

Review of Literature Management of Earnings in the Corporate Sector in Baddi, Himachal Pradesh (India): A Study of Selected Companies

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Abstract – *The aim of this paper is to examine the findings of the existing empirical studies on the above-mentioned issues of earning management decisions so as to find their answers. The research studies reviewed herein have been sourced from various national and international journals on the subject under reference and libraries of high repute in India, besides various web sites. On account of the subject 'corporate finance' being highly important, we find very comprehensive works on its various aspects in both advanced as well as emerging economies of the world Hence it was not possible to make review of each and every available study. So, we have resorted to a review of selected studies. Only those studies are covered which are most often quoted in the books, doctoral theses and research journals concerning financial economics.*

Keywords: *Review of Literature, Corporate Sector, Company, Baddi, Himachal Pradesh*

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INTRODUCTION

All the business concerns are established to earn profits. The foremost duty of an enterprise is economic performance, which means the preservation and increase in the value of economic resources entrusted to it. To achieve this objective, the enterprises must earn profit at a certain minimum rate. The rate of profit is regarded as an indicator of the progress of the enterprise and of the direction in which the company's resources are utilized. Profit must also provide economic growth and development. According to Peter Drucker, the profit of the concern should be sufficient to cover: (i) Current cost of business; (ii) the future cost of staying in the business due to certain risk; (iii) to fill dry holes, as the productive well must compensate the loss of pipe and labour wasted in dry hole; and (iii) to bear the social burden. The cost of social security must be met out of the profits of successful concerns. The social burden includes defence, civil administration, health services, education relief, old age benefits etc.

Profits are of special significance to joint stock companies where owners and management are different entities. In case of sole proprietorship and partnership where owner always remain in touch with the firm, they remain in possession of the profits and control them. Being ultimately responsible for these

profits and being at the helm of affairs, management of earnings is no problem for them. But in case of joint stock companies where ownership and management are in different hands, management of earnings assumes special importance. Generally, it happens that the companies do not pay the whole amount of earned profits to the shareholders by way of dividends but retain a portion of the profits for the rainy days and reinvest them in the business. The way a company reinvests or manages to reinvest the retained earnings is called 'Management of Earnings'.

REVIEW OF LITERATURE:

Krishnamurty and Sastry (1979) tested an equation in which dividends were expressed as a function of gross income net of taxes, lagged dividends investment expenditure (gross fixed + inventory investment) and the flow of external debt. They used alternative set of data – (a) a pooled cross section of about 360 companies covering the years 1961-62 through 1967-68, (b) time series RBI data, as well as (c) micro, firm-wise time series data; all the three sets pertaining to seven major industries: Cotton textiles, jute, sugar, paper and paper-board, chemicals, engineering, and cement. They found that in five out of seven industries, the impact of investment

demand and external finance factors on dividend was absent. The exceptions were jute and cotton textiles. On the basis of the time series, they found that even current profits were not significant in three industries: Sugar, paper and paperboard, and cement. This study also observed that, "investment expenditure has a depressing effect on dividend dispersals in the same industries where external finance has a supporting (positive) influence".

Bhole (1988) examined a inter-company differences in the level of savings and changes in that level over the period of time, (b) the determinants of saving ratio of the companies, (c) the extent of stability of dividends paid by the companies, and (d) the relative influence of earnings and dividends on share prices. And found that the level of saving ratio of companies depends upon the type, size, and industry of the company. Large companies have a higher saving ratio than small companies; public limited companies had a higher saving ratio than that of private limited companies till the middle of the 1960s after which the saving ratio of the latter group of companies has exceeded at of the former.

Chay and Jungwon (2016) examined the worldwide firm-level data, to know that the, cash-flow uncertainty is an important cross-sectional determinant of corporate payout policy. And found that, across countries, cash-flow uncertainty (represented by stock return volatility) is a key factor that affects the amount of dividends as well as the probability of paying dividends. The impact of cash-flow uncertainty on dividends was found generally stronger than the impact of other potential determinants of payout policy - such as the earned/contributed capital mix, agency conflicts, investment opportunities, firm size, and profitability. Furthermore, it was found that the cash-flow uncertainty also has a significant impact on the amount of total payouts (i.e., the sum of dividends and repurchases).

Wissal, (2016) examined, the determinants of dividend payment lag for a sample of 32 Tunisian firms listed on the Tunisian financial market and observed over the period 1994-2004. and found that the timing of dividend payment was positively related to two determinants of the life cycle theory - size and liquidity - but is negatively related to benefits and growth opportunities. And also suggests that the financial firms pay dividends before industrial firms, which may be important to investors.

Bhayani (2017) examined the dividend payout policy in Indian corporate sector. BSE Sensex-30 companies were analyzed. To study the impact of profitability, liquidity and size of business on dividend payout. It was found that the dividend policies of the Indian companies were highly influenced by profitability and liquidity.

Hardin and Hill (2016) examined the determinants of excess dividend payments above mandatory

requirements in real estate investment trusts (REITs). And found that Payment of excess dividends is related to factors associated with reduced agency costs, strong operating performance, the implementation of a stock repurchase plan and an ability to access short-term bank debt. And also found that access to external capital is essential for long-term growth, and suggested that REITs should manage dividend policy to allow for capital acquisition in the form of both equity and debt.

Malkawi (2016) examined the determinants of corporate dividend decisions of publicly quoted companies in Jordan as a case study of an emerging market. The analysis was based on 15-year unbalanced panel data with 1137 firm-year observations covering the period between 1997 and 2011. And found that the factors that affect dividend policy in developed stock markets seem to apply for this emerging market, factors such as size, profitability, and age increase the likelihood to pay dividends. Financial leverage decreases the probability to pay dividends. Taken together, the findings provide support for the agency costs hypothesis and are broadly consistent with the pecking order hypothesis.

Poterba, James and, Lawrence (2016) examined the effects of dividend taxes on investors' relative valuation of dividends and capital gains. For this purpose they used, daily data on a small sample of firms, and monthly data on a much broader sample, and found clear evidence that taxes change equilibrium relationships between dividend yields and market returns.

Denis and Osobov (2015) examined the determinants of dividend in the U.S., Canada, U.K., Germany, France, and Japan. And found that the propensity to pay dividends is higher among larger, more profitable firms, and those for which retained earnings comprise a large fraction of total equity. Although there are hints of reductions in the propensity to pay dividends in most of the sample countries over the 2002 to 2010 period, they were driven by a failure of newly listed firms to initiate dividends when expected to do so. Dividend abandonment and the failure to initiate by existing non payers are economically unimportant except in Japan. Moreover, in each country, aggregate dividends have not declined and was found concentrated among the largest, most profitable firms. Propensity to pay dividends. Overall, these findings cast doubt on signaling, clientele, and catering explanations for dividends, but support agency cost-based lifecycle theories.

Kowalewski ,Stetsyuk and Talavera (2015) examined the determinants of the dividend policy in Poland and test whether corporate governance practices determine the dividend policy in the non-financial companies listed on Warsaw Stock

Exchange. And found that large and more profitable companies have a higher dividend payout ratio, riskier and more indebted firms prefer to pay lower dividends.

Desai, C.F. (2015) examined the determinants of profit repatriation policies for US multinational firms. Dividend repatriations are surprisingly persistent and resemble dividend payments to external shareholders. Tax considerations influence dividend repatriations, but not decisively, as differentially taxed entities feature similar policies and some firms incur avoidable tax penalties. Parent companies requiring cash to fund domestic investments, or to pay dividends to common shareholders, draw on the resources of their foreign affiliates through repatriations. Incompletely controlled affiliates are more likely than others to make regular dividend payments and to trigger avoidable tax costs through repatriations. The results indicate that traditional corporate finance concerns – taxation, costly external finance and agency problems – are also critical to the internal capital markets of multinational firms.

Karam Pal and Puja Goyal (2015) focused on overview of the important dividend theories and identify the leading factors that determine the dividend behaviour in the corporate financial management. They found that lagged dividend, PAT, interest are the most important factors affecting dividend decisions of the industry whereas capital expenditure is not. However, target payout ratio of the industry has decreased to 44 percent in 2005-06 from 71 percent in 1996-97.

George and Kumudha (2014) examined the Dividend Policy of Hindustan Construction Company Ltd. (HCCL) and found that current year's dividend is influenced by current year's earnings per share and previous year's dividend per share (supporting Harish 2004). It is found that current year's profit is more important than previous year's dividend while deciding the dividend policy. The study also reveals that it is vital for a firm to maintain a steady growing dividend rate, which would work as a signal for investors and market

Das (2014) examined the concentrates on the exercise of dividend practices followed by the associated Cement Companies Limited (ACC) in India during the period from 1985-86 to 2004-2005. And found that ACC had been pursuing conservative dividend payment policy during the stated period. Correlation coefficient results reveal negative association between liquidity and the payment of dividend per share. Coefficient of rank correlation of important accounting variables influencing dividend policy evidences high degree of positive association between them excepting a few.

Sur (2013) conducted a study of Colgate Palmolive (India) Ltd. (CPIL), which shows that in pre-

liberalisation period the company followed a more conservative dividend policy while in the post liberalization period it adopted a more stable as well as liberal one although both the average of and consistency in the dividend payment of the company on a per share basis stepped down remarkably. The study also reveals the better efficiency in managing earnings as well as formulating dividend policy on the part of the company during the post-liberalization era.

Tai, Liu and Wei (2013) examined the corporate dividend policy in China and found that considering the special economic structure and managerial feature in China. The managerial type was taken as the dependable variable, affected by a set of characteristics of a company's investment opportunity. And found that there seems to be a need to reform the equity structure, managerial accountability, and corporate governance of publicly traded companies in China, particularly the change in the current practice of governmental appointment of managers. Corporate governance should be strengthened to establish effective managerial accountability and incentive policy in order to improve company performance. By implementing effective corporate governance, managers are more likely to adopt dividend policy that maximizes shareholders' wealth.

Sarma and Panda (2013) examined the important dividend theories and identify the factors that determine the dividend behaviour in the corporate sector in India. For the analysis, they construct the optimal dividend equation in the form of exponential function.

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