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CORPORATE DIVIDEND DECISIONS

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ABSTRACT:

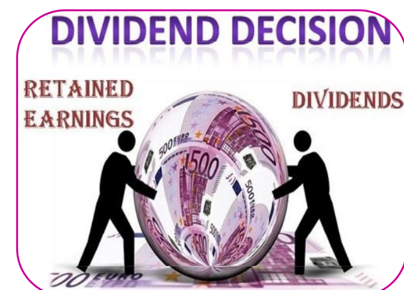
Profit strategy has been an issue of interest in monetary writing since Business entities appeared. Dividend decision or policy refers to the issue of the ratio of retained earnings to distributed earnings. Naturally, a dividend policy that maximizes shareholder wealth serves as the guiding philosophy. Therefore, from the perspective of financial management, the goal is to determine the dividend policy that will either increase or maximize the company's value.

As it is known and all around acknowledged that the goal of an association is investors' abundance augmentation. Financial economists face the challenge of creating a pay-out policy framework in which businesses maximize shareholder wealth and investors maximize utility. Despite the extensive literature, there are no established guidelines for an "optimal pay-out policy." Companies' observed dividend behavior has not yet been satisfactorily explained. The financial economist must fully comprehend the factors that influence dividend decisions as well as their interactions. This paper attempts to address the corporate decisions that affect the dividend distribution process. In a nutshell, it can be said that decisions regarding dividends are recognized as being of the utmost significance due to the increasing significance of the finances in the overall growth strategy of the company.A

KEYWORDS: *Dividend behaviour, Dividend Policy, Dividend decisions, corporate decisions.*

INTRODUCTION:

One of the three major decisions in financial management is the dividend policy. The concern of the dividend policy decision is the company's decision regarding how much of its earnings could be distributed as dividends and how much could be retained. It determines the proportion of earnings that is returned to the business for reinvestment and the proportion that is distributed to shareholders as dividends. The improvement of such strategy will be extraordinarily affected by speculation potential open doors accessible to the firm and the worth of profits as against capital additions to the investors. The executives ought to foster such a profit strategy what partitions the net profit into profits and held income in an ideal manner to accomplish the target of expanding the abundance of investors. Since Joint Stock Companies were established, the dividend policy has been a topic of interest in financial literature. Academics and researchers have attempted to develop theories and models to explain corporate dividend behavior and to resolve a number of dividend-related issues. Even though financial economists have done a lot of research, the question of what factors affect dividend policy is still up for debate. Scientists have fundamentally



centered around evolved markets; However, an examination of developing nations, which is currently lacking in the literature, can provide additional insights into the dividend policy debate.

DIVIDEND DEFINED

A dividend is the decision made by the board of directors to distribute a portion of a company's earnings to a class of shareholders. Dividends can be paid out in cash, shares of stock, or some other kind of property. A research paper titled "Shareholding Patterns and Dividend Policy: Evidence from the Corporate Sector in India" in 2005. The dividend pay-out ratio of manufacturing-related Indian companies that were listed on the Bombay Stock Exchange (BSE) between the years 2001 and 2004 was the subject of this study, which looked at how shareholding patterns affected the dividend payout ratio. To determine how the shareholding pattern affected dividend policy, a balanced panel data analysis was performed. It discovered a positive correlation between dividend earnings, sales, and the company's size. Dividend was found to have a negative relationship with the debt-to-equity ratio. The determination of the dividend pay-out ratio was more heavily influenced by institutional shareholders, and the opposite was true of dividend policy

REVIEW OF RELATED LITERATURE

In light of this, the following is a brief summary of surveys and empirical studies that were carried out in the United States and other nations:

- Using models developed by Lintner (1956), Mahapatra and Sahu (1993) examined the determinants of dividend policy for a sample of 90 companies from 1977-1978 to 1988-1999. They observed that income was a significant determinant of profit followed by net profit. In addition, their research demonstrated that companies' dividend decisions were significantly influenced by past dividends rather than earnings.
- Using stock returns as a measure of performance, Ki C Han and David Y Suk (1998) investigated the effect of ownership structure on corporate performance. They find a positive correlation between the level of insider ownership and stock returns based on the sample period from 1988 to 1992. This outcome recommends that as administrators' value possession expands, their inclinations harmonize more with those of outside investors. However, they also discover that the square of the level of insider ownership has a negative correlation with stock returns. This suggests that excessive insider ownership actually has a negative impact on corporate performance, probably as a result of the issue of managers' entrenchment. In the end, they came to the conclusion that institutional ownership has a positive correlation with stock returns, indicating that institutional owners actively monitor management.
- Sheng. Using a sample of 145 Singapore businesses, Syan Chen and Kim Wai Ho (2000) provided international evidence on the extent and value of corporate diversification. It discovered that outside block holders' equity ownership has a negative impact on the level of diversification, while firm size has a positive impact on the level of diversification. Insider ownership, on the other hand, did not appear to have a significant impact on the degree of diversification. Only businesses with low managerial ownership experienced significant value loss as a result of diversification, indicating that agency issues are to blame for diversification's value-reducing effects. The value of diversification is not significantly affected by outside block ownership. Therefore, despite the fact that outside block holders may prevent firms with low managerial ownership from diversifying, there is no evidence that they can effectively reduce agency issues.
- Adaoglu (2000) observed that ongoing profit were the fundamental determinant of profit installments in Turkey. When businesses in Turkey were given the freedom to choose their own dividend policy following deregulation of profits distribution in 1994, they adopted unstable dividend policies.
- According to Faccio, Lang, and Young (2001), the gap between the shareholder's ownership and control rights was correlated with the dividend rate. In addition, it was discovered that the businesses had close ties that allowed them to pay a business group dividends that were significantly higher. In contrast, significantly lower dividend rates were linked to businesses that were not closely associated with a group.

- Short, Keasey, and Duxbury (2002) found a positive correlation between dividends and institutional shareholders and a negative correlation with managerial ownership in a study that looked at the connection between dividend policy and institutional ownership for UK firms.
- Gugler and Yurtoglu (2003) looked at the connection between dividends, ownership structure, and control rights for German and Australian businesses, respectively. They found that a large shareholding by the largest owner lowers the dividends pay-out ratio, while a larger shareholding by the second largest owner raises it. They concluded that state-controlled businesses smooth out dividends while family-controlled businesses do not. The way of behaving of the unfamiliar controlled firms in the middle between state controlled and family controlled firms in reliable with the "normal positioning" of data deviations and administrative organization cost speculation.

OBJECTIVES OF THE STUDY

1) To learn about the pattern of dividend declaration in the Indian corporate sector.
2) To trace the dividend distribution procedure and system.
3) To investigate the corporate dividend payment methods.

RESEARCH METHODOLOGY

The extensive research for which the secondary source of information has gathered information serves as the theoretical basis for this paper. The sources incorporate web-based distributions, Books and diaries. Finally, the company's basic markets began to be replaced by new technology and further market erosion. Operating cash flows are much higher than what is needed for investments. The scope of potential agency issues increases. Through extremely high dividend payout levels, the business can begin to self-liquidate.

Companies' dividend policies may also follow a number of interesting patterns, making these decisions even more complicated. First, dividends frequently fall behind earnings; as a result, increases in earnings are accompanied by dividend increases, and sometimes by dividend reductions. Second, businesses typically resist changing dividends, which is why dividends are considered "sticky." especially, businesses don't cut dividends when earnings drop. Thirdly, dividends typically progress much more smoothly than earnings. In order to avoid the dreaded consequences of a reduced dividend in a particularly bad year, businesses that are especially susceptible to macroeconomic vicissitudes, such as those in cyclical industries, are less likely to be tempted to set a relatively low maintainable regular dividend.

DIVIDEND DECLARATION PROCESS

The majority of Indian companies issue quarterly dividends. A company's board of directors announces the size of the dividend on the announcement date after deciding on it during a board meeting. Further, the declaration expresses that the money installment will be made to "investors of record" starting around a particular record date. Notwithstanding, as a result of defers in the offer exchange process, the stock goes "ex-profit" two work days before the record date, or the ex-profit date. Shares of the stock are no longer eligible for the upcoming quarterly dividend when it goes ex-dividend. On the payment date, which is approximately two weeks after the record date, the dividend checks are sent by mail to shareholders in good standing.

ALTERNATIVE FORMS OF DIVIDENDS

Shareholders are typically rewarded by businesses with regular cash dividends. Even as earnings continue to rise, businesses maintain a stable dividend policy and refrain from increasing dividends. In addition to cash payments, businesses offer rewards to shareholders in other ways that are either directly or indirectly in the shareholders' best interests. These earnings build up over time, increasing the wealth of shareholders and driving up share prices. Because these special dividends are taken as one-time actions, there is no chance of miscommunication as a result of the increased dividend. Shareholders can be rewarded

in ways other than through regular or periodic cash dividends. There are three additional popular methods for rewarding shareholders. These are the main ones:

1. STOCK REPURCHASES OR SHARE BUY BACKS

Companies typically do not increase dividend payouts despite increased earnings in accordance with a stable dividend policy. This is done to reduce the likelihood of the information content of dividends being misinterpreted and to pursue a policy of keeping a good proportion for future requirements in the event that good opportunities arise. With several projects under study, businesses may be uncertain of future capital expenditure requirements. These might be related to significant acquisitions. Companies may decide to return the excess cash to shareholders when they have sufficient funds but cannot see any relevant growth opportunities. As a result, the company has two options for getting rid of the extra cash: either pay out huge dividends or buy back shares. The share buyback is a method that is becoming more and more popular for rewarding shareholders in a way other than cash. A company's stock repurchase plan involves purchasing back a portion of its outstanding stock to reduce the number of shares. This, thusly, increments both EPS and stock cost. When it is substantial, it can take the place of dividend payments. Shareholders can choose to maintain or withdraw their investment in any ratio they choose. In India, share buybacks were prohibited prior to 1998. Several Indian businesses have offered share buybacks since it was allowed. There are many benefits to buying back shares. It shows management how valuable the company is, can increase the shareholding of promoters, protects against hostile takeovers, and changes the shareholding pattern and capital structure.

2. BONUS SHARES

One way to convert reserves into shares is through the issuance of bonus shares. It only alters the form, not the content or shareholder wealth. Maintaining a steady dividend policy in the face of ongoing excess earnings necessitates the accumulation of reserves. The capital subscribed and the remaining profit retained by the company are owned by shareholders. "Reserves and the Surplus" is the name given to these retained profits. The term "shareholders' fund" refers to the sum of the subscribed capital and reserves. Over time, the reserves and surplus gain value as a result of these retained profits. Share prices reflect this increase in book value. In order to return an appropriate proportion of subscribed capital to reserves and surplus, businesses typically issue bonus shares when the proportion of reserves and surplus to subscribed capital becomes relatively high. The issuance of bonus shares is merely a reorganization of shareholder funds, maintaining the previous value.

3. STOCK SPLITS

Similar to bonus shares, the stock split is also a reward for shareholders. A company takes this action to increase the number of outstanding shares. Because splits merely "divide the pie into smaller slices," they typically result in a reduction in the price per share proportional to the increase in shares. A dividend paid in shares of stock rather than cash is known as a stock dividend. Stock prices are kept within an "optimal" range by using dividends and splits. In terms of their effects on valuation, liquidity, price, book value, and EPS, stock splits are similar to bonus issues. The books of accounts are the only thing that distinguishes the two. Reserves and surplus are capitalized and transferred to paid-up capital in a bonus share issue, whereas "capital" and "reserves and surplus" are unaffected in a split. The number of shares is simply increased.

STEPS INVOLVED IN THE PROCESS OF DECLARATION ANDDISTRIBUTION OF DIVIDEND

a) Computation of depreciation

The Companies Act's Schedule XIV rate or any other basis approved by the Central Government can be used to calculate depreciation.

b) Compulsory transfer of profits to reserves

A portion of the profit must be obligatorily transferred to the company's reserves before the dividend can be paid out. The proposed dividend rate serves as the foundation for this sum. However, subject to the Act's conditions, voluntary transfer of a higher percentage to reserves is permitted.

c) Board resolution

The main move toward the course of profit conveyance is the board goal for announcement of profits. A dividend cannot be declared at an Annual General Meeting unless the board recommends it.

d) Annual General Meeting ("AGM")

The agenda of the notice for the AGM, which should be sent to the members and creditors, should include the dividend declaration item. Declaration of dividend requires an ordinary resolution. However, shareholders are unable to alter the dividend recommendation made by the Board.

e) Time Limit for payment of Dividend

The dividend amount due should be deposited into the dividend account established by the company's bankers, and dividend warrants should be distributed to shareholders within 30 days of the AGM.

f) Transfer to unpaid dividend account

The remaining funds should be transferred to the "unpaid dividend account" that has been established in a scheduled bank within seven days of the expiration date or thirty days of the dividend declaration. Within 30 days of its due date, dividends that have not been paid out or claimed for seven years must be transferred to the Investor Education and Protection Fund.

g) Circumstances under which dividend need not be paid

i) Where it couldn't be paid due to activity of any regulation;
ii) Where an investor had heading to the organization in regards to installment of profit and those bearings couldn't be conformed to;
iii) Where there was a question with respect to one side to get the profit;
iv) where the company had legally adjusted the dividend in relation to any shareholder dues; and
v) where the dividend could not be paid but the company was not in default.

h) Tax Limit

Any dividends declared, distributed, or paid by a company—whether interim or otherwise—that are paid out of current or accumulated profits are subject to additional tax at the rate of 15%, in addition to the income tax that is due on the company's entire income for any assessment year. The Administered by Financial backer Training and Security Asset (Mindfulness and Assurance of Financial backers) Rules, 2001 and area 205 C of the Demonstration obligation of installment of assessment is on the guideline official of the organization. The dividend had to be declared, distributed, or paid out within 14 days, whichever came first. The tax had to be paid. The company's tax on distributed profits would be regarded as the dividend's final tax payment.

i) Special Provisions relating to Listed Company

In addition to the steps listed above, listed businesses must notify the stock exchange where their securities are listed in advance of the location of the Board Meeting. The details of the dividend are to be communicated to the stock exchange within 15 minutes of the Board meeting's conclusion. The Stock Exchange will also receive information regarding the dividend declaration general meeting.

The preceding discussions make it abundantly clear that the declaration and distribution of dividends by an Act-incorporated company typically involve a number of steps. However, these steps may be modified or added in accordance with the facts and the company's memorandum and articles.

DIVIDEND PAYMENT PATTERNS ACROSS THE LIFECYCLE OF A FIRM.

There are unmistakable contrasts in profit strategy over the existence pattern of a firm, coming about because of changes in development rates, incomes, and undertaking interests close by. In most cases, dividend policies are tailored to the company's stage of life cycle. For instance, high-growth businesses typically distribute a larger portion of their earnings in the form of dividends, despite having fewer projects and larger cash flows. in a promising new business that was started by a small group of entrepreneurs with their own money, possibly augmented by money from family or venture capitalists. Outsiders, on the other hand, have limited knowledge of the company and its prospects. Despite the fact that capital requirements will be substantial to finance this growth, management believes that growth prospects are excellent. However, there is no way to gain access to the capital markets at any reasonable cost. As a result, dividends are out of the question at this early stage of the company's life cycle.

The company launches an initial public offering after a period of favorable earnings growth and increases in sales and assets. The market is being signaled by the underwriters and the disclosure required by SEBI filing requirements at this point. However, capital requirements are high and ownership is still heavily concentrated among insiders. To give obligation supporting based on sensible conditions, the firm composes tight profit requirements. A zero payout is best once more during this stage of the company's life cycle.

The company begins to tap the capital markets with debt issues and experienced equity sales during a rapid growth phase with favorable earnings increases, despite the fact that the majority of the investment is still funded internally. As more equity investors join the mix, ownership concentration starts to drop. The company is now owned by a few institutional investors. The level of asymmetric information begins to decrease as the capital markets are frequently tapped.

CONCLUSION

The best academic minds have been attempting to solve the dividend puzzle as a result of the ongoing debate regarding the significance of dividend distribution over the past few decades. There have been and continue to be a number of theories proposed by financial economists that almost exclusively attempted to justify dividend payments by utilizing wealth maximization principles.The real reason for paying dividends is still a mystery, despite extensive debate and research. As a result, the goal of this study is to add to the existing body of knowledge and help solve the common dividend puzzle in Corporate Finance. Even though the company needs a lot of money for investments, it might start paying a small dividend to build a dividend history and attract more institutional investors. The company's dominant market position is being challenged by competition. The company begins to build its capacity for dividend payments, or its reservoir of payable funds, for periods when it will face declining investment opportunities as the dividend constraint in the new debt issues is reduced. The level of ownership held by officers and directors decreases as the business grows in stature and attracts more institutional investors. Asymmetric information is reduced by periodic external financing and the continuous following of analysts. Positive NPV projects, on the other hand, are harder to find, and sales growth slows. As the traditional issue of ownership and control being separated arises, potential agency costs begin to emerge.
Based on forecasts of free cash flows, the company may gradually increase its dividend payout in a sustainable manner despite the fact that leverage ratios remain at levels consistent with the basic business risk.

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