (1988) note that there were no significant effects on dividends generated by the gradual decrease in income tax rates over the 1940-1990 period. They also point out that retained earnings are not significantly correlated with capital gains; over the 1970-1990 substantial volume of retained earnings was associated with substantial capital losses.

Dynamic tax models imply that high marginal tax rate investors could also reduce their tax liabilities by selling the shares before the shares go ex-dividend and buying them again afterwards. Investors with a low dividend tax rate will be willing to do the opposite. Thus the tax effect will be seen in volume rather than price; however, given transaction costs taxes will also influence prices. Empirical evidence seems to give more support to dynamic than to static strategies (Allen and Michaely 2002). A survey of financial executives by Brav, Graham, Harvey and Michaely (2004) finds that from the management's point of view tax concerns are of secondary importance when deciding dividend policy.

Modigliani and Miller (1961) assume that information is the same and free for all participants. In practice, however, this assumption is not likely to hold and information asymmetries can have important consequences. An important class of models is based on the idea that dividends can be used as signals of firm quality. Bhattacharya (1979) builds a two-period model with two types of firms. In the first period, investments are made and their expected profitability is known to management, but not to outside investors. In order to signal the quality of their investment, the managers of 'good' firms (managers are assumed to act in the interest of initial shareholders) will commit to paying high dividends in the second period. Since attracting outside financing (during the second period) is expensive due to transaction costs, the 'low quality' firms will be unable to imitate the 'high quality' firms. Miller and Rock (1985) also build a signalling model - the cost of the signal in their version being forced reductions in investment. The model of John and Williams (1985) uses taxes as the main cost of dividends; thus, unlike the previous models, it can be used to distinguish between dividends and share repurchases, which enjoy a more favourable tax treatment. High dividends are a signal of undervalued shares (high firm quality) - shareholders will have to pay taxes on them, but they retain a proportionately higher share in

firm, which is valuable to them. The opposite is true if the firm is overvalued. John and Williams also show that their model implies that dividends are smoothed with respect to share prices rather than net cash inflows as in previous models. They suggest that firms with more risky returns on assets pay lower dividends, other things equal. Kumar (1988) builds a model that explains dividend smoothing - one of the most salient features of dividend policy. Dividends once again signal a firm's quality (productivity), but, since they are overinvested in the firm, managers will try to underinvest by underreporting a firm's productivity. While there is no fully revealing equilibrium, Kumar shows that firms will tend to cluster around optimal dividend levels.

The signalling models provide an explanation for the positive stock price reaction to the announcement of dividend increases or initiations. At least some empirical evidence, however, seems to suggest that the increase in dividend payments is not followed by an increase in firms' earnings (Benartzi, Michaely, Thaler 1997). Indeed, it has been shown that earnings growth is higher in after dividend cuts. Thus the increase in earnings tends to precede the dividend increase rather than follow it. While they agree that dividends are used to convey information to the market, managers seem not to sink within the 'costly signalling' framework used in academic models (Brav et al. 2004). Grullon, Michaely and Swaminathan (2002) suggest that rather than an increase in profitability dividend increases could reflect a decrease in risk - the 'maturity hypothesis'.

Agency theory suggests that dividends can be used as a means to control a firm's management. Distributing dividends reduces the free cash flow problem and increases the management's equity stake. The question remains why the shareholders would not use debt or share repurchases instead. LaPorta, Lopezde-Silanes and Shleifer (2000) find that in countries with better shareholder rights firms pay proportionally more dividends. Therefore there is no evidence that in countries with low investor protection, management will voluntarily commit itself to pay out higher dividends and to be monitored more frequently by the market (Allen and Michaely 2002). Fudenberg and Tirole (1995) build a model that shows that, when managers are risk-averse and more recent information has a higher weight in assessing their performance, there will be both dividend and earnings smoothing. Another agency problem is that between shareholders and debtholders. The risk that shareholders will expropriate debtholders by paying themselves excessive dividends has led to the often encountered covenants restricting dividend policy in bond contracts. Empirical studies also suggest that firms hold more cash than the minimum stipulated in bond contracts in order to consolidate their reputation as good quality borrowers. (Kalay 1982). The reputation effect is also supported by the fact that firms in financial distress are reluctant to cut dividends (DeAngelo and DeAngelo 1990).

To sum up, there are several credible explanations for the existence of dividends, although none of them is generally accepted or above criticism. The Miller and Modigliani proposition of dividend irrelevance is still widely mentioned, as is the idea of a dividend puzzle.

SECTION - II



REVIOUS EMPIRICAL FINDINGS

There are many empirical studies that try to assess the validity of the various theories concerning dividend policy. Their findings, whether they are focused on signalling, taxes or agency explanations, are often contradictory.

DeAngelo, DeAngelo and Skinner (1992) examine the connection between losses and dividend cuts and omissions. They find that an annual loss is essentially a necessary condition for dividend reductions in firms with established earnings and dividend records.

Denis, Denis, and Sarin (1994) examine the predictions of the signalling, over investment (free cash flow) and dividend clientele hypotheses. Using large (more than 10%) changes in dividends per share for US firms over the 1962-1988 period; they find stronger support for the signalling and dividend clientele hypotheses than for the overinvestment theory. The proxies used for the first two are significant in a regression explaining the excess returns of dividend announcements, while the proxies based on Tobin's q are insignificant. Denis et al. also find that firms increase capital expenditures following dividend increases and decrease them after dividend decreases; this also contradicts the overinvestment/free cash flow explanation. The results in Yoon and Starks (1995) also support the signalling hypothesis. Johnson (1995) examines the use of debt and dividends as predicted by the signalling or free cash flow theories. He finds that share price reactions to straight debt issues announcements is significantly different from zero (at a 10% level) for low-dividend-paying companies, but insignificantly different from zero for companies that pay high dividends. For the subgroup of low growth - low dividends firms, the reaction is significant at a 1% level. The evidence thus suggests that dividends and debt are substitutes, whether for signalling or management control purposes.

Michaely, Thaler and Womack (1995) examine market reactions to dividend initiations and omissions. As in earlier papers, they find that the magnitude of short-term reactions to omissions is much higher than the reaction to dividend initiations. This could be because the change in the dividend yield is much higher for omissions than for initiations. More importantly, they find that prices tend to drift in the same direction over the following year. For a smaller sample, they compare this drift with the drift generated by earnings surprises and find that the former is distinct from and stronger than the latter. They also examine turnover around the dividend announcement day and find weak evidence in favour of clientele effects.

Bernheim and Wantz (1995) explore the influence of taxes on the effect of dividend change announcements. They define the range-for-the-buck as the share price response per dollar of dividends. Dividend signalling models imply that the buck should increase when the relative taxation of dividends increase, while free cash flow models generally suggest that

there should be a decrease in the announcement effect. The authors find that US data over the 1962-1988 periods supports the signalling hypothesis.

Benartzi, Michaely and Thaler (1997) examine earnings growth around dividend changes and find that the earnings growth rates do not increase for companies that have increased dividends, while they do increase for companies that have decreased them. They argue that dividend changes are more related to past and current earnings growth than to future earnings growth. Based on their empirical results, Grullon, Michaely and Swaminathan (2002) argue that dividend increases signal a decrease in risk rather than an increase in profitability.

Hubbard and Michaely (1997) analyse the 'Citizens Utilities Case'. Until 1990, Citizens Utilities Company had two classes of stock: one of them paid stock dividends and the other an equivalent amount of cash dividends. Despite the unfavourable tax treatment of cash dividends, the second type of shares traditionally sold at a premium, and this premium seems even larger in the 1980s than in the 1960s. The tax reform in 1986 led to a movement in the 'right' direction, but this effect was only temporary. The authors look for evidence of clientele effects and differences in liquidity, but find that they cannot account for the strange behaviour of relative prices.



SECTION - III INDIAN STUDIES

Dakshinamurthy and Narasimha Rao (1978) has conducted empirical research and he has tested Speed of Adjustment (Dividend) model in Indian Chemical Industry for the period of 1960-1973 and he finds that the Cash Flow Model explains better the corporate dividend behaviour in the Indian Chemical Industry as against the basic Linter's model.

Gupta and Sharma (1981) have made an attempt to study the dividend behaviour of 112 tea companies of India and they concluded that Linter's model is applicable to the tea industry.

Kevin (1992) analyzes the dividend distribution pattern of 650 non-financial companies which closed their accounts between September 1983 and August 1984 and net sales income of one crore rupees or more. He finds evidence for a sticky dividend policy and concludes that a change in profitability is of minor importance.

Mahapatra and Sahu (1993) analyze the determinants of dividend policy using the models developed by Lintner (1956), Darling (1957) and Brittain (1966) for a sample of 90 companies for the period 1977-78 - 1988-89. They find that cash flow is a major determinant of dividend followed by net earnings. Further, their analysis shows that past dividend and not past earnings is a significant factor in influencing the dividend decision of firms.

Bhat and Pandey (1994) study the managers' perception of dividend decision for a sample of 425 Indian companies for the period 1986-87 to 1990-91. They find that the previous year's dividend rate plays a significant role in deciding the current year's dividend rate.

Mishra and Narender (1996) analyze the dividend policies of 39 state-owned enterprises (SoE) in India for the period 1985 to 1993-94. They find that earnings per share (EPS) is a major factor in determining the dividend payout of SoEs.

Narasimhan and Asha (1997) discuss the impact of dividend tax on dividend policy of firms. They observe that the union budget 1997-98, which introduced a tax rate of 10 percent on dividend as proposed by the union budget 1997-98, alters the demand of investors in favour of high payouts rather than low payouts as the capital gains are taxed at 20 percent in the said period.

Damodaran (1999) suggests that the pattern of dividend payments generally changes over a firm's life cycle.

Mohanty (1999) analyzes the dividend behaviour of more than 200 firms for a period of over 15 years. He finds that in most bonus issue cases firms have either maintained the bonus level or only decreased it marginally rather than increasing the payout to shareholders. The study also shows that firms that declared bonus during 1982-1991 showed higher returns to their shareholders compared to firms which did not issue bonus shares but maintained a steady dividend growth. He finds evidence for a reversal of this trend in the 1992-96 periods. He attributes such a reversal in trend to a changed strategy of multi-national corporations (MNCs) and their reluctance to issue bonus shares.

Narasimhan and Vijayalakshmi (2002) analyze the influence of ownership structure on dividend payout of manufacturing firms. Regression analysis shows that promoters' holding as of September 2001 has no influence on average dividend payout for the period 1997-2001.

Oza (2004) study on thirty non financial Indian companies dividend behaviour, finds that current earnings is the influencing factor while deciding on dividend policy followed by pattern of past dividends.

Reddy (2004) has examined the dividend behaviour of 100 corporate firms over the period 1990-2001 of companies listed on NSE and BSE. He concluded that dividend changes are impacted more by contemporaneous and lagged earnings performance rather than by future earnings performance.

Sur (2005) has tried to study the dividend payout trend of Colgate Palmolive Ltd. And concluded there was a significant deviation between actual DPR and estimated DPR.

George and Kumudha (2005) has tested Linter Model for Hindustan Construction Co. Ltd. And finds that current dividend per share is positively related to current earnings per share and previous year's dividend per share.

In conclusion, empirical results do not always agree and

is still no overwhelming support for just one of the competing explanations for dividends. It is possible that theories based on signalling, tax differentials or agency problems all have a real basis - they are not, after all, mutually exclusive. It may also be that there are additional valid explanations.



SECTION-IV

RESEARCH METHODOLOGY

Need for the Present Study

A brief perusal of review of literature in the previous sub-section reveals that number of studies investigating the dividends behavior of companies abroad have been conducted. So far researchers' Knowledge goes, very few study conducted on the determinants of dividend policy of corporate sectors in India has been made to date.

From the review of literature, it has been observed that there is general agreement on the set of factors influencing dividend policy. Different authors have used different combinations of variables for explaining the dividend behavior. Besides, there are different approaches to the decision involving distribution versus retention of net profit after taxes. Moreover, factors influencing the corporate dividend policy may substantially vary from country to country because of inconsistency or variation in legal, tax and accounting policy between countries. In view of these facts, the present study aims at testing of linter model for corporate dividend policy

Objectives of the study

- To study the dividend behaviour of BSE 30 companies.
- To analyse the relationship between dividends to net profits.
- To test the Linter Model of Dividend Policy.
- To analyse the relationship of firms characteristics such as profitability, growth and size on the dividend payment pattern.

Scope of the study

The present study is based on BSE 30 companies covered diversified industries consisting of Textile & Clothing, Pharmaceuticals & Chemicals, Cement, and Engineering & Electrical products etc. Reason behind the selection of BSE 30 is that Indian Stock Market is highly influenced by the BSE 30 index. Researcher has tried to study the dividend practices of BSE 30 which is significant for deciding dividend policy of other Indian corporates.

Sources of Data

The study is an exploratory study. It is based on secondary data. The secondary data of the select companies has been extracted from CMIE PROWESS data base.

The sample

The data is retrieved from PROWESS database provided by the Centre for Monitoring the Indian Economy (CMIE) and updated upto 30 June 2006. The initial data set includes the universe of BSE 30 Indian Private Sector firms. The period of

study is 1996-97 to 2004-05. Three companies (Bharati Airtel Ltd., Reliance Communication Ltd., and Tata Consultancy Services Ltd.) were dropped from the sample due to non availability of the data for entire period.

Tool of Data Analysis

The present study has tested Linter's Model. A brief explanation of the model has been made as follows:

Linter's Model

$$DPS_{i,t} = \alpha_i + \beta_1 EPS_{i,t} + \beta_2 DPS_{i,t-1} + \xi_{i,t}$$

Where

DPS = Dividend per Share

EPS = Earnings per Share

T = Period

α is intercept, β_1 , and β_2 are regression coefficients, and $\xi_{i,t}$.



SECTION-V

THE EMPIRICAL RESULTS

Table - 1 explains the descriptive statistics. Dividend rate of the sample companies shows high fluctuation. Mean value of Dividend Rate is 125.78 and Standard Deviation is 250.41. While mean earning per share of sample is Rs. 34.79 and it is quite stable as compared to Dividend Rate. Mean value of Dividend Payout Ratio is 28.23 and Standard Deviation of it is 19.48 which is quite stable as compared to Dividend Rate and Earning Per Share. The Dividend Payout Ratio indicates the average payout sample companies is quite satisfactory. Therefore the policy of the firm is declared as much as dividend. While the Quick Ratio of the sample companies are quite stable because it's Standard Deviation is 1.17. Stable Quick Ratio indicates all the sample companies' liquidity position is quite good which is highly affecting the dividend policy of the sample firms. Total Assets' value shows a high fluctuation among the sample. Its mean and Standard Deviation value are 23665 and 61429 respectively. Mean of Profit after Tax is 982.82 and Standard Deviation is 1619.37 which indicates high fluctuation in the figure of the profit of the sample firm.

Table -1
Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	S.D.
Dividend Rate	243	0	2590	125.78	250.41
Dividend Payout Ratio	243	25.51	152.9	28.23	19.48
Earning Per Share	227	14.18	280.32	34.79	35.16
Quick Ratio	243	0.07	7.63	1.10	1.17
Total Assets	243	117.35	457913.9	23665.13	61429.30
Profit After Tax	243	-500.34	12983.05	982.82	1619.37
Dividend Yield	243	0	2590	103.60	228.04

Table - 2
Estimation of Linter's Model

Year Cross Section of Sample Companies	No. of Observations	Constant	DR _{t-1}	EPS _{it}	R ²	F Value
1996 -97	23	6.623	-0.022	0.962	0.770	34.502*
t value		1.099	-0.276	8.194*		
1997 -98	24	-6.074	0.166	1.062	0.830	53.967*
t value		-1.004	2.355**	9.844*		
1998 -99	24	0.454	0.051	1.066	0.809	46.750*
t value		0.067	0.689	9.211*		
1999 -2000	24	-10.387	0.165	1.325	0.870	72.190*
t value		-1.215	0.548	9.539*		
2000 -01	24	-4.952	0.492	1.054	0.830	52.360*
t value		-0.437	1.709	9.652*		
2001 -02	24	-0.932	-0.204	1.918	0.550	13.420*
t value		-0.021	-0.193	4.965*		
2002 -03	24	-5.715	0.725	1.022	0.940	161.570*
t value		-0.319	1.903	16.890*		
2003 -04	25	-173.103	7.279	1.254	0.550	13.850*
t value		-1.340	3.188*	3.012*		
2004 -05	26	99.598	1.578	0.200	0.180	2.750
t value		1.032	0.962	2.046**		
Pooled	226	21.578	1.752	0.464	0.268	41.11*
t value		1.019	4.136*	7.319*		

* t and F value is significant at 1% level.

** t and F value is significant at 5% level.

Table-2 reports the estimates of Linter's model. Linter's model threw open the fact that current year's dividend as influenced by current years' earning per share and previous year's dividend rate. As per year wise cross section of sample companies regression results indicates that independent variable EPS is found to be significant in all years of the study. It is found significant 1% level of significant in the year 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, and in 2003-04. While in the year 2004-05 it is found significant at 5% level of significant. The pooled regression result is also found significant at 1% level with 0.464 standardized beta coefficients. The result of this analysis is supported by linter model. So, it can be concluding that EPS is most influencing factor while determining the dividend policy of the firm. While the previous year dividend rate of 2003-04 is found significant at 1% and 1997-98 is found

significant at 5% level. In pooled regression DR is also found significant at 1% level with 1.752 beta coefficient. While the F value is significant in all the years' regression model at 1% level of significant except 2004-05. The value of R² is also quite satisfactory in all the years' regression model. The F value of overall model (pooled) is also significant R² at 1% level with adjusted R² value of 0.268. So it can be concluded that Linter's model is applicable for sample firm of the study. At the same time, it is found that, as per Linter's argument that firm have a tendency to increase their dividend rate over a period of time does not get support in this firm. The results of analysis indicate that in sample firm the current earnings is influencing factor in deciding dividend policy of the firm which is supported by previous Indian study of George(2005), Sur (2005), Oza (2004), Bhat and Pandey (1994), and Gupta (1991).

Table - 3
Correlations

Variables	DR	DPR	EPS	QR	TA	PAT	DR ₀
DR	1						
DPR	0.378**	1					
EPS	0.306**	* -0.118*	1				
QR	0.031	-0.190**	0.114	1			
TA	-0.054	-0.120*	0.088	-0.001	1		
PAT	0.095	-0.004	0.185*	-0.14*	0.386**	1	
DR ₀	0.468**	0.196**	0.157**	0.09	-0.049	0.098	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

As mentioned, this study conducted a series of correlation tests to see the relationship between the profits and dividends. (see table 3). The results clearly indicate that current year's dividend rate is positively correlated to dividend payout ratio, earning per share, and current year's profit and previous year's dividend rate (lagged dividend) with correlation coefficients of 0.378, 0.306, 0.095 and 0.468 respectively, DPR, EPS and DR₀ are also significant at 1% level of significant. So, it can be concluded dividend decision is highly influence by earning and previous year rate which is also supported by our regression results.

SECTION - VI

UMMARY AND CONCLUSIONS

Following the publication of Lintner's (1956) classic paper, there has been a numerous number of studies which examine the question of dividend policy. Based on the available evidence, it seems that companies which are listed on advanced stock markets follow stable dividend policies. On the other hand, companies in less developed markets follow less stable dividend policies. "Emerging market firms often do have a target payout ratio like their developed country counterparts, but they are generally less concerned with volatility in dividends over time and, consequently, dividend smoothing over time is less important" (Glen et al., 1995, p.24).

The empirical research in this paper focused on the time period 1996-97 to 2004-05. Based on a sample of 27 Indian

firm listed on Bombay Stock Exchange, the empirical evidence shows that these companies follow stable dividend policies. Indeed the results indicate that current earnings per share are more important than lagged dividend per share in determining current dividend per share. It is vital for a firm to maintain a steady growing dividend rate, which would work as a signal for investor and market. Previous studies show that earnings have the main role in deciding the dividend policy. This study proves this.

Based on the empirical findings of this paper, a number of related further research can be suggested. First, what are the determinants of the dividend behaviour of Indian companies? Are the explanatory power of main stream dividend policy theories applicable to the Indian capital market? What is the value relevance of dividends per share relative to earnings per share? What is the relationship between stock prices and dividends per share? This study did not analyse the market response to dividend announcements, which may be an interesting area for further study.

REFERENCES

1. Ambrish, R., John K. and Williams, J. (1987), "Efficient Signaling with Dividends and Investments" *Journal of Finance*, 42(2), June, pp. 343.
2. Baker, H.K., G.E. Powell, and E.T. Veit (2002), "Revising the Dividend Puzzle Do all the Pieces Now Fit?", *Review of Financial Economics* Press.
3. Benartzi, S., R. Michaely, and R. Thaler (1997), "Do Changes in Dividends Signal the Future or the Past?" *Journal of Finance*, Vol. 52, July, pp. 1007-1034.
4. Bhat, R. and I.M. Pandey (1994), "Dividend Decision: A Study of Managers' Perceptions", *Decision*, Vol. 21, No.s 1 & 2, January-June 1994, pp. 67-86.
5. Bhattacharya, S. (1979), "Imperfect Information, Dividend Policy, and 'the bird in the hand' Fallacy", *Bell Journal of Economics*, Vol. 10, Spring, pp. 259-270.
6. Brealey, R.A. (1994), "Does Dividend Policy Matter?" in Stern, J.M. and D.H. Chew (eds.), *Revolution in Corporate Finance*, 2nd ed. Blackwell Publishers Inc., Cambridge, Massachusetts.
7. Black, F. (1976), "The Dividend Puzzle", *Journal of Portfolio Management*, Vol. 2, No. 2, Winter, pp. 5-8.
8. Conostas, M. (1995), "Essays on the Relationship between Stock Prices, Dividends and Accounting Earnings", D. A. I., vol. 56, No. 1. P. Delhi: Tata Mc Graw-Hill Publishing Company Ltd. p. 575.
9. Dakshinamurthy D. and Narasimha Rao (1978), Speed Adjustment (Dividend) Model: Some Empirical Evidence from Indian Chemical Industry 1960-73", *The Chartered Accountant*, December, pp. 457-460.
10. Damodaran A. (1999), *Applied Corporate Finance*, John Wiley and Sons, Inc, New York.
11. DeAngelo, H. and L. DeAngelo, (2000), "Controlling Stockholders and the Disciplinary Role of Corporate Payout Policy: A study of the Mirror Company", *Journal of Financial Economics*, 56(2), pp. 153-207.
12. DeAngelo, H. L. DeAngelo and D.J. Skinner (1992), "Dividends and Losses", *Journal of Finance*, Vol. 47, No. 5, December, pp. 1837-1863.
13. Dillion, W. R. and Goldstein, M. (1984), *Multivariate Analysis: Method and Applications*, London: John Wiley & Sons. Factorial Canonical Analysis of ID Dimensionality between Pairs of Psychological Domains of creativity Intelligence and personality" Doctoral Dissertation (unpublished), Chandigarh: Panjab University, India.
14. Fama, E. and Blasiak, H. (1968), "Dividend Policy- An Empirical Analysis", *American Statistical Association Journal*, December, pp. 1161.
15. Fama, E.F. and K.R. French (2001), "Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?", *Journal of Applied Corporate Finance*, Vol. 14, No. 1, Spring, pp. 67-79.
16. George R. and Kumudha A., (2005), "A Study on Dividend Policy of Hindustan Construction Co. Ltd. With special Reference to Lintner Model", *Synergy*, Vol. 4, No. 1, pp. 86-96.
17. Glen, J.D., Y. Karmokolias, R.R. Miller, and S. Shah, "Dividend Policy and Behavior in Emerging Markets", Discussion Paper International Finance Corporation, 1995.
18. Glen, J.D., Y. Karmokolias, R.R. Miller and S. Shah (1995). "Dividend Policy and Behavior in Emerging Markets: To pay or not to pay" Discussion paper 26, International Finance Corporation, Washington, DC.
19. Gupta N.C. and Sharma G.L. (1991), "Dividend Behaviour in Tea Industry in India: A Case Study of Selected Firms", *ASCI Journal of Management*, Vol. 20, No.4, pp. 274-283.
20. John, K. and J. Williams (1985), "Dividends, Dilution, and Taxes: A Signaling Equilibrium", *Journal of Finance*, Vol. 40, No. 4, pp. 1053-1070.
21. Kevin, S. (1992), "Dividend Policy: an Analysis of Some Determinants", *Finance India*, Vol. VI, No. 2, June, pp. 253-259.
22. Lee, H.W. and P.A. Ryan (2002), "Dividends and Earnings Revisited: Cause or Effect?", *American Business Review*, January, Vol. 40, No. 1, January, pp. 117-122.
23. Lintner, J. (1956), "Distribution of Incomes Corporations Among Dividends, Retained Earnings and Taxes", *American Economic Review*, Vol. 46, No.2, May, pp. 97-113.
24. Mahapatra, R.P. and P.K. Sahu (1993), "A Note on Determinants of Corporate Dividend Behaviour in India - An Econometric Analysis", *Decision*, Vol. 20, No. 1, January-March, pp. 1-22.
25. Miller, M. and K. Rock (1985), "Dividend Policy under Asymmetric Information", *Journal of Finance*, Vol. 40, No. 4, pp. 1031-1051.
26. Mishra, C. and Narender V. (1996), "Dividend Policies of SoEs in India - An Analysis", *Finance India*, Vol. X, No. 3, September, pp. 633-640.
27. Miller, M.H. and Modigliani F. (1961), "Dividend Policy, Growth and the Valuation of Shares", *Journal of Business*, Vol. 34, No. 4, October, pp. 411-433.

28. Mohanty, P. (1999), "Dividend and Bonus Policies of the Indian Companies", *Vikalpa*, Vol.24, No.4, October-December, pp. 35-42.
29. Narasimhan, M.S. and Asha C. (1997), "Implications of Dividend Tax on Corporate Financial Policies", *The ICFAI Journal of Applied Finance*, Vol.3, No.2, July, pp.11-28.
30. Narasimhan, M.S. and Vijayalakshmi S. (2002), "Impact of Agency Cost on Leverage and Dividend Policies", *The ICFAI Journal of Applied Finance*, Vol. 8, No. 2, March, pp. 16-25.
31. Ghasasn O., (2004), "Dividend Policy Behaviour in the Jordanian Capital market", *International Journal of Business*, Vol. 9(3), pp. 287-299.
32. Oza H., (2004), "Dividend Decision: A managerial Approach, A Survey of Selected Enterprises", *Executive Company Secretary*, November, pp.40-45.
33. Reddy Y., (2004), "Dividend Policy of Indian Corporate Firms: An Analysis of Trends and Determinants" <http://www.nse-india.com/content/research/paper71>.
34. Rozeff. M.S., (1982), "Growth, Beta and Agency Costs as Determinants of Dividend Payout Ratios, *The Journal of Financial Research*, 5 (3), pp.249-259.
35. Shleifer, A. and R.W. Vishny, (1986), "Large Shareholders and Corporate Control", *Journal of Political Economy*, 94 (3), pp.461-488.
36. Smith, C.W. jr, (1977), "Alternative Methods for Raising Capital: Rights versus Underwritten Offerings", *Journal of Financial Economics*, 5, pp.273-307.
37. Sur D. (2005), "Dividend Payout Trends in the Post-liberalisation Era: A case Study of Colgate Palmolive (India) Ltd." *The Management Accountant*, March, pp.201-206.