Journal of Advances and Scholarly Researches in Allied Education
Vol. XIV, Issue No. 1, October-2017, ISSN 2230-7540

Impact of Market Value of Shares on Dividend Yields

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Abstract – Dividend policy connexion has been researched extensively, however very little agreement has been designed from the findings. There are several factors that have an effect on a given firm's dividend policy which might be found within the literature like risk sweet-faced by the firm, income state of affairs of the firm, agency prices etc. per Bhattacharya (1979) dividend call of a firm may be seen as a supply of signal that shows that profitable corporations with sensible project investment opportunities can pay higher dividends to gift themselves distinct from different firms which are having comes with lesser profits. This paper makes a trial to analyze whether or not or not the dividend policy of a firm affects the market value of a firm and so the shareholders' wealth. We've set our objective to search out the impact of dividend policy on the shareholders' wealth within the Indian electrical instrumentality producing trade. For this, we've adopted a sample of dividend paying electrical machinery producing corporations listed in urban center stock market (BSE). There have been all 439 corporations within the trade of electrical machinery producing. Out of them 194 corporations were listed within the urban center stock market (BSE) and there have been seventy two companies paying dividends often. So the info of those seventy two corporations was taken into thought. Our study unconcealed the empirical proof with a number of the dividend unconnectedness theories like M&M. The results indicate that there's a negative non-linear association between the value of a share and thus the dividend yields of the trade.

Keywords : Market Value, Dividend Policy, Firm Valuation, Wealth Maximization, ModiMiller.

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1. INTRODUCTION

The returns associated with the shareholders are composed of dividends received and additionally the capital gains. The dividend payout call of an organization possesses a right away influence on each of them. So, for management it's a really vital perform to choose upon whether or not to pay the dividends or to take a position the cash into the corporate to take advantage of on different opportunities that lead to capital gains. the precise proportion of earnings that the corporate needs to pay within the variety of dividends is tight rope equalisation act for the management because the shareholders do like dividends in the form of money furthermore as appreciation of the securities they hold which ends up out of reinvested profits. the simplest and best dividend call is that the one that leads to the maximization of the shareholders' wealth through the accrued share costs within the market.

The calls relating to the payment of dividends ought to be created in terms of constructing decision on what proportion dividend to be paid and within which mode ought to or not it's paid. The choice must be taken considering the offered investment avenues and different choices of availing finance. If an organization is new with investment opportunities and growing robustly, it's natural for it to follow a no payout policy. In line with Allen and Michaely [1] there ought to be a correct data of dividend policy that is vital for several different fields like capital structure, Mergers and Acquisitions and Project appraisal and Finance. While not comfortable monetary slack, the companies could face the prospect of getting to grant up profitable investment opportunities if their securities are underpriced within the presence of data asymmetry—Myers and Majful [2]. So, during this context of importance of dividend policy to the firm and also the relevant worth maximization associated with it, the electrical machinery producing trade is taken into account for the study to investigate and verify the importance of dividend policy therein industry. All the businesses thought-about for the study are listed Indian corporations.

2. LITERATURE REVIEW

Prior analysis work consists of 2 radiating views relating to the impact of dividend policy on a firm worth and that they are known as 'Dividend connexion theories' and 'Dividend unconnectedness theories'. Each sets of theories provide convincing evidences to support their arguments and therefore the analysis quandary continues until date. Black [3] declared that, "The more durable we glance at the dividend image, the additional it appears like a puzzle, with items that don't work together". In over thirty years a colossal quantity of literature has been created examining dividend policy. hot dog et al. [4] finished within the same vein as Black and Scholes [5] that: The dividend "puzzle", each as a matter of policy and for shareowner worth enhancement, is one among the foremost troublesome and most-argued topics within the field of economic political economy. During a survey, Allen and Michaely [1] finished that far more empirical and theoretical researches on dividends are needed before a agreement may be reached. Consistent with Brealey and Myers [6], dividends are one among the highest 10 issues that don't seem to be resolved within the field of finance. Four decades of educational analysis wasn't during a position to resolve it. Analysis within the field of dividend policy shows that a returning to a agreement thereon is very not possible and also shows that the observe of company dividend policy is completely different among different corporations still as different countries.

Dividend policy connexion has been researched extensively, however very little agreement has been designed from the findings. 3 completely different positions are taken on the connexion of dividends. Graham and Dodd [7] advocated investors' preference for dividends as a result of the understanding of dividends compared to the uncertainty of capital gains. The classic work of Amedeo Modigliano and Miller (M&M) [8] established the hypothesis that dividend policy is immaterial to the worth of the firm. The M&M unconnectedness proposition was 1st developed for a world while not taxes, and was later extended by Black & Scholes [5] and Miller et al. [9] to incorporate taxes. The "capital gains tax effect" could be a third position on dividend connexion introduced by Farrar et al. [10]. Consistent with this browse, the influence of dividend yield on returns (value) is hypothesized to be positive (negative), since the tax on capital gains is underneath the tax on dividend gain. Empirical tests of dividend connexion are supported models that add dividend yield measures to the Capital quality evaluation Model (CAPM).

Transaction prices are available favor of dividends as a supporting argument. A shareowner World Health Organization is in want of frequent financial gain from his shareholdings of an organization has 2 selections. One is to shop for the stocks that pay dividends and cashing the dividends, the opposite one being that of buying a non-dividend paying shares and regularly commercialism a locality of the portfolio. For a little individual capitalist the dealings prices of cashing within the dividends could also be considerably smaller than the transaction costs related to commercialism a locality of the stocks— Allen and Michaelly [11].

The theory of Gordon [12] that is splendidly referred to as "Bird in hand theory" is in favor of outdoor shareholders preferring a high dividend payout. For them, a precise dividend payment these days is additional satisfactory than extremely unsure capital gains within the future. previous analysis studies show that the on top of model can fail if it's applied to an ideal and complete market wherever investors behave during a rational way—Miller and Amedeo Modigliano [8]; Bhattacharya, [13]. But, still the particular explanation of Gordon [12] is extremely typically cited.

According to the idea on dividends developed by Shefrin and Statman [14], dividends will create a giant distinction to the shareholders supported whether or not that money is returning within the variety of dividends or capital gains, albeit the quan-breadbasket of money received is that the same. In their theory that could be a behavioural theory model, shareholders like dividends as a result of self-control. This time is valid to shareholders World Health Organization wish to create they restricted from outlay an excessive amount of within the short term. These investors don't wish to dispose their capital and, therefore, they're solely curious about intense this financial gain within the variety of dividends. Shefrin and Statman [14] talk to this because the "behavioral life cycle" as a result of this is often significantly true within the case of retired voters World Health Organization don't have their current financial gain and ought to believe totally on their savings or income from their shareholdings. This theory of behavioural life cycle is analogous thereupon of the Gordon's [12] theory. However, Gordon's theory relies on uncertainty towards future financial gain in terms of dividends, the idea of Shefrin and Statman [14] is said to shareholders whose preference is to consume from current sure dividends than that of the unsure future capital gains.

There are several factors that have an effect on a given firm's dividend policy which might be found within the literature. various factors like risk faced by the firm, income scenario of the firm, agency prices (including agency costs of debt and agency costs of equity), growth opportunities, taxation, etc. are acknowledged in previous analysis literature that have an effect on the dividend policy selections of a firm. The foremost necessary signal showing a firm's ability to pay dividends is that the profits created by the firm. consistent with the analysis conducted by Linter [15] to search out out however the managers of the businesses in United States take selections relating to dividend payments disclosed some necessary findings that the payment of dividend by a firm is plagued by this year's earnings and previous year's dividend payments. He might love by developing a really smart mathematical model supported his analysis of twenty eight massive U.S. firms. The analysis by Baker, Farrelly and Edelman [16] on over three hundred stock exchange corporations might come back to a conclusion that the main factors of influencing dividend payments are the expected level of earnings within the long run and therefore the dividends paid in the past.

The analysis done by Pruitt and Gitman [17] by interviewing varied individuals of the management involved with the monetary selections of the firm of an oversized range U.S. of corporations and located supporting proof for the previous literature that this and past years' profits of the firm are necessary parameters that influence the dividend selections of the firm. Another kind of finding during this regard is given by Baker and Powell [18] from their analysis of recent dynasty exchange listed corporations and located out that the factors influencing dividends are different for various industries additionally the} also the expected level of earnings within the future. Pruitt and Gitman [17] conjointly found that the chance concerned in year to year profits also play a serious role within the dividend policy call of a firm. Corporations with additional stable earnings are typically ready to have a more robust plan of their future earnings. These styles of corporations are additional inclined to pay higher proportion of their earnings as dividends than the firms with unsure or uneven earnings.

Other researchers like Rozeff [19] created use of the beta of the firm as a proxy for risk related to the market and will notice a negative relationship between dividend payout and risk within the market. The outcomes from their analysis make a case for the very fact the development that firms with high level of risk pay dividends less often. The results of D'Souza [20] gave support to the on top of results.

Another necessary issue that influences the dividend payout call of a firm is that the money position of the firm. A weak money position implies that the firm will provide out smart cash dividends thanks to the inconvenience of adequate cash. According to Ali et al. [21] the dividend payout selections of a firm rely totally on the liquidity position that shows the firm's ability to grant dividends.

They conclude that these profits won't have an effect on the firm's dividend paying skills. Inexperienced et al. [22] investigated the statement that dividend is immaterial and located out the connection between finance, finance and dividend selections. The work done by they tried that the extent of dividend payout isn't altogether dependent on a firm's investment and finance selections. Their study showed that dividend payout levels don't seem to be altogether determined once a firm's investment and finance selections are created and therefore the call on dividend is taken within the presence of investment and financing decisions. Their results don't match the views of Miller and Amedeo Modigliano [8]. But, consistent with Partington, the corporations set sure payout ratios as target and therefore the companies' investment policy doesn't impact their dividend policy selections and the extent to that dividends are proclaimed.

Higgins [23] tried to ascertain a relationship between the expansion of the corporations and their monetary needs. The corporations with sturdy growth want finance from outside sources since the money flows for assets wants are typically over the cash flows from the new sales. Higgins [24] might conclude that the dividend payout ratios are connected during a negative manner with relevance the finance of recent investment opportunities. Rozeff [19] might show a negative association between dividend payments and sales that is critical. But, D'Souza [20] showed that associate degree insignificant and positive association exists between dividend payout and growth of the firm, and a negative insignificant relation exists between market to value and dividend payout quantitative relation.

According to Bhattacharya [13] dividend call of a firm may be seen as a supply of signal that shows that profitable corporations with smart project investment opportunities can pay higher dividends so as to separate themselves from different firms which are having comes with fewer profits. They show some proof of corporations that are having higher worth offer a positive dividend payments with relevance risk related to the firm. Also, Miller and Rock [25] tried within the same manner as Bhattacharya [13] that asymmetries relating to the in- formation between the within shareholders and outdoors shareholders can facilitate a signal role for dividends. They conjointly might prove that dividend selections can facilitate in spreading non-public info during a absolutely clear manner. The foremost essential consider their work is that corporations ought to provide dividends often. The dividend payout calls are going to be taken as a positive signal and consequently the worth of the stock costs appreciate. The corporations with smart performance solely will send such a sort of signal to the shareholders and poorly playacting firms can- not try this as a result of the prices concerned in doing this and therefore an identical logic is applied to the method of share buybacks.

There are a couple of studies on the importance of dividend policy within the Indian context conjointly. Kanwal and Kapoor [26] tried to identify the numerous factors that influence the dividend payout policy picks of the Indian IT firms. They chiefly targeted on the identification of whether or not the varied factors accessible within the literature influence the dividend payout quantitative relation in IT sector Asian nation in the current state of affairs. They examined the dividend payout ratios of CNX IT listed firms in Asian nation and that they found that the present variables accessible as per literature don't make a case for the dividend payout pattern of IT sector in India. Solely liquidity and Beta that is that the year on year variability in earnings are found vital. Ac- cording to their results the present literature might make a case for solely twenty seventh of the Indian info Technology dividend behavior. They finished that the influence of value earnings quantitative relation, debt equity quantitative relation on dividend payout policy would be a stimulating work.

Azhagiah and Priya [27] tried to investigate the impact of dividend policy on shareholders' wealth in Organic and Inorganic chemical firms in Asian nation throughout the amount 1996-1997 to 2005-2006. They used multivariate analysis techniques and stepwise regression models for his or her study by taking Dividend per share, preserved earnings, lagged price earnings quantitative relation and lagged market value because the freelance variables market value per share was taken because the variable. Their study tried that there's a major impact of dividend policy on shareholders' wealth in Organic firms whereas there was no significant impact of dividend policy on the shareholders' wealth within the Inorganic chemical companies.

3. OBJECTIVE OF THE STUDY

Indian firms offer a much better scope for analyzing dividend policy problems for the subsequent reasons; 1st, most dividend policy analysis studies are supported samples of free economic markets. Next, compared to the capital markets of developed countries, India's markets are a lot of fledging in nature. Stock investors in Asian country are less educated than those in developed countries. Indian stock investors could show completely different attitudes and behaviors toward risk-taking, investment, and dividend policy. Asian country is exhibiting ever bigger economic influence within the globalized world. Its economic process rate, current account surplus, and stock exchange performance demonstrate healthy economic science. Shareholders' wealth is painted within the market value of the company's ordinary shares, that successively, is that the operate of the company's investment, funding and dividend call. This paper makes an attempt to research whether or not the dividend policy of a firm affects the market value of a firm and this successively affects the shareholders' wealth.

In the higher than context, the target of this study is to seek out the written agreement of dividend policy on the shareholders wealth in the Indian electrical instrumentality producing trade. We have a tendency to have adopted a sample of dividend paying electrical machinery producing firms listed in Bombay stock market (BSE). The principle behind choosing this trade is that it's one among the well-established industries in Asian country with sizable amount of players. Therefore it provides enough samples and historical information to create the results a lot of meaning.

4. METHODOLOGY

The following hypothesis has been developed for this study.

Ho: There is no significant impact of dividend policy on shareholders' wealth of the electrical machinery producing corporations.

Ha: There is a significant impact of dividend policy on shareholders' wealth of the electrical machinery producing corporations.

5. DATA

Data was collected from the Center for Monitoring Indian Economy (CMIE) artistry info for a period of time of 10 years i.e. from money years 2005-2006 to 2015-2016. There have been completely 439 firms within the trade of electrical machinery producing. Out of them 200 firms were listed within the Mumbai stock market (BSE) and there have been seventy two companies paying dividends oftentimes. So the info of those seventy two firms was taken into thought.

6. VARIABLES

Fama & French [28] have documented that worth to value (P/B ratio) explains mean stock returns, in the course of conjectures that's a proxy for risk or Associate in Nursing indicator of distress, the distinction between market and book average. Therefore it had been taken as an alternate for shareholders' wealth. Tobin's letter of the alphabet quantitative relation was used as a proxy for P/B ratio and brought because the variable. It is outlined because the quantitative relation of market price (MV) and value (BV) of assets. MV of a firm is taken the total of MV of equity and debts (short-term similarly as long-term). Since debts don't seem to be publically listed in Indian secondary markets, BV of debts and preferred stock are taken for shrewd Tobin's letter of the alphabet per Mohanty [29], the Tobin's letter of the alphabet quantitative relation is extremely correlate with the Price-to-Book price of the firm and PBV ratio is sometimes treated as a proxy for risk.

Q=(market price of Equity+ preferred stock+ Debt)/ Total Assets

To remove the market volatility from the analysis, the common of 365 days' closing costs were thought of. In computing total assets, all the relevant things on the assets aspect of the record were thought of. Dividend yield was the freelance variable thought of and it had been taken as proxy for the dividend policy of the firm. Dividend yield is calculated because the quantitative relation of dividend per share (DPS) to cost of the share. The management variables thought of was Log (Sales), come back on Capital used (ROCE) and Sales rate of growth.

7. MODEL

The following model has been proposed to measure the effect of dividend yield on Tobin's Q measure. Ordinary least squares (OLS) method has been used to investigate whether dividend policy has significant association with the share- holders' wealth or not.

$$\text{Tobin's Q} = \alpha + \beta_1 \text{Dividend Yield} + \beta_2 \text{Log}(\text{Sales}) + \beta_3 \text{ROCE} + \beta_4 \text{Growth Rate} + \varepsilon$$

Table 1. Results of Regression showing the impact of dividend yield on Tobin's Q ratio of the Electrical machinery manufacturing companies in India.

Regression Model					
Independent	Unstandardized Coefficients		Standardized Coefficients	t	Sig
Variables	B	Std. Error	Beta		
Intercept	0.403	0.109		4.491	0.000
DivYield	−1.585	0.286	−0.334	−7.482	0.000
Log Sales	0.099	0.042	0.452	2.580	0.005*
Roce	4.334	0.340	0.561	41.031	0.000*
Growth Rate	−0.235	0.089	−0.102	−2.929	0.022*

*Significant at 1% level; **Significant at 5% level.

Model Summary	
R^2	0.258
Adjusted R^2	0.285
F value	67.680*
Standard error of the estimate	0.501

*Significant at 1% level.

8. RESULTS AND DISCUSSION

See Table 1.

From the regression results for the general sample, it's evident that the variables enclosed during this model justify the Tobin's Q magnitude relation at statistically significant level, as indicated by the F-statistic (1% level of significance). The adjusted R2 is 0.258, which implies that the model is explaining 25% of the variation in Tobin's Q. A additional careful examination of the instructive factors reveals that Dividend Yield is statistically important at 1 Chronicles level of significance. For the general sample, it's been found that Dividend policy incorporates a important impact on the shareholders' wealth of the electrical machinery producing companies in Republic of India.

9. CONCLUSIONS

Our study has given empirical proof with a number of the dividend unconnectedness theories like M&M. The results indicate that there's a negative non- linear association between value of a share and also the dividend yields. Higher dividend decreases the worth of the share and vice-versa. Our results are in line with the information content or dividend discipline by Bhattacharya [13], John and Williams [30], Miller and Rock [25]. These findings are per empirical proof of Allen and Michaely [1] Gordon [12], Ross et al. [31], Shefrin and Statman [14], Easterbook [32], that dividend policy affects a firm's share price. The rational argument in favor of dividends consists of dealings price to keep with Allen and Michaelly [11].

Our results are almost like a number of the results like Amidu [33] wherever his study supports second faculty of thought that dividend policy has relevancy to the firm's performance. Amazingly the study reveals that larger companies on African country stock market perform less with relation to come back on assets that has been taken because the performances live. Azhagaiah and Priya [27] showed that for Indian Organic chemical corporations, there is important impact of dividend policy on shareholders' wealth however there's no influence of dividend policy as so much as Inorganic chemical corporations are involved. Our results dissents with a number of the studies like that of Stevens and Jose [34], wherever they need found a big negative relationship between dividend smoothing and firm price. Their study provided a motivating distinction to the extremely important positive result of the dividend stability live, suggesting that unnaturally stabilized dividends through smoothing are discounted.

In general, as mentioned within the literature review, the upper dividend payments by the companies can facilitate the worth of their shares to extend and vice-versa. The shareholders of a corporation principally just like the gift and sure dividends to the longer term unsure capital gains. This can be usually true with the case of socio-economic class people that principally rely on their monthly salaries for his or her living and Bharat consists of mostly middle class people. Our study might support a number of the sooner studies and doesn't support another earlier studies.

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