The Impact of Dividend Policy on Shareholders' Wealth

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Abstract— The present paper is gone for investigating the effect of dividend strategy of shareholders' riches in Organic and Inorganic Chemical Companies in India amid 2004 – 2005 to 2012-2013. To gauge the effect of dividend strategy on shareholders' riches different relapse techniques and stepwise relapse models are utilized by taking DPSit (Dividend per Share), RE it (Retained Earnings per Share), Pet-1 (Lagged Price Earning Ratio) and MPSit-1 (Lagged Market Price) (MVit-1) as free factor, and MPSit (Market Price Per Share) as needy factors. To decide the extent of clarified variety in the reliant variable, the co-proficient of assurance (R^2) has been tried with the assistance of F esteem. The investigation demonstrates that the abundance of the shareholders is incredibly affected predominantly by five factors viz., Growth in deals, Improvement of Profit Margin, Capital Investment Decisions (both working capital and settled capital), Capital Structure Decisions, Cost of Capital (Dividend on Equity, Interest on Debt) and so on. There is a critical effect of dividend strategy on shareholders' riches in Organic Chemical Companies while the shareholders' riches is not impacted by dividend payout to the extent Inorganic Chemical Companies are concerned.
Key words: Dividend Paying Companies, Dividend Non-Paying Companies, DPS Dividend per Share, MPS-Market Price per Share

I. INTRODUCTION

In an always expanding Indian economy, globalization, advancement and privatization together with fast walks made by data innovation, have gotten extreme rivalry each field of action. Along these lines, Indian companies at display are stunned, confounded, and apprehensive1. To keep up the intensity of, and increase the value of the companies, the present back chiefs need to settle on basic business and budgetary choices which will prompt long-run perspective with the goal of expanding the shareholders' wealth2. Shareholders' riches is spoken to in the market price of the organization's normal stock, which, thus, is the capacity of the organization's speculation, financing and dividend decision3. Administrations' essential objective is shareholders' riches amplification, which converts into amplifying the estimation of the organization as measured by the price of the organization's regular stock4. Shareholders like money dividends, yet they likewise like the development in EPS that outcomes from furrowing winning again into the busine5s. The ideal dividend arrangement is the one that boosts the organization's stock price which prompts expansion of shareholders' riches and in this manner guarantees quicker monetary growth6. The present investigation is planned to examine how far the dividend payout has effect on shareholders' riches as a rule; and specifically to think about the connection between the shareholders' riches and the dividend payout and to dissect whether the level of dividend payout influences the abundance of the shareholders.

II. ARTICULATION OF THE PROBLEMS

In India few investigations have examined the connection between the shareholders' riches and dividend installment. Net income are partitioned into two sections – held profit and dividends. The held income of the business might be reinvested and regarded as a wellspring of long haul funds7. The dividend ought to be circulated to the shareholders with a specific end goal to expand their riches as they have put their cash in the desire of being improved off financially8. Hence, the present investigation chiefly examinations how far the level of dividend payout influences the shareholders' riches, especially in (Organic and Inorganic) Chemical Companies in India.

III. DESTINATIONS OF THE STUDY

− To consider the connection between dividend payout and shareholders' riches.
− To examine the effect of variety in dividend strategy on shareholders' abundance of dividend paying and non-paying companies in (Organic and Inorganic) Chemical Companies India.
− To examine the effect of held income and past performance within the sight of dividend arrangement on shareholders' abundance of (Organic and Inorganic) Chemical Companies in India.

IV. THEORIES

− H1: "There is no huge distinction in normal market esteem with respect to book estimation of value between dividend payers and non-payers of (Organic and Inorganic) compound companies."
− H2:"There is no huge effect of dividend strategy on shareholders' riches in (Organic and Inorganic) concoction companies."

V. STRATEGY

A. Wellsprings of Data

The investigation utilized just auxiliary information which are gathered from CMIE (Center for Monitoring Indian Economy) ability bundle. Investigative strategy is utilized for deciphering the information. The information gathered from this source have been ordered and utilized with due care as per the necessities of the examination.

B. Examining Design

Initially the specimen for this examination has been wanted to look over the rundown of companies recorded in National Stock Exchange (NSE). Since the quantity of companies recorded in the NSE is lesser in number (21 companies in Organic and Inorganic Chemical Industry), the specimen of 28 companies in Chemical Industry (Organic-19 and Inorganic-9) has been browsed 114 recorded companies in BSE (Bombay International Research Journal of Finance and Economics - Issue 20 (2008) 182 Stock Exchange)

utilizing Multi-Stage Random Sampling Technique. The specimen units have been decided for the investigation in view of the accessibility of required budgetary information like share price, DPS and so on.

VI. Devices Utilized for Analysis of Data

The conditions and factors utilized for the examination are given underneath:

$$MPS_{it} = a + b\, DPS_{it} + c\, RE_{it} + e_{it} \quad (1)$$
$$MPS_{it} = a + b\, DPS_{it} + c\, RE_{it} + (PE)_{t-1} + e_{it} \quad (2)$$
$$MPS_{it} = a + b\, DPS_{it} + c\, RE_{it} + (MPS)_{it-1} + e_{it} \quad (3)$$

Where,

MPSit - Market price per share

DPSit - Dividend per share

REit - Retained Earning per share

PEt-1 - Lagged Price Earning Ratio

MPSit-1 - Lagged Market Price (MVit-1)

The subscript "i" means the ith organization in an example of "n" companies chose from a specific industry, and all factors are measured in the ith day and age. Market price per share is the end prices for the year. To break down the information, the factual instruments that have been utilized are Mean, Standard Deviation, various relapse strategy and stepwise relapse technique to determine best fitted model for anticipating the dividend approach affect on shareholder's riches. The centrality of different informative factors has been tried by registering t-values. To decide the extent of clarified variety in the needy variable, the coefficient of assurance (R^2) has been worked out. The centrality of R^2 has likewise been tried with the assistance of F-Value.

VII. Period of the Study

The information utilized for the investigation are identifying with the chosen (Organic and Inorganic) Chemical Companies for the period of Ten years (1997-2006).

VIII. Investigation and Results

A. Examination of Shareholders' Value between Dividend Payers and Non-Payers among Natural Companies

Before experiencing assessing the connection between dividend approach and shareholders' abundance of chose (Organic and Inorganic) compound companies in India, it has been attempted to look at the normal abundance of financial specialists between dividend paying and non-paying Organic and Inorganic companies in India. The correlation of mean shareholders' abundance of companies of different kinds pooled under dividend paying and non-paying companies are additionally done. The mean esteems between two gatherings are contrasted and t-values. The aftereffects of the investigation are appeared from tables 1 – 3.

Years	Dividenad payer		Dividend not payer		t-value	L-S
	Mean	S.D	Mean	S.D		
2004	1.89	1.55	1.00	1.88	1.13	Ns
2005	1.87	1.54	0.98	1.86	1.14	Ns
2006	1.90	1.56	0.97	1.83	1.19	Ns
2007	1.90	1.58	0.97	1.84	1.18	Ns
2008	1.87	1.53	0.99	1.89	1.12	Ns
2009	1.83	1.49	0.97	1.82	1.13	Ns
2010	1.84	1.50	0.95	1.82	1.16	Ns
2011	1.87	1.50	0.98	1.86	1.15	Ns
2012	1.82	1.41	0.97	1.89	1.11	Ns
2013	1.83	1.43	0.97	1.85	1.14	Ns
All Years	1.86	1.44	0.98	1.76	3.81	0.01

Table 1: Year-wise Comparison of Market Value to Book Value of Equity between Dividend Payers and Non-Payers among Organic Chemical Companies in India.

Standard Deviation; LS – Level of Significance; ns – Not significant; 0.01 – Significant at 1% level.

An examination of the consequences of year-wise correlation of market estimation of value to its book an incentive between dividend payers and non-payers of synthetic companies in India (vide table 3) demonstrates that the mean market estimation of value in respect to book esteem is well over 1 for every one of the years under investigation and additionally for pooled years. It has been going from at least 1.53 out of 2005 to 1.60 out of 2000 with a general mean of 1.56 for every one of the years. This demonstrates the market esteem is well over the book an incentive for the concoction companies which pay the dividend. Be that as it may, the situation has been marginally extraordinary on account of dividend non-paying concoction companies in India.

years	Dividenad payer		Dividend not payer		t-value	L-S
	Mean	S.D	Mean	S.D		
2004	1.04	0.56	-0.70	1.70	2.39	0.05
2005	1.03	0.54	-0.68	1.62	2.47	0.04
2006	1.05	0.58	-0.71	1.68	2.43	0.05
2007	1.10	0.69	-0.71	1.68	2.38	0.05
2008	1.10	0.72	-0.76	1.75	2.36	0.05
2009	1.07	0.65	-0.77	1.85	2.29	Ns
2010	1.07	0.66	-0.74	1.75	2.35	0.05
2011	1.07	0.63	-0.69	1.68	2.38	0.05
2012	1.05	0.59	-0.87	1.98	2.32	0.05
2013	1.06	0.60	-0.93	2.07	2.31	0.05
All Years	1.06	0.58	-0.75	1.48	8.36	0.00

Table 2: Year-wise Comparison of Market Value to Book Value of Equity between Dividend Payers and Non-Payers among Inorganic Chemical Companies

SD – Standard Deviation; LS – Level of Significance; ns – Not significant; < 0.01 – Significant at 1% level; > 0.01 and ≤ 0.05 – Significant at 5% level

A normal market esteem in respect to book esteem is <1, uncovering minor increment in the abundance of the speculators of these companies. The mean esteems change between 0.50 out of 2006 to 0.57 out of 1997 and 1998. The decrease in mean an incentive in 2006 has demonstrated the decrease in abundance of the speculators amid the period. In any case, examination of mean esteems between dividend payer and non-payer under concoction segment (Organic and Inorganic) uncovered that the riches creation in every year does not demonstrate any noteworthy distinction. In any case, over the long haul, the distinction is profoundly huge at 1 per penny level (t = 5.49, p < 0.01 for all years).

H1: "There is no critical distinction in normal market esteem in respect to book estimation of value between dividend payers and non-payers of (Organic and Inorganic) synthetic companies in India."

years	Dividenad payer		Dividend not payer		t-value	L-S
	Mean	S.D	Mean	S.D		
2004	1.57	1.32	0.57	1.92	1.63	Ns
2005	1.56	1.30	0.57	1.89	1.64	Ns
2006	1.58	1.33	0.55	1.88	1.70	Ns
2007	1.60	1.35	0.55	1.89	1.71	Ns
2008	1.58	1.31	0.55	1.94	1.68	Ns
2009	1.54	1.27	0.54	1.91	1.68	Ns
2010	1.55	1.28	0.53	1.89	1.71	Ns
2011	1.57	1.30	0.56	1.90	1.67	Ns
2012	1.53	1.20	0.51	2.00	1.67	Ns
2013	1.54	1.22	0.50	2.00	1.71	Ns
All Years	1.56	1.25	0.54	1.85	5.49	0.00

Table 3: Year-wise Comparison of Market Value to Book Value of Equity between Dividend Payers and Non-Payers among Organic and Inorganic Chemical Companies

SD – Standard Deviation; LS – Level of Significance; ns – Not Significant; < 0.01 – Significant at 1% level; > 0.01 and ≤ 0.05 – Significant at 5% level.

The H1 is rejected. Along these lines, it is discovered that in the long-rum, abundance of shareholders of dividend paying compound companies has expanded essentially when contrasted with that of the dividend non-paying partners, which additionally demonstrates the effect of dividend approach on riches creation. Subsequently

– H11 remains: "There is noteworthy distinction in normal market esteem in respect to book estimation of value dividend payers and non-payers of (Organic and Inorganic) synthetic companies in India."

B. Connection between Dividend Policy and Shareholders' Wealth Dividend Paying Organic Chemical Companies

Independent variables	Regression Model			
	1	2	3	4
Intercept	13.67 (1.56)	13.84 (1.52)	17.93 (1.67)	-14.42*** -(2.80)
Dividend per share(DPS)	92.68*** (4.88)	92.81*** (484)	94.57*** (4.66)	32.34*** (3.08)
Retained Earnings(RE)		-0.03 -(0.07)	-0.07 -(0.16)	-0.21 -(1.01)
Lagged Price Earnings Ratio (PEt-1)			-0.33 -(1.07)	
Lagged Market Value of Share (MVt-1)				1.38 (0.08)
R2	0.1952	0.1953	0.2060	0.8112
Adjusted R2	0.1870	0.1787	0.1783	0.8046
F value	23.77***	11.77***	7.44***	123.15***
Degrees of freedom	1.98	2.97	3.86	3.86

Table 4: Results of Regression showing the Impact of Dividend Policy on Market Value of Equity of All Dividend Paying Organic Chemical Companies in India

– Dependent Variable: Market Price of Share (MV) Independent Variables Regression Model 1 2 3 4

Figures in parentheses show t-values *Significant at 10% level; **Significant at 5% level; ***Significant at 1% level.

The effect of dividend arrangement on shareholders' abundance of natural and inorganic concoction companies with the appropriation of dividend strategy has been evoked utilizing various relapse investigation. The Dividend per share (DPS) has been utilized as an intermediary for measuring the dividend arrangement of the companies and Market esteem (MV) of a value of the companies under examination is considered as an intermediary for measuring the shareholders' riches and utilized as needy variable. Aside from DPS, Retained profit

(RE), slacked Price-Earning Ratio (PEt-1) and slacked Market estimation of value (MVt-1) are likewise utilized as informative factors keeping in mind the end goal to know whether dividend strategy of Organic and Inorganic substance companies are commanded by these components in affecting the formation of shareholders' riches.

Table 4 demonstrates the relapse comes about for all chose natural compound companies in India with respect to effect of starting dividend payout on shareholders' riches. Perusal of the outcomes shows that the attack of every one of the four models is noteworthy at 1 per penny level (F = 23.77, p < 0.01 for demonstrate 1, F = 11.77, p < 0.01 for display 2, F = 7.44, p < 0.01 for display 3 and F = 123.15, p < 0.01 for show 4). Among the four models, F esteem for show 4 is high. Further, the coefficients of DPS in every one of the four models are profoundly huge at 1 per penny level and positive in sign (β = 92.68, t = 4.88, p < 0.01 in show 1; β = 92.81, t = 4.84, p < 0.01 in display 2; β = 94.57, t = 4.66, p < 0.01 in demonstrate 3; and β = 32.34, t = 3.08, p < 0.01 in show 4). Likewise, from the perusal of balanced R2 esteems, plainly the informative factors in the model 4 could together clarify 80.46 per penny of the difference in market esteem, while explanatory variables in display 1, 2 and 3 could, together, clarify 18.70 per penny, 17.87 per penny and 17.83 per penny individually of the change in subordinate variable Hence, show 4 is the suitable one for the last translation. Strikingly, the coefficient of DPS in demonstrate 4, however measurably huge, has declined extensively within the sight of RE and slacked MV, despite the fact that the coefficients of those factors are unimportant. Additionally, the captures, which are unimportant in the initial three models, wind up plainly noteworthy in demonstrate 4, showing that there are a few components inborn in the market commanded over dividend arrangement when market has begun considering RE and slacked MV of natural synthetic companies under concoction segment.

– H2: "There is no noteworthy effect of dividend arrangement on shareholders' riches in Organic Chemical Companies in India."

Independent variables	Regression Model			
	1	2	3	4
Intercept	225.47* (2.46)	88.33 (0.95)	11.74 (0.14)	26.28 (0.30)
Dividend per share(DPS)	69.49 (1.56)	154.28*** (3.26)	128.95*** (3.15)	79.37 (1.58)
Retained Earnings(RE)		77.48*** (3.51)	103.65*** (5.34)	61.02*** (2.76)
Lagged Price Earnings Ratio (PEt-1)			17.47*** (4.41)	
Lagged Market Value of Share (MVt-1)				0.42*** (3.34)
R2	0.0403	0.2109	0.4790	0.4104
Adjusted R2	0.0238	0.1832	0.4477	0.3750
F value	2.43	7.62***	15.32***	11.60***
Degrees of freedom	1.58	2.57	3.50	3.50

Table 5: Consequences of Regression demonstrating the Impact of Dividend Policy on Market Value of Equity of All Dividend Paying Inorganic Chemical Companies in India

– Dependent Variable: Market Price of Share (MV) Independent Variables Regression Model 1 2 3 4

Figures in parentheses show t-values *Significant at 10% level; **Significant at 5% level; ***Significant at 1% level

– H2: is rejected, and it is discovered that the noteworthy coefficient of DPS in show 4 (Adjusted R2 is 80.46 per penny), the model of best fit, has prompted the conclusion that start of dividend installments by the

Organic Chemical companies has critical positive effect on their shareholders' riches amid the most recent decade.

Consequently, H2 1 remains: "There is huge effect of dividend arrangement on shareholders' riches in Organic Chemical Companies in India."

C. Dividend Paying Inorganic Chemical Companies

The effect of starting dividend installments by the Inorganic substance companies on their shareholders' riches have been dissected utilizing numerous relapse investigation utilizing Market an incentive as reliant variable and RE, slacked PE and slacked MV notwithstanding DPS as logical variables. Regarding the impact of dividend start of all dividend paying inorganic concoction companies on formation of riches to their shareholders, the relapse comes about introduced in Table 5 show that the start of dividend payout has neglected to impact the market esteem alone as the coefficient of DPS in demonstrate 1 is irrelevant. In addition, show 1 is not fitted fundamentally. Then again, the coefficient of DPS in show 2 (β = 154.28, t = 3.26, p < 0.01) and display 3 (β = 128.98, t = 3.15, p < 0.01) is huge. Additionally, the coefficient of RE, 77.48 in demonstrate 2 (t = 3.51, p < 0.01) and 103.65 in display 3 (t = 5.34, p < 0.01) is likewise critical at 1 per penny level. Further, slacked PE in show 3 has additionally remarkable impact (β = 17.47, t = 4.41, p < 0.01) on market esteem.

IX. YNOPSIS AND CONCLUDING REMARKS

This examination endeavors to reply to the inquiry: Is there any Impact of Dividend Policy on Shareholders' Wealth? The primary motivation behind the investigation is to reveal some insight into the above affiliation. To test the connection between the dividend strategy and the shareholders' riches, first the normal abundance of financial specialists (shareholders) is analyzed between the dividend paying and non-paying companies. (Mean esteems between two gatherings are contrasted and t-test).

Independent variables	Regression Model			
	1	2	3	4
Intercept	92.49***	89.32**	62.88	48.50
	(2.60)	(2.35)	(1.50)	(1.45)
Dividend per share(DPS)	81.11***	81.77***	77.89***	-1.83
	(3.00)	(3.00)	(2.83)	-(0.07)
Retained Earnings(RE)		0.59	1.25	0.78
		(0.24)	(0.50)	(0.37)
Lagged Price Earnings Ratio (PEt-1)			2.11	
			(1.35	
Lagged Market Value of Share (MVt-1)			)	0.58**
				(7.97)
R2	0.0540	0.0543	0.0744	0.3553
Adjusted R2	0.0480	0.0423	0.0546	0.3415
F value	9.01***	4.51**	3.75**	25.72***
Degrees of freedom	1,158	2,157	3,140	3,140

Table 6: Results of Regression demonstrating the Impact of Dividend Policy on Market Value of Equity of Natural and Inorganic Chemical Companies in India

− Dependent Variable: Market Price of Share (MV) Independent Variables Regression Model 1 2 3 4

Figures in parentheses show t-values *Significant at 10% level; **Significant at 5% level; ***Significant at 1% level

The organization which paid dividend for a long time or >3 years amid the examination period (1997 – 2006) is dealt with as dividend paying organization, generally non-paying organization. Furthermore, it is discovered that there is huge contrast in normal market esteem in respect to book estimation of value between dividend payers and non-payers of (natural and inorganic) synthetic companies. The needy variable i.e. Market price of share (MV) is considered as intermediary for measuring the shareholders' riches and Dividend per share (DPS) has been utilized as intermediary for measuring the dividend arrangement of the firm as an autonomous variable. Aside from that Retained Earnings (RE), Lagged Price-gaining proportion (PEt-1) and Lagged Market Value of value (MVt-1) are likewise utilized as informative factors. The Multiple relapse system and stepwise relapse strategy have been utilized to find out the best fitted model for foreseeing the dividend approach and shareholders' riches. For the most part, higher dividend builds the market estimation of the share and the other way around. Shareholders favored current dividend to future wage along these lines, dividend is considered as an essential factor which decides the shareholders' riches. This is typically valid in the event of salaried people, resigned retired people and others with constrained livelihoods. Dividend has data content and the installment of dividend shows that the organization has a decent procuring limit. The abundance of the shareholders is significantly impacted fundamentally by five factors viz., Growth in Sales, Improvement of Profit Margin, Capital Investment Decisions (both working capital and settled capital), Capital Structure Decisions, Cost of Capital (Dividend on Equity, Interest on Debt) and so forth. To the extent the dividend paying companies are worried, there is a noteworthy effect of dividend approach on shareholders' riches in Organic Chemical Companies. Though, to the extent the Inorganic Chemical Companies are concerned, the shareholders' riches is not impacted by the dividend payout.

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