EMPIRICAL ANALYSIS OF ORGANIZATION'S PERSPECTIVES OF DIVIDEND POLICY

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Abstract
Dividend policy decisions constitute one of the major and crucial financial decisions for organizations. It is always question in front of the organizations what should be payout ratio and what should be retention ratio as it is the amount which decide the amount of retention and distribution of earned profit. Shareholders prefer to improve wealth in terms of dividend payout (return) i.e. they expects high dividend payout ratio. On the other hand organizations wish to retain profit as to support growth & expansion activities. Therefore Organizations prefer to comprise profit maximization as well as wealth maximization both as objective of Financial Management. Dividend decisions are critical for the organizations as it directly relates with amount of retention and reinvestment. Finance Managers encounters with dilemma for the Dividend amount decision as to balance both the objectives of financial management. It is essential to study and understand the factors which influence the organizations dividend decisions. Therefore research work is an attempt to understand and examine the essential factors considered while making dividend policy decisions. This research paper also aims to study how the amount of dividend and policy are getting transform in the current scenario. For the research work primary data will be collected from the Finance Managers by designing structured questionnaire. Research paper can support to understand the changing Perspective of organizations for dividend policy decisions as well as the considerations and factors affecting and influencing the amount of dividend.

Keywords- Dividend, Dividend Policy Decisions, Factors, Finance Managers, Investors, Organizations.

Introduction

Dividend policy decisions are crucial for the organizations because it is directly associated with the distribution of earnings as what should be the proportion of profit distributed as amount of dividend. Decisions for the Earnings retention and distribution are crucial as these decisions have long term affect on the performance of the organization. It is debatable subject matter of discussion as what should be dividend payout amount. It is always believed that there should be such dividend policies which will be intermingle with the investors' expectations and organizations objectives. In the current era of rigorous Competition and uncertainty, investor's expectations and choices are changing in deciding the amount of equity investment. There are various empirical studies which suggest that stocks that pay higher dividend have historically delivered higher risk adjusted returns. So it can be stated that this is crucial for the organizations to take into account the return for investor's in stocks so that more investors will prefer for equity investment. Dividend payout plays important role for investors as well as organization as directly associated with the financial conditions of the organization. So to study the organizations perspectives following objectives are framed

1. To comprehend the dividend and dividend policy concept.
2. To study the organizations perspective of dividend policy decisions.
3. To understand and analyze the factors influencing dividend policy decisions.
4. To examine the imperative aspects accountable in deciding dividend amount.

To attain the above mentioned objectives following Hypothesis are formulated-
1. **H0:** Organizations do not follow Dividend policy to decide dividend amount.
   H1: Organizations follow Dividend policy to decide dividend amount.

2. **H0:** Organization's Dividend policy does not depend upon the recent financial position of the Organization.
   H2: Organization's Dividend policy depends upon the recent financial position of the Organization.

Conceptual Framework
Dividend and Dividend Policy –
Dividend is defined as-"The amount or proportion of earning to be distributed to the shareholders as the part of profit distribution to maximize their wealth on the basis of their ownership proportion."

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

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Dividend Policy
It is defined as- "Practice of making decision on the amount to be distributed from earnings of the organization to the shareholders to maximize their wealth."

Dividend policy can be stated as the Policy to come to the decision of the dividend payout amount out of profit of the organization.

Dividend policy decisions are critical for the organizations as; organizations always face the predicament for amount of retention and payout. Form total amount of earnings some portion is distributed to the shareholders as to share the profit of the organizations as dividend amount and some portion of earnings are retained with the organization to support growth and expansion activities.
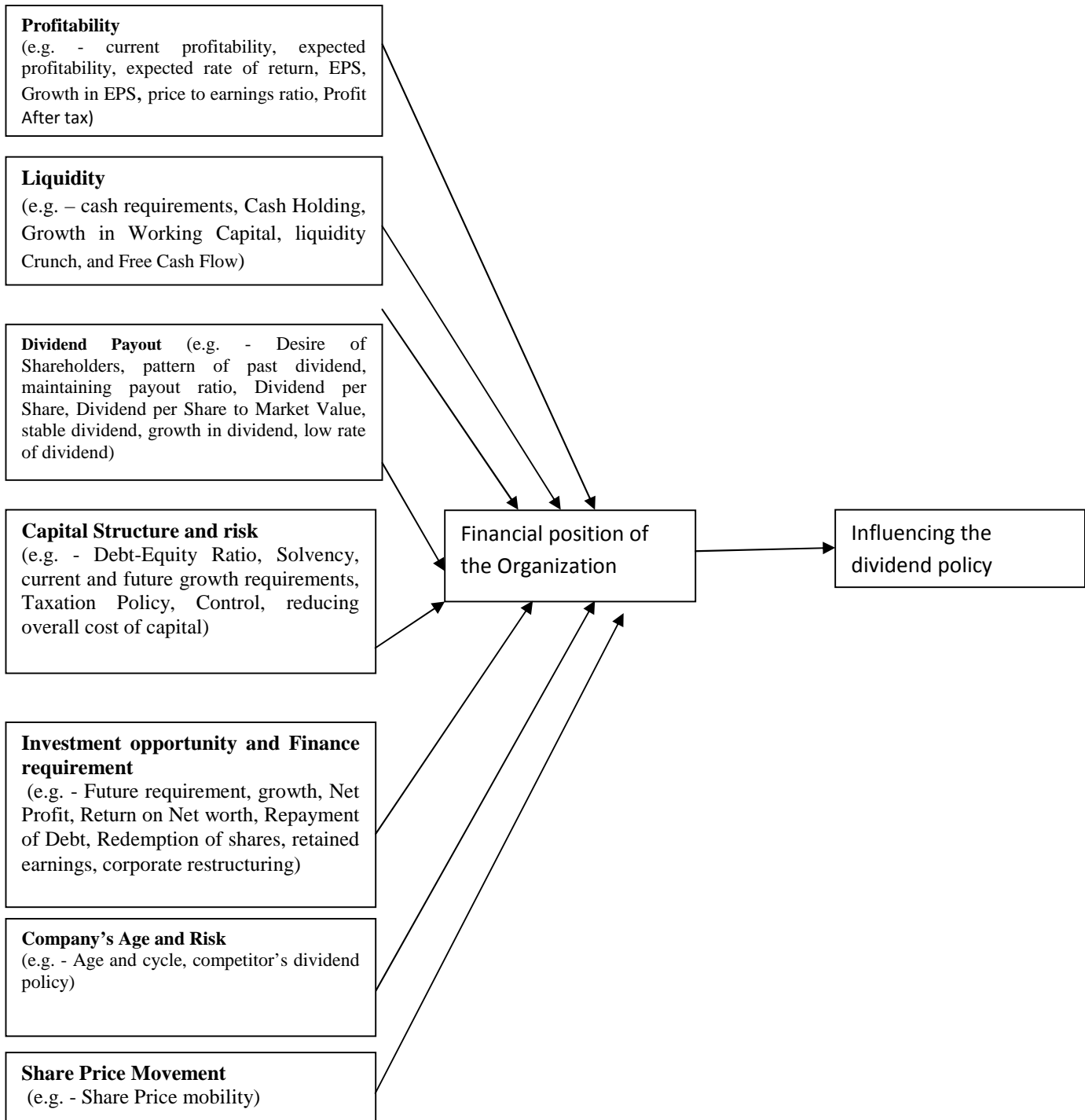
Identified Variables/Parameters for the Organizations affecting dividend policy –
The variables which influence the Dividend policy of organizations and depend upon the recent financial position are mentioned below which are reviewed from the available theories and literature.

- **Investment opportunity and Finance requirement**
  (e.g. - Future requirement, growth, Net Profit, Return on Net worth, Repayment of Debt, Redemption of shares, retained earnings, corporate restructuring) .

- **Capital Structure and risk**
  (e.g. - Debt-Equity Ratio, Solvency, Taxation Policy, Control, reducing overall cost of capital).

- **Liquidity**
  (e.g. – cash requirements, Cash Holding, Growth in Working Capital, liquidity Crunch, and Free Cash Flow)

- **Dividend rate**
  (e.g. - Desire of Shareholders, pattern of past dividend, maintaining payout ratio, Dividend per Share, Dividend per Share to Market Value, stable dividend, growth in dividend, low rate of dividend).

- **Profitability and Earnings**
  (e.g. - current profitability, expected profitability, expected rate of return, EPS, Growth in EPS, current and future growth requirements, price to earnings ratio, Profit After tax).

- **Company's Age and Risk**
  (e.g. - Age and cycle, competitor's dividend policy).

- **Share Price Movement**
  (e.g. - Share Price mobility)

Factors affecting Financial Condition of the organization which leads to influence the Dividend policy

Profitability
(e.g. - current profitability, expected profitability, expected rate of return, EPS, Growth in EPS, price to earnings ratio, Profit After tax)

Liquidity
(e.g. – cash requirements, Cash Holding, Growth in Working Capital, liquidity Crunch, and Free Cash Flow)

Dividend Payout (e.g. - Desire of Shareholders, pattern of past dividend, maintaining payout ratio, Dividend per Share, Dividend per Share to Market Value, stable dividend, growth in dividend, low rate of dividend)

Capital Structure and risk
(e.g. - Debt-Equity Ratio, Solvency, current and future growth requirements, Taxation Policy, Control, reducing overall cost of capital)

Investment opportunity and Finance requirement
(e.g. - Future requirement, growth, Net Profit, Return on Net worth, Repayment of Debt, Redemption of shares, retained earnings, corporate restructuring)

Company's Age and Risk
(e.g. - Age and cycle, competitor's dividend policy)

Share Price Movement
(e.g. - Share Price mobility)

Financial position of the Organization

Influencing the dividend policy

Research Methodology
Research work is of descriptive in nature as research aims to understand and study the organizations perspective of dividend policy. Population for research purpose will be the organizations listed (1696) in National Stock Exchange. 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. Sampling frame hold 50 organizations so for the research work 30 organizations are taken into account for data collection using questionnaire as minimum accepted sample size is 10 % of the sampling frame.

Random sampling will be used for the collection of data from the organizations. Data is collected from the finance managers of the organizations.

Sources of data Collection
Primary data- For the research work primary data is collected from Finance Managers of organizations using the structured Questionnaire, informal discussions and interviews. Response rate was very poor, in spite of several reminders (11) only 30 organizations finance mangers out of 50 responded.

Primary Data Analysis for the Organizations
Primary data is collected from the respondents who are the part of Finance Department, Finance Managers of 30 organizations which are listed and the part of NIFTY index. Data analysis is done using SPSS 20.0. Factor analysis is done for hypothesis testing and analysis.

Reliability Test
The term reliability in research refers to the consistency of a research study or measuring test. For the collected data reliability analysis is also done using internal consistency method. For internal consistency measure Cronbach's Alpha is calculated.

Table No-1

Reliability Statistics	
Cronbach's Alpha	N of Items
.825	26

Form above table it can be said that calculated value of cronbach alpha is 0.825 which is more than the acceptable value of 0.70, so it can be stated that data collected is reliable.

Measures of Appropriateness of Factor Analysis -

Kaiser-Meyer-Olkin Measure of Sampling Adequacy- KMO Measure of Sampling Adequacy attempts to measures the appropriateness of Factor Analysis. If the calculated value of Kaiser-Meyer-Olkin Measure is more that 0.50 than it meets the minimum criteria of appropriateness of factor analysis applicability.

Bartlett's test of sphericity - Bartlett's test of sphericity tests the hypothesis whether the correlation matrix is an identify matrix. If the Sig value for this test is less than the alpha level, the null hypothesis should be rejected which shows that the population matrix is an identity matrix.

Table No-2

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.626
Bartlett's Test of Sphericity	Approx. Chi-Square	98.384
	df	10
	Sig.	.000

From the above table it can be stated that the calculated value of KMO Measure of Sampling Adequacy is 0.626 which is more than 0.50 so it meets with the minimum criteria of appropriateness of factor analysis applicability.

For the Bartlett's test of sphericity test, If the calculated value of the Sig value is less than the alpha level, than the null hypothesis is rejected so from this test it can be said that null hypothesis should be rejected as the calculated value of alpha is more than the sig value. So for both null hypothesis should be rejected and alternative hypothesis should be selected.

Factors considered for Factor Analysis and their analysis –As Dividend policy is influenced by the recent financial condition of the organization so seven factors are identified which influences the financial condition under these factors other variable are considered and factor analysis is used for finding crucial factors and variable affecting dividend policy. Values of factors variable are considered for Eigen value more than 1.

Table -3: Factor analysis for Organizations' Data

Factors	variable	Factor loadings						
		Factor1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Factor 1 –Profitability	v1	.937						
	v2	.954						
Factor 2-Company Age and Risk	v8		.792					
Factor 3 –Dividend payout	v13			.617				
Factor 4-Capital structure	v17				.853			
Factor 5 –Investment opportunity	v19					.862		
	v20					.911		
Factor 6-Liquidity	v22						.870	
Factor7 -Share price ovement	*v25*							.575
Extraction Method: Principal Component Analysis & Rotation Method: Varimax with Kaiser Normalization.								

Total Variance explanation for the Factors							
	Profitability	Company Age and Risk	Dividend payout	Capital structure	Investment opportunity	Liquidity	Share price Movement
	Factor1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Eigen Value	3.968	2.361	2.549	1.753	3.374	2.361	1.149
Proportion of Variance Explained (%)	39.6828	37.26652	50.985	58.44948	42.17985	59.01595	57.454
Cumulative Variance Explained	66.3627	59.016	50.985	58.449	70.62272	59.016	57.454

Interpretation

For First alternative hypothesis

For the organizations data factor analysis is done and to represent dividend policy and payout factors are identified. Organization does follow a dividend policy and target for the stable payout for the shareholders as majority of the respondents organizations have supported this as they prefer to maintain stable growth in dividend payout. Bartlett's test of sphericity tests also supports rejection of null hypothesis. So it can be concluded null hypothesis should be rejected and alternative hypothesis (H1) should be selected.

For Second alternative hypothesis

For the organizations data factor analysis is done and to represent financial performance different factors are identified and categorized. In these factors, various variables which have influence on the financial condition of the organization are spotted which influence dividend policy are shown in the table 3. . Bartlett's test of sphericity tests is done for hypothesis testing which supports for rejection of null hypothesis. So it can be concluded that null hypothesis should be rejected and alternative hypothesis (H2) should be selected as financial condition affects dividend payout

Factors recognized after applying Extraction Method of Factor Analysis

- Current and expected Profitability is key consideration for the dividend payout by the respondent's organizations.
- Earnings per share and growth in earning per share are supported by the organizations for dividend payout.
- Investment opportunities available are also supported as favorable opportunities are also given the preferences.

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- In dividend factors pattern of past dividend is supported by the majority respondent's because respondents prefer to maintain stable dividend payout.
- In capital Structure respondents supported for preference toward debt repayment. Respondents supported for the cash requirement which also affects the dividend payout.
- Organizations establishment age is also deciding factor in dividend as directly associated with the financial needs and fund availability.
- Market share price movement is supported by the organizations as it reflects the financial condition and influence dividend payments.

Primary Data Analysis & Interpretation
- 40 % respondents belong to manufacturing sector organizations and 60 % respondents belong to Service sector organizations in data collected.
- Major Organizations belong to establishment year of 20 to 30 years as 60 % organizations belong to this category.
- Majority of the respondent's organizations (90%) supported that they are engaged in earning management and they have dividend policy and current and future profitability affects the dividend payout.
- It can be stated form data analysis that organizations continuously engaged in the dividend policy and they revised dividend policy on regular basis i.e. annually as 70 % organizations respondent stated.
- Growth in dividend and stable amount of dividend payout is major rationale of company in deciding dividend amount as 80 % respondents supported for this in dividend factor.
- 60 % Respondents supported for the statement that Investment in other opportunities available which influences the decisions of organization for dividend payment considerations.
- Majority of the respondents (80%) supported that current profitability, earning per share and pattern of past dividend is highly influencing factor of the management considerations for dividend policy.
- Respondents also supported 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
- Now day's organizations are focusing on dividend policy and paying attention on the Dividend yield to improve the wealth of investors.
- Major factors influencing dividend payout and policy are current profitability, Investment opportunity, and capital structure, fluctuations in market, liquidity and pattern of past dividend.
- Most of the organizations supported that they are continuously engaged in the earning management and dividend policy decisions. They stated that dividend policy is revised on regular basis.
- Current and expected Profitability is key consideration for the dividend payout by the respondent's organizations. Earnings per share and growth in earning per share are supported by the organizations for dividend payout.
- Investment opportunity available is also supported as favorable opportunities are also given the preferences. In dividend factors pattern of past dividend is supported by the majority respondent's because respondents prefer to maintain stable dividend payout.
- Market share price movement is supported by the organizations as it reflects the financial condition and influence dividend payments.

Scope of the Study
This research work assist in acknowledging that organizations follow dividend policy and target for dividend payout. Research work focus on major perspective of organization for dividend payment as recent financial position affects dividend policy and the factors which influence the financial position are studied. This research work is restricted only for the organizations listed on National stock Exchange and part of the NIFTY index and can be further extended for the other organizations also.

Conclusion
Dividend decisions are always said to be imperial part of financial decision making as it have long term influence on the organizations functioning and policy. From the research work it can be stated that organizations perspective and factors influencing dividend payout are changing, profitability, past rends of dividend and stable payout, share price movements and investment opportunities are crucial factors in deciding dividend policy and dividend payout

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