

# Effect of Dividend Policy on Shareholders Wealth: A study on IT industry in India

Goldy P. George<sup>1</sup>, Nijumon K. John<sup>2</sup>

Student<sup>1</sup>, Professor<sup>2</sup>,

Department of Management Studies,

Christ (Deemed to be University), Bangalore, India

Email - ggoldy31@gmail.com, nijumon.k.john@christuniversity.in

**Abstract:** *There has been an ongoing debate pertaining to the nature of relationship between Shareholders Wealth and the dividend policy, as the results have been shown as inconsistent and mixed in various Indian companies. The paper would focus on extracting the data or the sample from the top 14 Indian companies, listed on the National Stock Exchange of India (NSE). This study empirically examines the relationship between the shareholders wealth and the dividend policy of the companies controlling five major variables where market price per share is the depended variable and we are seeing how other independent variables like earnings per share, dividend per share, retention ratio, price earnings ratio and lagged price earnings ratio effect the dependent variable. The multiple regression which is performed with the help of SPSS, which provides with estimates evidence that Shareholders wealth has a significant effect on the deciding the dividend policy of the firm.*

**Key Words:** *Shareholders wealth, dividend policy, Information Technology industry, National Stock Exchange, market price per share.*

## 1. INTRODUCTION:

In the advanced and complex environment, globalization and privatization have acquired deep rivalry each field of activity. It is very difficult for the company to sustain in the business industry of long period. To adapt to this intensity and to increase the value of the organizations, the present the finance manager need to make crucial choices. These choices will lead these organizations to long-run goal of maximizing the investors' wealth. Investors' wealth is appeared in the market price of the organization's stock. Investors like cash dividend and they additionally like the development in earning per share that result because of investing earning in their business. The good dividend policy is the one that maximize the organization's stock value which leads to maximizing investors' wealth and furthermore guarantees all the more speedy economic development. The present study is meant to think about how far the dividend payout has affect on investors 'wealth. By dividend approach we imply that the amount of earning conveyed to the investors and the amount of held as retained earnings. So in this approach the amount of profit of the firm are separated into two sections, portion of divided paid and the sum kept for future assignment. Dividend policy is seen as a vital device for investors to evaluate the organization's financial related position as they require return on their investment and dividend paying organization will surely attract them.

The main objective of the study is to enquire into the effect of dividend policy in shareholders wealth of IT industry

Specific objective of the study is:

- i. To find out the effect of dividend per share in shareholders wealth
- ii. To enquire into the effect if earning per share on shareholders wealth
- iii. To estimate the impact of retained earnings on shareholders wealth
- iv. To find out the effect of price earnings ratio on shareholders wealth

## 2. LITERATURE REVIEW:

Salman(2013) conducted a study on the topic Effect of dividend policy on shareholders wealth in Pakistan among the sugar industry. The study is conducted among 33 company listed, out of which 6 years data was taken for analysis. The tools used for this study are multiple regression also descriptive statistics. The analysis shows that there is a strong relationship between the dividend and shareholders wealth. Also it states that the retained earning doesn't have much effect on shareholders wealth.

Agnes, Lim and Ow(2014) conducted a research on the topic the impact of dividend policy on shareholders wealth is conducted among the food producer sector in the Malaysia. The data collected are through secondary data by the way of research. The analysis of the study shows that volatility of earnings and profitability is having a positive

relation with the shareholders wealth. Whereas long term debt and dividend payout are not having any impact on shareholders wealth.

Zafar, Muhammad and Muhammad(2014) did a study on the topic impact of dividend policy on shareholders wealth. This study was conducted in Pakistan among the manufacturing industry selected by them. The data collection was from the period 2006-2011 using the annual reports of the firm. The tool for analysis was OLS and it is found that there is a positive impact of growth rate and firm size on the shareholders wealth because it has much more capability to explore to its maximum.

Joseph and Kingsford(2015) researched on the topic Dividend policy and its effect on shareholders wealth. This study is conducted among UK retail industry during the period of 2004-2008. The study bring out that management should be able to have a good mix of profits, cash flow, size of the firm and its investment decision before deciding upon the dividend policy which are important factors. The research concludes that there such be more industry for better analysis. Since the study is conducted in a mix industry there is can be a chances for it be affected by various other factors.

Irtaz, Arslan and Syed(2015) conducted a research on the topic impact of dividend policy on shareholders wealth aims to study the relationship between shareholders wealth and the dividend policy. The sample for the analysis was taken from Karachi stock exchange. The tool used of analysis is regression and it showed a positive relation between shareholders wealth and dividend per share, retention ratio and return on equity.

### 3. MATERIALS:

The study demanded the closing price of IT Company, hence it was taken from the NSE. The companies are chosen based upon their market capitalization. For computation 14 companies data for 14 years from 2004 to 2018 are taken for analysis. This figure is driven by the availability of data. The company data is taken from the annual reports, company websites and journals.

### 4. METHODOLOGY:

Multiple regression was used for analyzing the relation between the variables.

$$MPS = b_0 + b_1DPS + b_2EPS + b_3LPER + b_4PER + b_5RR$$

Where,

MPS is Market Price per Share,

DPS is Dividend per Share,

EPS is Earning per Share,

LPER is Lagged Price per Share,

RR is Retention Ratio

### 5. ANALYSIS:

As we can see that the market price has the company average of 1470.7450 and highest standard deviation of 648.796. The mean of price earnings ratio is at 56.3366 which as a deviation of 37.1533. Taking Earning per share into consideration we can see a mean of 29.9939 with a standard deviation of 8.0566 which is the least among all. Dividend per share has a deviation of 19.6803 and a mean value of 26.692. The mean value of retention portion of the company is at 60.1054 and has a standard deviation of 16.5404. The lagged price earning of the ratio is having a mean if 77.7044 with a standard deviation of 89.4311.

Table 1

Descriptive Statistics

	Mean	Std. Deviation	N
MPS	1470.745085	648.7967158	13
PER	56.33661538	37.15334090	13
	4615484	6479514	
EPS	29.99392348	8.056633619	13
	4000740	813015	
DPS	26.692	19.6803	13
RR	60.1054	16.54046	13
LPE	77.70444529	89.43111559	13
R	1308120	8791480	

The multiple regression model is shown in Table 2 where MPS is taken as depended variable and other 5 ratio has been taken as independent variable. The r value shoes that there will be 98.3% impact of independent variable on the dependent variable. The adjusted R square which means that any change in independent variable will bring a change of 97.1% to the dependent variable ie, MPS.

**Table 2**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991 <sup>a</sup>	.983	.971	111.3227598

a. Predictors: (Constant), LPER, RR, EPS, PER, DPS

Through the correlation matrix(table 3) we can find that price earnings ratio has a strongly correlation with market price whereas earnings per share is strongly not correlated. Dividend per share has a mostly strongly and lagged price earnings ratio has a good correlation to market price but retention ratio shows a negative relation

**Table 3**  
**Correlations**

		MPS	PER	EPS	DPS	RR	LPER
Pearson Correlation	MPS	1.000	.956	-.624	.808	-.211	.383
	PER	.956	1.000	-.793	.778	-.174	.224
	EPS	-.624	-.793	1.000	-.569	.129	.067
	DPS	.808	.778	-.569	1.000	-.679	.131
	RR	-.211	-.174	.129	-.679	1.000	.017
	LPER	.383	.224	.067	.131	.017	1.000
	Sig. (1-tailed)	MPS	.	.000	.011	.000	.244
PER		.000	.	.001	.001	.285	.231
EPS		.011	.001	.	.021	.337	.414
DPS		.000	.001	.021	.	.005	.335
RR		.244	.285	.337	.005	.	.478
LPER		.098	.231	.414	.335	.478	.
N		MPS	13	13	13	13	13
	PER	13	13	13	13	13	13
	EPS	13	13	13	13	13	13
	DPS	13	13	13	13	13	13
	RR	13	13	13	13	13	13
	LPER	13	13	13	13	13	13

As we can see in the table 4 that Price earnings ratio and the earning per share has an significant impact on market price per share as we can see that both has an significant value below 5% significant level. Whereas dividend per share, retention ratio and lagged price earning ratio has no significance as its value is above 5% significance level.

**Table 4**  
**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-659.039	363.996		-1.811	.113
	PER	15.427	2.928	.883	5.269	.001
	EPS	19.332	7.485	.240	2.583	.036
	DPS	10.968	5.680	.333	1.931	.095
	RR	5.299	4.245	.135	1.248	.252
	LPER	.895	.411	.123	2.179	.066

a. Dependent Variable: MPS

## 6. FINDINGS:

- i. The IT industry Earning per share and price earning ratio is found having strongest impact on the shareholders wealth.
- ii. The strongly negatively impacted was lagged price earning ratio, followed by retention ratio which is slightly impacted and then dividend per share.

- iii. The R square value of the analysis is mostly found to be in range of 96% - 98% with a few company exceptional to 48% - 53%. This shows that change in market price per share to the predictive variables.

#### **7. CONCLUSION:**

The study conducted to examine the effect of dividend policy on shareholders wealth of IT industry. The results are concluded by conducting multiple regression analysis. It is found that earnings per share and price earning ratio have significantly strong impact compared to dividend per share, retention ratio and lagged price earning ratio.

#### **8. RECOMMENDATIONS:**

The study is conducted only in 14 companies hence it further study could be conducted on a wider range of companies for accurate result taking other variable factors into consideration.

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