Study on Company Characteristics and Divided Policy

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Abstract

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^2 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.

Keywords: Corporate Sector, Divided Policy, Company, Gurgaon, Haryana.

Introduction:

The 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 (Adauglo, 2008).

A number of conflicting theoretical models, all lacking strong empirical support, define recent attempts by researchers in finance to explain the dividend phenomenon. But to come out with some concrete conclusion, intensive study of various theoretical models having long period data together with empirical proof is mandatory.

A few studies have analyzed the dividend behaviour of corporate firms in Indian context. Aviazian et al., 2008; Black, 1984; Bodla et al., 2015; Bready et al., 2008; Brittain, 1972; Cherles, 2012; Chay, 2016 are some examples of empirical research carried out in India in the field of dividend decisions. However the following are still not clear: what are relationships between company characteristics and dividend policy? What is the dividend payment pattern of firms in India? This chapter is devoted to the question concerning the determinants of dividend.

Materials and methods:

To examine the Relationship between company characteristics and divided policy: Payments in overall analysis , the study has used secondary data. The sample was drawn from the companies listed of **Gurgaon,** Haryana (India). 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,

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

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 .

Results:

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 (Table 1).

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).

Table 1. Relationship between Company characteristics and Dividend Payments in overall analysis.

| YEAR | Regression Coefficients | | | | | | | Model Summary | | | |
	EBIT	DE	IP	CS	GTA	CR	LD	R^2	DW@	F	SIG
2006	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
2007	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
2008	-0.02 (-0.39)	-0.06 (-1.53)	-0.38 (8.93)*	0.06 (1.19)	-0.22 (0.03)	-0.02 (-0.4)	0.59 (12.4)	0.59	1.87	52.98	0.000
2009	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
2010	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

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	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
2011 2012	-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
2013	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
2014	-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
2015	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
2016	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
2017	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
2018	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
2019	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

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2020	0.17 (6.1 9)*	0.01 (0.5 5)	-0.16 (-7.88)*	0.88 (33.4 0)*	- 0.03 (- 1.73)	- 0.01 (- 0.62)	-0.06 (- 2.61)*	0. 90	2.1 8	349.8 3	0.0 00

*&** Statistically significant at 1% and 5% level respectively (Values in Brackets are t values)

@DW= Durbin Watson test, Prowess Database (CMIE)

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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 5.1 that the lagged dividend has been emerged as a highly significant determinant of dividend in case of more than ninety percent of the time (Table 1).

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