

# Relationship between Company Characteristics and Divided Policy

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**Abstract – It means that the managements desire stable divided policy. The regression coefficients of operating profit have positive values in most of the cases and found statistically significant for eight years out of sixteen years of the study. This indicates that there was a positive relationship between profit after tax and dividend paid, which support the hypothesis. The regression coefficients of interest paid have negative values in most of the years and were also found statistically significant for six years out of sixteen years of the study.**

**Keywords: Divided Policy, Company, Baddi, Himachal Prades**

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## INTRODUCTION

Dividend decision of a firm is one of the important areas of a company's financial decision making. This decision has always been a subject of interest to financial analysts, academicians and researchers, for a long time. In fact, the questions of "why do companies pay dividends" and "why do investors pay attention to dividends" have puzzled both academicians and corporate managers for many years. Dividend decisions involve 'deciding how much dividend should be paid (payout ratio) and in what form should it be paid to the shareholders'. The underlying objective of all financial decisions is to maximize shareholders wealth. So, it may be safely said that dividend policy of a firm should be geared keeping this direction in view as it may influence value of a firm. The dividend decision is taken in the light of the investment opportunities available. To resolve the dividend puzzle, many researchers and other finance experts have developed and empirically tested various models to explain dividend behaviour.

The growing concern needs finances for its development and expansion in any form, which, may come by way of share capital, borrowings, or self-financing. The dexterity of management lies more in the management of earnings than in the procurement of capital. The efficient use of capital is not only depends upon the acquisition of capital in proper amounts at the right time but also on the careful formulation of internal financial policies and constant vigilance in their administration. The raising of capital may not entail so much of foresight and prudence as the effective utilization of the available resources.

Defective administration of income, inadequate provision for depreciation and ill-planned resources likely to be the results of an absence of scientific internal financial control and may lead to liquidation. Earning is one of the important ingredients of business success and it needs constant and intelligent handling by the management. Earnings refer to a company's reported profits i.e., profits after all expenses including depreciation, interest and taxes have been deducted. Management of earnings means how these earnings are utilized i.e., how much is paid to the shareholders in the form of dividends and how much is retained and ploughed back in the business.

## MULTIPLE REGRESSION MODEL

In order to establish the relationship between company characteristic and Dividend policy multiple regression model has been used wherein dividend payment has been used as dependent variable and company characteristics as operating profit (EBIT), debt equity ratio, company size (measured by market capitalization), growth opportunity (in terms of total assets), interest paid, current ratio and lagged dividend have been considered as independent variables. Mathematically,

$$DIV_{it} = \beta_0 + \beta_1 EBIT_{it} + \beta_2 DE_{it} + \beta_3 IP_{it} + \beta_4 CS_{it} + \beta_5 GTA_{it} + \beta_6 CR_{it} + \beta_7 LD_{it} + \epsilon$$

Where;

EBIT= Operating profit, DE= Debt Equity Ratio, IP= Interest Paid, CS= Company Size, GTA= Growth

Rate in Total Assets, CR= Current Ratio ( Short term Liquidity) and LD= Legged Dividend

**EMPIRICAL RESULTS**

Table 1.1 displays that in the overall analysis of sample companies, the lagged dividend and company size was the most important determinants of dividend decision as the regression coefficient of lagged dividend and company size are found to be the highest in most of the years under study and also found statistically significant for fifteen and thirteen years respectively The regression coefficient of lagged dividend, and company size have a positive sign in most of the years under study period.

This suggests that there was a positive relationship between dividend payment and lagged dividend and company size, which supports the hypothesis. It means companies, which were large in size pay more dividend then the smaller ones. The regression coefficients of operating profit have positive sign during most of the years under study period and were also found statistically significant for seven years out of sixteen years of study. This suggests that there was a positive relationship between operating profit and dividend payment.

**Table 1.1**

**Relationship between Company characteristics and Dividend Payments in overall analysis**

YEAR	Regression Coefficients							Model Summary			
	EBIT	DE	IP	CS	GTA	CR	LD	R <sup>2</sup>	DW <sup>®</sup>	F	SIG
2003	0.02 (6.26*)	-0.09 (0.48)	-0.02 (8.06*)	0.10 (2.77*)	-0.20 (0.38)	0.11 (0.62)	0.79 (17.36*)	1.00	2.23	33,916.9	0.000
2004	0.42 (8.89*)	-0.03 (-0.69)	-0.49 (8.78*)	0.65 (11.9*)	-0.19 (0.07)	-0.10 (2.3*)	0.23 (5.28*)	0.63	1.80	51.74	0.000
2005	-0.02 (-0.39)	-0.06 (-1.53)	-0.38 (8.93*)	0.06 (1.19)	0.06 (0.03)	-0.22 (-0.4)	0.59 (12.4)	0.59	1.87	52.98	0.000
2006	0.05 (1.42)	0.01 (0.22)	-0.24 (6.38*)	0.24 (5.77*)	-0.30 (-1.11)	-0.07 (2.3)**	0.56 (15.68*)	0.74	2.02	120.60	0.000
2007	0.04 (1.35)	-0.10 (-0.11)	0.09 (2.29)**	0.19 (4.9*)	0.01 (0.37)	0.01 (0.44)	0.87 (21.2)*	0.72	1.97	113.47	0.000
2008	0.02 (0.72)	0.01 (0.53)	0.03 (0.89)	0.42 (14.4)*	0.01 (0.21)	-0.02 (-0.86)	0.61 (18.60)*	0.78	1.95	161.67	0.000
2009	-0.02 (-0.81)	-0.05 (-1.95)	-0.37 (12.9)*	0.01 (0.22)	-0.10 (-0.12)	0.05 (1.91)	1.03 (30.6)*	0.83	1.93	209.85	0.000
2010	0.03 (1.54)	0.010 (0.17)	-0.14 (6.08*)	0.42 (16.8)*	0.010 (0.21)	0.01 (0.31)	0.66 (27.0)*	0.88	1.95	310.21	0.00
2011	-0.05 (-1.87)	-0.10 (-0.04)	0.17 (6.36)*	0.00 (0.13)	0.010 (0.03)	-0.02 (-0.95)	0.89 (26.1)*	0.83	2.30	203.12	0.00
2012	0.10 (3.36*)	0.03 (0.99)	-0.06 (-2.0)**	0.25 (7.02)*	0.01 (0.28)	-0.01 (-0.23)	0.71 (21.14)*	0.80	1.77	158.05	0.00
2013	0.10 (-0.14)	-0.10 (-0.09)	-0.08 (-4.12)*	0.10 (4.09)*	0.010 (0.31)	-0.010 (-0.14)	0.91 (43.3)*	0.94	2.05	624.42	0.000
2014	0.03 (2.5)*	0.010 (0.13)	0.10 (0.20)	-0.15 (-5.8)*	-0.010 (-0.13)	0.01 (0.93)	1.09 (46.7)*	0.97	2.13	1,163.83	0.000
2015	0.04 (1.83)	-0.03 (-1.20)	0.09 (3.3)*	-0.17 (-3.8)*	-0.01 (-0.24)	-0.03 (-1.37)	1.04 (24.3)*	0.87	2.00	270.89	0.00
2016	0.17 (6.19)*	0.01 (0.55)	-0.16 (-7.88)*	0.88 (33.40)*	-0.03 (-1.73)	-0.01 (-0.62)	-0.06 (-2.61)*	0.90	2.19	349.83	0.00
2017	0.17 (6.19)*	0.01 (0.55)	-0.16 (-7.88)*	0.88 (33.40)*	-0.03 (-1.73)	-0.01 (-0.62)	-0.06 (-2.61)*	0.90	2.18	349.83	0.000
2018	0.27 (4.28)*	-0.04 (-0.86)	-0.10 (-1.62)	0.16 (2.63)*	0.02 (0.42)	-0.02 (-1.12)	0.59 (10.04)*	0.59	1.87	40.71	0.00

\*&\*\* Statistically significant at 1% and 5% level respectively (Values in Brackets are t values)  
<sup>®</sup>DW= Durbin Watson test

**Prowess Database (CMIE)**

The regression coefficients of interest payment have negative values during most of the years and were found statistically significant for twelve years out of sixteen years of study. This suggests that there was a negative relationship between dividend payment and interest paid by the companies. It means companies having more burden of interest payment show a tendency to pay fewer dividends. Likewise in case of debt equity ratio regression coefficients have

negative values during most of the years under study, which suggests that there was a negative relationship between debt equity ratio and dividend payment. It means levered firms pay fewer dividends then the unlevered ones. The regression coefficients of current ratio have negative sign during most of the years. This suggests that there was a negative relationship between current ratio and dividend payment, which was contrary to the hypothesis.

The above analysis was also supported by the value of coefficients of determinants r<sup>2</sup> which ranges between 0.59 and 0.99. This indicates that the independent variables have been causing more than seventy per cent of the variation in dividend paid by the companies under study. The F values also indicate that independent variables are the important determinants of current dividend. The Durbin Watson test which has been applied to examine the existence of autocorrelation in the cross sectional data series reveals the absence of autocorrelation in each year of the study as its values are near 2. Hence, the results of the model give reliable estimates.

Thus, above analysis tends to confirm that the lagged dividend and company size were the most important determinants of the dividend followed by company size and interest payment. The current ratio was found to be the least important determinant of dividend payment as it gives the least value of regression coefficients during most of the years of the study. As mentioned earlier, lagged dividend in Lintner Model represents the desire of management for a stable dividend policy. It is important to note from Table 1.1 that the lagged dividend has been emerged as a highly significant determinant of dividend in case of more than ninety percent of the time.

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