

Dividend Policy and its Impact on Shareholder's Wealth and Firm Performance: A Study of Listed Cement Companies

Agila.M¹, Dr.Mrs.Jerinabi.U²

¹(P.hd Scholar, Department of Commerce, Avinashilingam Institute for Homescience and Higher Education for Women, India)

²(Professor and Dean, Department of Commerce, Avinashilingam Institute for Homescience and Higher Education for Women, India)

Corresponding Author: Agila.M

Abstract : The study focuses on the impact of dividend policy on shareholders wealth and firm performance of listed cement companies in India. In this study, we have selected the sample of 25 listed cement companies at National Stock Exchange. The data is collected for the period of 5 years from the financial year 2013-2014 to 2017-2018. In this study descriptive statistics and multiple regression analysis is used by taking Return on Equity and Earning Per Share as dependent variables and Dividend Per Share as independent variable. The study concludes that there is a significant relationship between the variables.

Keywords : Dividend Policy, Firm Performance and Shareholder's Wealth.

Date of Submission: 20-09-2018

Date of acceptance: 08-10-2018

I. Introduction

Dividend is the reward of the shareholders for investments made by them in the shares of the company. The value of the firm can be maximized if the shareholders' wealth is maximized. A company, on the other hand, needs to provide funds to finance its long-term growth. If a company pays out as dividend most of what it earns, then for business requirements and further expansion it will have to depend upon outside resources such as issue of debt or new shares. Dividend policy of a firm, thus affects both the long-term financing and the wealth of shareholders. As a result, the firm's decision to pay dividends must be reached in such a manner so as to equitably apportion the distributed profits and retained earnings. Since dividend is a right of shareholders to participate in the profits and surplus of the company for their investment in the share capital of the company, they should receive fair amount of the profits. The company should, therefore, distribute a reasonable amount as dividends to its members and retain the rest for its growth and survival.

The investors are interested in earning the maximum return on their investments and to maximize their wealth. There are conflicting views regarding the impact of dividend decision on the valuation of firm. According to the irrelevance concept, dividend decision does not affect the shareholders' wealth and hence the valuation of the firm. On the other hand, according to the relevance concept, dividend decision affects the shareholders' wealth and also the valuation of the firm.

Objectives of the Study

This study attempt to achieve the following objectives:

1. To identify the impact of dividend policy and shareholders wealth.
2. To examine the relationship between dividend policy and firm performance.

Hypothesis of the Study

The study has been taken up for the financial year 2013-2014 to 2017-2018 with the following hypothesis:

H1 : There is a positive relationship between dividend policy and shareholders wealth.

H2: There is a positive relationship between dividend policy and firm performance.

II. Review of Literature

Sorin Gabriel Anton (2016) in his study on "The Impact of Dividend Policy on Firm Value- A Panel Data Analysis of Romanian Listed Firms". The paper tries to analyse the impact of dividend policy on firm value of sixty three non-financial firms listed on the Bucharest Stock Exchange over the period of 2001-2011. The statistical tools used for analysis include mean, standard deviation, correlation analysis and Hausman test. The result of the study suggested that the leverage and firm size has a positive effect on firm value.

Irtaza Ansar, Arslan Ali Butt, Syed Basit Hussain Shah (2015) conducted the study on "Impact of Dividend Policy on Shareholder's Wealth". The paper examined the relationship between dividend policy and

shareholder's wealth with the help of multiple regression model. Sample of thirty companies from Karachi Stock Exchange was selected which includes companies from cement, chemical and textile sector for the period of five years (2007 – 2011). The study concludes that there is strong relationship between shareholder's wealth and dividend policy.

Manjunatha K (2013) studied "Impact of Debt-Equity and Dividend Payout Ratio on the Value of the Firm". The study tried to understand the impact of debt-equity & dividend payout ratios on the value of the firm. Multiple regression model was used to find out the relationship between the value of the firm & capital structure and dividend policies of the twenty nine companies which are listed in BSE and NSE for the time period of ten years from 2000-2001 to 2009-2010. The study concluded, debt-equity & dividend payout ratio and value of the firm are not depending on each other.

Mohammad Salman Sarwar (2013) investigated "Effect of Dividend Policy on Shareholder's Wealth – A Study of Sugar Industry in Pakistan". The objective of this study to investigate the relationship between dividend policy and shareholders wealth. They have taken a sample of thirty three listed companies of sugar industry at Karachi Stock Exchange for a time horizon of six years from 2006 to 2011. In this study the Market Price per Share is the dependent variable and Dividend Per Share, Earnings Per Share, Lagged Market Price Ratio, Lagged Price Earnings Ratio, Price Earnings Ratio, Retained Earnings Ratio are the independent variables. Descriptive statistics and multiple regression analysis are used in this study to analyze the results. The result shows that the significant relationship between dividend policy and shareholder's wealth.

III. Research Methodology

1. Sources of data

The present study is of analytical in nature and makes use of secondary data. The capital line database is the main source for the data collection. The data has been collected for the financial year 2013-2014 to 2017-2018.

2. Sampling design

The sample of the study is taken from the cement sector and chooses 25 firms on the basis of availability of data.

3. Sample

The firms studied are the followings:

- ACC Limited
- Ambuja Cements Limited
- Andhra Cements Limited
- Anjani Portland Cement Limited
- Birla Corporation Limited
- Burnpur Cement Limited
- Dalmia Bharat Limited
- Deccan Cements Limited
- Gujarat Sidhee Cement Limited
- Hiedelberg Cement India Limited
- India Cements Limited
- ITD Cementation India Limited
- J K Cement Limited
- J K Lakshmi Cement Limited
- KCP Limited
- Mangalam Cement Limited
- OCL India Limited
- Orient Cement Limited
- Prism Cement Limited
- Rain Industries Limited
- Sagar Cements Limited
- Shree Cement Limited
- Star Cement Limited
- Ramco Cements Limited
- Ultra Tech Cement Limited

4. Statistical tools and techniques

Descriptive statistics and multiple regression were used to analyse the impact of dividend policy on shareholders wealth and firm performance.

5. Variables

In this study dividend policy will be taken as independent variable; shareholder wealth and firm performance will be taken as dependent variables.

a) Independent variable

Dividend policy is taken as independent variable which is measured with dividend per share.

b) Dependent variable

Shareholder wealth and firm performance as dependent variable which is measured with earning per share and return on equity.

IV. Results and Discussion

Table 1: Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
DPS	4.87	1.5	46	0	10.01386
EPS	44.47046	13.834	461.824	-1.826	92.17584
ROE	5.13496	7.052	15.13	-24.844	9.81023

Table 1 shows the maximum DPS is 46 and minimum is 0 with an average of 4.87. The dispersion in the series is 10.01386 and the median is 1.5. The EPS has the highest standard deviation which is 92.17584 and median is 13.834. The minimum value ranges from -1.826 to the maximum of 461.824 having an average of 44.47046. The minimum value of ROE is -24.844 and the maximum of 15.13 with an average of 25 samples is 5.13496. The standard deviation is 9.81023 and the median is 7.052.

Table 2 : Regression Analysis

Variable	Coefficient	Standard Error	T Statistic	Probability
Constant	50.01326	5.89176	7.4147	0.0000
EPS	0.06312	0.00853	37.81238	0.0000
ROE	0.27438	0.19669	1.94415	0.0078

Table 2 indicates the multiple regression result. The relationship between dividend per share and earnings per share is significant level at 5% which shows that the positive relationship between the dividend policy and shareholders wealth. On the basis of above information there is a positive relationship between the dividend policy and firm performance. Hence the hypothesis is accepted.

Table : 3

R Squared	Adjusted R Squared	F Statistic	Prob(F Statistic)
0.42396	0.307876	30.51497	0

Table 3 exhibits the R squared 0.42396 , adjusted R square 0.307876, f statistic 30.51497 shows that there is a significant relationship between the variables.

V. Conclusion

In this study the impact of dividend policy on shareholders wealth and firm performance of listed cement companies for the financial year 2013-2014 to 2017-2018 was taken. It can be observed that from the above analysis that there is a positive relationship between dividend policy, shareholders wealth and firm performance. The study concludes that dividend policy having an impact on shareholders wealth and firm performance.

References

Journal Papers:

- [1]. Sorin Gabriel Anton, "The impact of Dividend policy on firm value", Journal of public administration, finance and law, issue 10, 2016.
- [2]. Irtaza Ansar, Arslan Ali Butt, Syed Basit Hussain Shah, "Impact of dividend policy on shareholders wealth", International review of management and business research, volume 4, issue 1, 2015.
- [3]. Mohammad salman sarwar, "Effect of dividend policy on shareholder's wealth – A study of sugar industry in Pakistan", Global journal of management and business research, volume 13, issue 7, 2013.
- [4]. Manjunatha K, "Impact of debt-equity and dividend payout ratio on the value of the firm", Global journal of commerce and management perspective, volume 2, issue 2, 2013.

Books:

- [5]. Khan. M. Y, Jain. P. K (2013), "Financial Management", Tata Mcgraw Hill Education Private Limited, New Delhi.
- [6]. Prasanna Chandra (2013), "Financial Management", Tata Mcgraw Hill Education Private Limited, New Delhi.

Agila.M " Dividend Policy and its Impact on Shareholder's Wealth and Firm Performance: A Study of Listed Cement Companies. " IOSR Journal of Business and Management (IOSR-JBM) 20.9 (2018): 28-31.