The Study and analysis of Organizations perspective of Dividend payment

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Abstract

Financial management is considered always imperative in the organizations. Finance Manager's encounter with two major objectives of Profit maximization and Wealth maximization. Wealth maximization is important from investor's point of view. Investors always expect they should get good return in terms of capital appreciation and regular income i.e. dividend. On the other side Organization's need to retain good amount of funds as for survival, growth, expansion and diversification of business activities. Dividend decision is crucial for the organizations also as it directly influences with amount of retention and reinvestment. It is always a dilemma for the Finance Managers to decide amount of Dividend as to achieve financial management objectives. It is imperative to study the factors which affect the organizations decision of dividend. This research paper attempts to study and examine the crucial factors considered which deciding dividend amount. This research work also tries to study how dividend amount and policy are getting change in the era of volatility. For the proposed study primary data will be collected from the Finance Managers by designing structured questionnaire and secondary data will also be collected from websites, journals, research papers and news articles. Research can assist to study and understand the changing perspective of organization for dividend policy as well as the considerations for dividend amounts.
KEYWORDS- Dividend decision, dividend policy, Factors, Finance Managers, Investors

Introduction-

Dividend Decision is imperative for the organization as it is directly connected with the proportion of distribution of earnings. Earnings retention and distribution is crucial as decision has long term affects on the functioning of the organization. It is always a debatable issue as what should be optimum dividend payout ratio. It is always considered essential to have a dividend policy which will be blended with the investors' expectations and organizations objective. Now a day's due to Intensive Competition, Inflation and volatility, investor's expectations and preferences are changing in deciding the amount of investment in equity. So it can be said that this is imperative for the organizations to consider return for investor's in equity so that they desire to choose equity as investment option. Dividend payout plays important role in attracting investors for equity investment as well as reflect the financial condition of the organization. If dividend trends are observed than it can be said that dividend payout ratio is improving from the past and organizations are also considering wealth maximization of investors. This research paper attempts to study and understand the organizations perspective of dividend by collecting data by filling questionnaire from the finance managers.

The objective of research papers are-

1. To study and understand the concept of dividend and dividend policy.
2. To understand the organizations perspective of dividend.
3. To study and understand the factors affecting dividend policy.
4. To examine the vital factors accountable in deciding dividend amount.

To achieve the above said objectives following hypothesis is formulated-

1. **H0:** Organizations do not follow Dividend policy and don't target for the payout ratio.

   H1: Organizations follow Dividend policy and they target for the payout ratio.

2. **H0:** Organizations perspective of Dividend policy does not depend upon the recent financial position of the Organization.

   H2: Organizations perspective of Dividend policy depends upon the recent financial position of the Organization.

Theoretical Background-

Dividend –

It is defined as- "Proportion of earning to be distributed amongst investors on the basis of proportions of ownership in the organization's stock."

It can be stated as- "Earning distribution to the shareholders on the basis of ownership proportion."

Dividend Policy-

Dividend policy is defined as- "Policy of deciding the amount which would be distributed out of the earnings of the organization to the shareholders."

Dividend policy is said to be the practice to decide the dividend payout amount from the earning of the organization.

Dividend policy is crucial for the organizations as, organizations always encounters with the dilemma of retention and payout amount. Dividend amount is distributed to the shareholders as to share the earnings of the organizations and some portion of earnings is remained for the organization as to support stability, growth, expansion and diversification.

Research Methodology-

Research Design-

i) **Type of research** - Research aims to understand and study the organizations perspective of dividend policy so research work is of descriptive in nature.

ii) **Population -** The organizations listed (1696) in National Stock Exchange are considered as the population.

iii) **Sampling Frame –** All the organizations (1696) listed in National Stock Exchange and part of the NIFTY Index of National Stock Exchange are considered in the Sampling frame.

iv) **Sample Size –** As in sampling frame all the organizations (1696) listed in National Stock Exchange and part of the NIFTY Index of National Stock Exchange are considered i.e. sampling frame considered 50 organizations. Minimum Accepted sample size is 10 % of the sampling frame. So for the research work 15 organizations are considered.

v) **Types of Sampling Technique-** Simple random sampling will be used for the selection of the organizations and data is collected from the finance managers of the organizations.

vi) **Sources of data Collection-**

Primary data-

For the proposed research work primary data will be collected from the following Sources:

i) The structured Questionnaire for Retail Individual Investors
ii) The Questionnaire and Unstructured interviews and discussions of Finance Managers of organizations selected in the sample

Sources of Secondary data-

For the proposed research work Secondary data will be collected from the following Sources:

i) Websites of organizations, web links relevant to proposed research work and National Stock Exchange website
ii) Books and research journals relevant to research work
iii) New articles
iv) Available literature

Data Analysis & Interpretation-

Secondary Data-
  ➢ Dividend payout is improving as organizations are also considering the wealth maximization for investors. Organizations perspectives are getting change due to changing scenario. It can be clearly indicated from the below mentioned table that private sector as well as public sector organizations both are paying attention on the dividend payout ratio and dividend payout amount are improving from the past.

HEALTHY PAYOUTS

NIFTY (PSU)	FY13 dividend (Rs cr)	PRIVATE	FY13 dividend (Rs cr)
Coal India	8,843	TCS	4,306
ONGC	8,128	ITC	4,148
NTPC	4,741	HUL	4,000
NON-NIFTY (PSU)		**PRIVATE**	
Oil India	1,803	Hind Zinc	1,310
IOC	1,505	Bharti Infratel	1,002
Power Fin	924	Indiabulls Hsg Fin	625

Source: Beat poll volatility with dividend-paying stocks, Partha_Sinha, TNN | Apr 22, 2014, 12.49AM IST(Times of India)

➢ S & P Indices analysis suggested that from the August 1996 to till the April 2014, the sensex had gained 537% on price return basis i.e the returns only considers the market price movements of the index. Though, when the total return which consists of market price movements and dividend paid by the constituents stocks get reinvested into index itself, the total gain comes to 759%, which reflects that 222 % or near to one third of the returns from investing in the sensex, came from the dividend return since 1996.

➢ In stock market due to uncertainty and volatility, investors prefer to invest in the organizations with good management and paying consistent dividend. Dividend yield is considered by the investors before making stock selection, which are calculated as annual dividend divided by the current stock price. In the below mention table, list of stocks are compiled that are offering handsome dividend yields (Source: ET Intelligence Group)

	CMP (₹)	Yield (%)
Manappuram Finance	33.1	5.4
NMDC	139.8	5.0*
Accelya Kale Solutions	976.6	5.0
Cairn India	235.4	5.0
Deepak Fertilisers	142.6	4.6
Mphasis	388.0	4.4**
Syndicate Bank	125.2	4.4
GNFC	81.8	4.3
NTPC	139.5	4.1
Oil India	536.0	4.0
Graphite India	87.8	4.0
SJVN	24.6	4.0
Uco Bank	79.9	3.8

* on FY13 conservative dividend of ₹7, ** on FY12 and FY13 dividend of ₹17 each, CMP= Current market price as on January 6, 2015   Source: **Prowess, BSE, ETIG**

It can be said from the above table these organizations had paid dividend yield ranging 4-5 % which indicate organizations perspective for dividend payout are changing are they are focusing on giving good return to the investors.

Primary data –

Primary data is collected from the respondents who are the part of Finance Department of 15 organizations which are listed and the part of NIFTY index. Data analysis is done using SPSS 20.0. Chi Square test is done for hypothesis testing and analysis .For all the Questions chi Square is tested .Outcome of which are shown below in table's. –

Table No-1

Particulars	Q-3	Q-4	Q-5	Q-6	Q-7	Q-8	Q-9	Q-10
Chi-Square	5.400	5.400	5.400	5.400	3.267	8.200	10.333	11.333
df	1	1	1	1	1	3	3	4
Asymp. Sig.	.022	.022	.010	.041	.041	.042	.016	.023

Table No-2

Particulars	Q-11.1	Q-11.2	Q-11.3	Q-11.4	Q-11.5	Q-11.6	Q-11.7	Q-11.8	Q-11.9	Q-11.10	Q-11.11	Q-11.12	Q-11.13
Chi-Square	6.400	7.600	7.600	11.400	6.400	6.400	6.400	11.200	7.600	11.400	6.400	6.400	11.200
df	2	2	2	3	2	2	2	2	2	3	2	2	2
Asymp. Sig.	.041	.022	.022	.010	.041	.041	.041	.004	.022	.010	.041	.041	.004

Table No-3

Particulars	Q-12.1	Q-12.2	Q-12.3	Q-12.4	Q-12.5	Q-12.6	Q-12.7	Q-12.8	Q-12.9	Q-12.10	Q-12.11	Q-12.12	Q-12.13	Q-12.14
Chi-Square	11.40	7.600	6.400	6.400	6.400	11.200	6.400	11.200	7.600	11.400	6.400	6.400	11.40	11.200
df	3	2	2	2	2	2	2	2	2	3	2	2	3	2
Asymp. Sig.	.010	.022	.041	.041	.041	.004	.041	.004	.022	.010	.041	.041	.010	.004

> ➢ **For First alternative hypothesis –**
> From the data mentioned in above table it can be stated that calculated value of chi square is more of table value of Chi Square at 5 % level of significance and p value is less than 0.05 for Question no3 to Question no-6 .So it can be concluded null hypothesis should be rejected and alternative hypothesis (H1) should be selected.

➢ **For Second alternative hypothesis-**
It can be stated that null hypothesis should be rejected and alternative hypothesis (H2) should be selected as calculated value of chi square is more of table value of Chi Square at 5 % level of significance and p value is less than 0.05.

Primary Data Analysis & Interpretation-

- It can be observed from the data that 40 % respondents belongs to manufacturing sector organizations and 60 % respondents belongs to Service sector organizations in collected data.
- Major Organizations belong to 30 to 40 % establishment year as 60 % organizations belong to this category.
- 86.67 % organizations are engaged in earning management and they have dividend policy.
- Organizations continuously engaged in the dividend policy and they revised dividend policy on regular basis i.e. annually as 80 % organizations respondent stated.
- Only 20 % of respondents said that organization do earning management in form of distribution of bonus shares instead of only paying attention on dividend.
- Current & Future growth prospective and attracting shareholders had come out as major perspective of organization in deciding dividend policy.
- It can be stated that Growth in dividend and stable amount of dividend is major rationale of company in deciding dividend amount as 80 % respondents stated this.
- 73.34% Respondents stated that Investment in other opportunities available and retained earnings is the alternative used of the earnings of the organizations in instead of the dividend payment.
- 60 % respondents said that current profitability and pattern of past dividend is highly influencing factor of the management considerations for dividend policy.
- 80 % respondents said that Dividend policy try to balance current and future growth policy and consider shareholders expectations for dividend policy.
- Most of the respondents stated that dividend can be taken as mode to attract retail investors as return is there.

Major Findings-

- It is observed that in total return which consists of market price movements and dividend paid by the constituents stocks, dividend proportion is growing from the past.
- Now a day's public sector as well as private sector organizations are paying good amount of dividend which improves dividend contribution on the in recognized indexes.
- It can be stated that organizations are paying attention on the Dividend yield, so the amount of yield for the some organizations are 4-5 % in recent financial years.
- It is observed from the data analysis that major factors of deciding dividend amount were current profitability, opportunity cost, fluctuations in market and pattern of past dividend.

- Most of the organizations had dividend policy and continuously engaged in the dividend policy as well as revised dividend policy on regular basis.
- Current & Future growth prospective and attracting shareholders had come out as major perspective of organizations in deciding dividend policy.
- Current profitability and pattern of past dividend is highly influencing factor of the management considerations for dividend policy.

Scope of the Study-

This research work assist in knowing whether organization engaged on regular basis on earning management and revising dividend policy. Research can help in knowing the major factors considered by organization in dividend policy as well as the factors influencing management considerations. This research can be further extended for the large sample of organizations.

Conclusion-

Dividend payout is always considered as crucial decision which can affects long term financial position as for raising funds and also in Investing. Management is encountered with the question what should be the optimum payout ratio. From the primary data and secondary data analysis it can be stated that now a day's organizations perspective are changing and they are paying more attention on dividend payout to attract investors. It can be concluded that the major factors of deciding dividend amount were current profitability, opportunity cost; fluctuations in market and pattern of past dividend as well as Organizations accept that dividend can be a way to attract retail investors.

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