

## CHAPTER 2

### REVIEW OF LITERATURE

This chapter provides the review of literature related to the study. The purpose of this part is to understand the results of various studies already undertaken in the relevant field and to identify the research gap in the present study. The review of literature pertaining to the study on “Impact of Dividend Policy on Profitability and Share price of Nifty Companies” is presented below.

**Jahangir Chauhan, Mohd Shamim Ansari, Mohd Taqi and Mohd Ajmal (2019)** investigated dividend policy and its impact on performance of Indian information technology companies. The purpose of the study is to investigate the impact of dividend policy on profitability of IT companies listed on BSE. Top 10 companies were selected on the basis of market capitalization. Correlation matrix and panel regression model were used to analyze the data. The study concludes that there was a positive relationship between profitability and dividend policy.

**Rajesh Kumar and Sujit (2018)** reviewed “Determinants of Dividends among Indian Firms-An Empirical Study”. Purpose of this study is to examine the determinants of dividend trends of Indian firms. The secondary data was collected from the CMIE Prowess database for the period of 2015-2016. The data collected have been analyzed through covariance-based structural equation modeling and partial least square structural equation modeling. It was found that Indian firms with higher intangibles, agency costs, liquidity and profitability tend to pay more dividends to their shareholders. Firms which are high in financial leverage and growth are lower tendency to pay dividends.

**Bassam Jaara, Hikmat Alashhab, Osama Omar Jaara (2018)** identified the prime factors which influence the dividend policy of non-financial companies in Jordan. The sample period of the study was 2005-2016. In this study, six major independent variables have been used i.e. company size, risk, investment opportunities, historical dividend, profitability and leverage and the dependent variables are dividend payout ratio and dividend yield. The results showed that there was a positive impact between dividend policy and return on equity. The study supports three important dividend decision theories: signaling theory, partial adjustment theory and life cycle theory.

**Megha Narang (2018)** studied the effect of firm performance on dividend policy of 20 manufacturing companies listed on NSE from 2012 to 2017. Statistical tools like correlation and multiple regressions were employed for the purpose of study. Dividend payout ratio, earnings per share, price earnings ratio, return on assets and return on equity were taken as variables to analyze the relationship between firm performance and dividend policy. Finally, the study concluded that there was no correlation between the dividend policy and firm performance.

**Thirumagal and Vasantha (2018)** made an attempt to examine the relationship between dividend payout and shareholders wealth. The study covered 15 companies from five industries in India during the financial year 2001 to 2005. The data has been analyzed by statistical tools such as panel regression and paired t test. The study observed that the dividend payout ratio had a negative significant impact on shareholders wealth of the major sectors. The study also finds that there was a difference between share price and pre and post announcement of dividend.

**Onyango Benedict Enrile (2018)** used correlation and multiple regression analysis to examine the impact of dividend per share on market price per share of 63 companies from 11 sectors listed in NSE during 2009 to 2013. A positive and significant correlation was found between dividend per share and market price per share. The study also revealed that price earnings ratio had a positive insignificant relationship with market price per share.

**Ebire Kolawole, Mukhtar Salisu Sadiq and Monya Lucky (2018)** examined the effect of dividend policy on firm performance of oil and gas companies listed in Nigerian Stock Exchange over the period 2017-2016. Statistical tools like descriptive statistics, correlation matrix and pooled regression were employed for the purpose of study. The results showed that dividend payout ratio had a positive effect on earnings per share. The study also showed that dividend yield negatively affects the earnings per share.

**Muhammad Shabeer Khan and Said Shah (2018)** made an empirical study to explore the effect of dividend policy on shareholders wealth of life insurance companies in Pakistan from 2012-2015 by means of multiple regression analysis and correlation analysis. Variables like earnings per share (dependent), dividend per share, dividend

payout ratio and retention ratio (independent) were used in this study. The empirical results revealed that dividend per share and retention ratio both had a positive significant impact with earnings per share. A positive and insignificant impact was found between dividend payout ratio and shareholders wealth.

**Marcel Chinemere and Maria Gorretti Ebere (2018)** have examined the effect of dividend policy on firm performance of quoted firms in Nigeria for the period 2010-2016. Statistical tools such as descriptive statistics and ordinary least square multiple regression analysis were applied. With the help of statistical tools it was found that dividend payout ratio and retained earnings had a significant relation with return on investment.

**Anaskhan and Nasir Zamir Quresh (2018)** tried to find out an answer to the following question, “Does dividend policy affect shareholders wealth?”. Sample of two companies such as Tata motors and Force motors were selected for the study over the period 2011 to 2017. The study showed that dividend policy had a positive impact on shareholders wealth of Tata motors and there was no impact between dividend policy and shareholders wealth of force motors during the study period.

**Bezawada Brahmaiah, Palamalai Srinivasan, Shubha Sangeetha (2018)** attempted to analyze the factors which determine the corporate dividend policy with a sample of 95 NSE listed firms for the period 2013 to 2018. The statistical tools such as descriptive statistics and dynamic panel data model were used in the study. The variables identified were profitability, liquidity, leverage, inflation, risk, size, taxation and yield curve. Profitability, liquidity, size and inflation were significantly negative relationship with dividend policy, whereas other factors could not find any relationship with corporate dividend policy.

**Kannadhasan, Aramvalarthan, Balasubramanian and Aishwarya Gopika (2017)** probes “Determinants of Dividend Policy of Indian Manufacturing Companies: Panel Autoregressive Distributed Lag Analysis” The study employs ARDL model to analyse the data for the period from 1999 to 2015. The data were collected from Ace equity of 87 manufacturing companies of NSE 500 Index. For these analyses four major predictor variables have been considered i.e. profitability, firm size, financial leverage,

growth prospects. Findings of the study shows that the profitability, firm size and financial leverage have a positive relationship with dividend payout in the long run and growth has an impact on dividend payout in the short run.

**Daniel Ofori Sasu, Joshua Yindenaba Abor and Achampong Kofi Osei (2017)** examined “Dividend Policy and Shareholders’ Value: Evidence from Listed companies in Ghana. In this analysis attempt has been made to examine the factors affecting dividend policy and also to study the impact of dividend policy on shareholders’ value. In this study, secondary data were used for the period from 2009 to 2014. The sources of data have been collected from the annual reports of listed companies in the Ghana Stock Exchange. OLS panel regression was used to analyze the data. The study concluded that dividend policy has a relationship with shareholder value.

**Khadija Farrukh, Sadia Irshad, Maria Shams Khakwani, Sadia Ishaque and Nabil Ansari (2017)** investigated the impact of dividend policy on shareholders wealth and firm performance of companies in Pakistan for the period 2006-2015. The multiple regression was employed to compute the data. Return on equity, earnings per share, share price are the dependent variables used in the study and dividend per share and dividend yield are as independent variables. The results revealed that increase in dividend policy had a positive effect on share price and firm performance.

**Zarak Faraz, Saira Ishfaq and Asad Khan (2017)** scrutinized the effect of dividend policy on shareholders wealth in cement sector of Pakistan over the period 2007 to 2014. Descriptive statistics, correlation and multiple linear regressions was employed to investigate the impact of dividend per share, retained earnings per share, lagged market price per share and return on equity on market price per share. The empirical findings showed that dividend per share, retained earnings per share and lagged market price per share positively related to market price per share. The results also showed that shareholders wealth in cement sector of Pakistan was significantly affected the dividend policy.

**Ayan Majumdar (2017)** studied the dividend decision factors of Nifty companies. The study consisted of data of 50 companies from 2006 to 2015 and used independent variables like profitability, liquidity, leverage, size, growth, free cash flow, life cycle and past dividend and dependent variable like dividend payout ratio. Pooled

and panel data regression analysis were used in this study to analyze the data. The estimation results showed that profitability and past dividend are positively significant and liquidity, free cash flow and growth are negatively significant. The study also found that dividend payout ratio has no significant relationship with leverage, firm size and life cycle of the firm during the study period.

**Anjana and Balasubramanian (2017)** conducted a study to find out the dividend decision factors of companies listed in National Stock Exchange. 50 companies were taken for the study and descriptive statistics, t test, one way ANOVA, chi square, correlation and linear regression was applied to analyse the relationship between dependent and independent variable. The study proven that 80% of the companies shows no significant level and 20% of the companies shows the significant level.

**Souvik Banerjee and Rangamani (2016)** made “A Comparative Analysis of Dividend Policy of Public and Private Sector Banks in India”. The objective of this study is to analyze the difference of dividend payout ratio of listed public and private sector banks. The period of the study was from 2010 to 2014. There was no significant difference in dividend payout ratio of public and private sector banks.

**Avani Shah (2016)** studied “An Analysis of Dividend Policies of Indian Companies from View Point of Shareholders”. The goal of this study is to know the satisfactory level of shareholders towards the company’s dividend policy. The primary data was collected from the shareholders in selected cities of India. This study was based on 1000 responses from the shareholders. The study tested the hypothesis that the age group is positively correlated with dividend decision. For evaluating the relationship of variables the researcher used correlation, regression and ANOVA. Finally, the researcher concludes that there was a positive relationship between the age group of investors and capital appreciation decision.

**Thirumagal and Vasantha (2016)** discussed the effect of dividend policy on shareholders wealth of ten pharmaceutical companies in India period 2001 to 2015. The data has been analyzed by descriptive statistics, regression, breusch godfrey serial correlation LM test, VIF for multicollinearity, heteroskedasticity test and augmented dickey fuller test. Jarque bera test were also employed to check the normality of data. The

effect of dividend were measured using various parameters like price earning ratio, dividend per share, earnings per share, total assets and cash and bank balance by total assets. It was observed that the price earning ratio and cash and bank balance by total assets had a positive relationship with shareholders wealth and there was no significant impact of earnings per share on shareholders wealth.

**Obaid Rehman (2016)** investigated the impact of capital structure and dividend policy on firm value of KSE non-financial listed firms in Pakistan from 2006 to 2013. Fixed effect method was used to examine the effect of fixed asset turnover, leverage, sales growth, shareholders equity, earnings per share, dividend payout on value of the firm. The empirical findings showed that firms leverage, sales growth, shareholders equity and earnings per share had a positive significant relation with firm value. Besides, the study also found that there was a positive insignificant relation between dividend payout and firm value.

**Sorin Gabriel Anton (2016)** used panel data analysis to explore the impact of dividend policy on firm value of 63 non-financial firms listed in the Bucharest Stock Exchange over a period of ten years from 2001 to 2011. The study established that the control variables (leverage, firm size, profitability and liquidity) influences the firm value and also found that dividend payout ratio had a positive impact on firm value.

**Mula Nazar Khan, Farooq Ali Khan Sherwani, Afshan, Fahad Islam, Ghulam Kabbir (2016)** investigated the effects of capital structure and dividend payout policy on firm's financial performance of manufacturing sector in India. Variables employed are leverage, short term leverage, long term leverage, dividend policy, size, growth, return on assets, and return on equity which measures the capital structure, dividend policy and firms financial performance. The results revealed that there was a relationship between capital structure, dividend policy and firm performance. The study further concluded that firm size does not have any impact on return on assets and return on equity.

**Ozuomba, Anichebe and Okoye (2016)** examined “The Effect of Dividend Policies on Wealth Maximization”. The main objective of the study was to find out the impact of dividend policies on shareholders' value of public limited companies in

Nigeria. The primary data was collected from the finance managers, chief accountants, directors, chartered accountant and shareholders by survey method, using a questionnaire from 120 respondents. ANOVA were used as a statistical tool. The empirical results revealed that the dividend has been an important influencing factor in determining the shareholders wealth.

**Priyanka Naik, Preetam Parab and Reddy (2016)** have done a study on impact of dividend announcements on the stock prices and liquidity: evidence from India. The study made an attempt to analyze the effect of final dividend announcements on the stock price and stock trading volume of 50 companies listed in NSE from January 2011 to December 2015. The study found that there was a significant impact between dividend announcements and stock price. It shows that the shareholders can gain high return from their investment. It was also found that the liquidity of stocks had declining trend after the announcement of dividend.

**Jalloh Mamoud Abdul (2016)** carried out a study to analyze the impact of dividend policy on shareholders' wealth of Agriculture firms in Nigerian Stock Exchange. Ex-post facto research design was used to collect data from the financial statements of selected firms over the period 2009-2015. The author found that the firms' dividend policies highly influenced the market price of the share.

**Thirumagal and Vasantha (2015)** examined "Impact of Dividend on Firm Performance with Reference to Leasing and Hire Purchase Industry in India". The study examines the factors which affect the dividend decision and also the relationship of dividend with net profit and share price of the selected companies. Time period of the study was five years from 2010 to 2015. The companies were selected on the basis of market capitalization. Using correlation and multiple regression, the results shows that there was insignificant relationship between dividend payout and share price of the companies, it proves dividend irrelevance theory. The study has found a significant correlation between dividend and net profit. The study has also established that the size, earnings per share, return on equity are the major determinants influence the dividend payout of the company.

**Anil Soni and Madhu Gaba (2015)** undertook a study on “Dividend Pattern of Nifty Companies”. This paper analyzes the relationship between the amount of dividend and its factors (size of the capital, turnover, amount of net profit, holdings of foreign institutional investors). Secondary data have been collected for a period of one year (2013-2014) from the annual reports of the companies, websites of NSE and BSE. Descriptive statistics and Pearson correlation has been used to analyze the data. The study found that dividend per share has no significant relationship with the capital of firm, turnover, net profit earned and the participation by the foreign institutional investment.

**Phani Kumar and Meghashyam (2015)** identified the important factors that influence the dividend policy of NSE Nifty companies from 2013 to 2014 by means of multiple regression analysis and the correlation coefficient. The results showed that there was a significant positive correlation between dividend policy and the independent factors like net profits and the age of the firm. It was also found that there was a negative correlation between dividends and total assets. The authors suggested that, investors are those eager in raising their earnings from investment in shares should consider these determining factors before investing in a particular sector.

**Benjamin Ehikioya (2015)** reviewed the impact of dividend policy on the performance of firms in developing economies: evidence from listed firms in Nigeria. The study period is from 2001 to 2010. The study employs descriptive statistics and ordinary least squares regression model. The result showed that dividend policy is significant to the performance of firms listed in Nigerian Stock Exchange. The study also showed that larger firms had a positive relationship between dividend policy and firm size.

**Sandanam Gejalakshmi and Ramachandran Azhagaiah (2015)** examined the impact of dividend policy on shareholders wealth of FMCG sector in India for the period of ten years. The study period was divided into two i.e. before and after financial meltdown (2003-2007 and 2009-2013). Multi stage non-random sampling technique was applied to select the sample companies. Tools used in this study are augmented dickey fuller test, white heteroskedasticity test, auto correlation, breuch godfrey serial correlation LM test, Lagrange multiplies for autoregressive conditional heteroskedasticity, OLS method of regression and

chow test. The study concluded that there was a significant positive correlation between the variables of dividend per share and market price per share.

**Irtaza Ansar, Arslan Alibutt, Syed Basit, Hussain Shah (2015)** investigated the relationship between shareholders wealth and dividend policy by using data of thirty Pakistani companies listed in Karachi Stock Exchange over the period 2007 to 2011. The multiple regression model was employed to investigate the impact of market price per share on dividend policy indicators i.e. dividend per share, retained earnings, lagged price and return on equity. The empirical results have found that shareholders wealth have a strong impact on dividend policy.

**Manisha Khanna, Monika Khanna (2015)** conducted a study on “Impact of Earnings Management on Dividend Payout Policy of Manufacturing and Service Sector Companies Listed in BSE 100 Index. The study was to analyze the relationship between dividend payout and earnings management of 79 selected companies listed in BSE100 Index in India from 2008 to 2013 and the necessary data was gathered from Prowess Database of the Centre for Monitoring Indian Economy. Descriptive statistics and multiple regression analysis were employed to analyze the relationship of dividend payout and earnings management of the select non-financial companies. It was concluded that there was no impact between discretionary accruals and dividend payout. It was observed from the study that dividend payout had a positive relationship on return on equity.

**Muhammad Mahbubur Rahman (2015)** surveyed about managers’ perception towards dividends and dividend policy of companies listed in Dhaka Stock Exchange, Bangladesh. Both primary and secondary data were used in this study. A set of questionnaire were framed and interviewing method was used to collect the data from 124 respondents of chief financial officers of the sampled companies in Bangladesh and secondary data were collected from journals and articles for theoretical development. Tools such as descriptive statistics and likert-scale were applied to analyze the objectives managers preference towards dividend policy fixation authority, types of dividend paid to the investors, reason for selecting various types of dividends by management, basis of selecting the dividend policy by management, managers’ perception on various statements of dividend, factors affecting corporate dividend policy, pattern of dividend,

dividend lifecycle and dividend setting process. The analysis reveals that pattern of dividend, dividend stability and earnings are considered as most important factors for framing the dividend policy process.

**Saima Qamar and Zuhaib Ahmed Bazaz (2014)** have tried to explore the factors which influence the dividend decision of NSE listed companies in India over the period 2006-2010. Statistical tools such as factor analysis and regression analysis were applied. A significant relationship was found between dividend policy and pattern of past dividends.

**Charles Yegon, Joseph Cheruiyot and Jane Sang (2014)** used econometric analysis to study the effect of dividend policy on firm's financial performance of listed manufacturing companies in Nairobi Stock Exchange for the period 2003 to 2013. The study employs secondary data; random sampling technique was used and data were collected from the financial statements. The regression analysis explained that dividend policy was positively correlated with firm's profitability, investments and earnings per share.

**Nadeem Nazir, Arfan Ali, Hazoor, Sabir (2014)** made a research study on "Impact of Dividend Policy on Stock Price Volatility: A Case Study of Pakistani Capital Market". They aimed at analyzing the relationship between the stock price volatility and dividend policy using PRM, FEM and REM techniques over the period 2007-2012. The results showed that dividend payout ratio, financial leverage and dividend per share had a positive significant relationship at the 0.05 level and earnings per share and advance to deposit ratio had a positive significant relationship at the 0.01 level. Hence, there was a relationship between dividend policy and stock price volatility of Pakistani firms during the study period.

**Ordu Monday Matthew, Enekwe, Chinedu Innocent and Anyanwaokoro, Mike (2014)** conducted a research study entitled "Effect of Dividend Payment on the Market Price of Shares: A Study of Quoted Firms in Nigeria". The goal of the study was to assess the association between dividend payout ratio and the movement of share price of quoted firms in Nigeria. A sample of 17 firms listed in Nigerian Stock Exchange was analyzed over the period 2003-2011. The secondary data have been collected from the published annual reports and statement of accounts of selected firms. The study revealed that dividend payment had a significant impact on the market price per share of listed

firms in Nigeria. Further, the endogenous and exogenous variables were influenced the movement of share price of Nigerian Stock Exchange.

**Kumar and Vidya Chandrasekar (2014)** in their study on “Financial Management Analysis of Dividend Policy Pursued by Selected Indian Manufacturing Companies”. The objective of the study is to find out the association between economic value added and dividend payments. The data used for this study is secondary data collected from Prowess Database for the period twelve years (2002 to 2013). The statistical tools like descriptive analysis, correlation and regression has been applied. The study found that there was no relationship between liquidity and dividend payments. The result shows that, economic value added is a major determinant of dividend policy during the study period.

**Manjunatha (2013)** undertook a study to examine and understand the impact of capital structure and dividend payout ratio on the value of firm. The study was concerned with examining the dividend distribution and debt-equity pattern of the 29 companies for a period from 2000-2001 to 2009-2010. The empirical findings stated that debt equity and dividend payout had no association on return on equity.

**Mohammad Salman Sarwar (2013)** in his article titled “Effect of Dividend Policy on Shareholder’s Wealth: A Study of Sugar Industry in Pakistan” with the objective of analyze the effect of dividend policy on the wealth of shareholders. The study consisted of data of 33 listed sugar companies in Karachi Stock Exchange from 2006 to 2011 and used independent variables like dividend per share, earnings per share, lagged market price ratio, lagged price earnings ratio, retained earnings ratio and dependent variable like market price per share. The study revealed that the variables like dividend per share, earnings per share, lagged market price ratio and lagged price earnings ratio had positive and significant impact while other variables like price earnings ratio and retained earnings had no significant impact on the market price per share of the sugar companies in Pakistan.

**Zare, Kiafar, Kanani and Farzanfar (2013)** investigated the impact of dividend policy on information asymmetry among management and investors. The estimation results showed that the dividend policy had a positive relation with market information asymmetry.

**Amar Dhungel (2013)** examined the effect of dividend policy on share pricing in commercial banks of Nepal. The authors assessed the effect of dividend on share price movement of five listed commercial banks from the list of member banks of NBA. The primary data, by involving a sample of 100 shareholders and staff of the banks was collected and the secondary data from published financial reports of selected commercial banks were used from 2005 to 2011. The study reveals that 87% share investors are primarily consider the financial health of the company before investing their money in equity shares. It was also found that there was a positive and significant relationship between dividend policy and share price.

**Maniagi Musiega, Ondiek Alala, Musiega Douglas, Maokomba Christopher, Egessa Robert (2013)** in their research work concentrated the determinants that influence dividend payout policy of non -financial firms in Kenya. Secondary data collection method was used to collect data from financial statements of selected companies for the period 2007-2011. Descriptive statistics and multiple regressions were employed to analyze the factors that influence dividend decision. The authors found that return on equity, current earnings and firms growth are the factors which influenced the dividend payout policy of non-financial firms in Kenya.

**Tariq Zafar, Chaubey and Khalid (2012)** examined the impact of dividend policy on shareholders wealth of eleven private and public sector banks listed in National Stock Exchange from 2006 to 2010. Tools used for the study were multiple regression and the required data were collected from secondary sources. The study found that there was a insignificant impact of dividend policy and shareholders wealth, this leads to no positive impact of dividend policy on market price of the shares.

**Thanwarat Suwanna (2012)** employed event study methodology to explore the impact of dividend announcement on the stock return of 60 Thai companies over the period 2005-2010. The empirical results proved that the share price increases after dividend announcements. The study also showed that the dividend announcements had a positive impact on share prices.

**Uwalomwa Uwuigbe, Jimoh Jafaru and Anijesushola Ajayi (2012)** conducted a study to analyze the effect of dividend payout on financial performance of listed firms

in Nigeria between 2006 to 2010. The paper also discusses the impact of dividend payout on ownership structure and size of firms. Multiple regression was used and the required data were collected from the annual reports of sampled companies. During the study period, it was observed that the financial performance had a significant relation with dividend payout and the ownership structure and firm's size had a negative association with dividend payout of firms.

**Zuriawati Zakaria, Jorih Muhammad and Abdul Hadi Zulkifli (2012)** examined the effect of dividend payout on share price volatility of 77 construction and materials companies in Bursa, Malaysia over the period from 2005 to 2010. In order to take into account the impact of the crisis, the authors separately considered the year's pre-crisis (2005-2006), during the crisis (2007-2008) and post crisis (2009-2010). The results of the study showed that there was a significant effect between dividend payout ratio and share price volatility.

**Kamran Khan, Houda Chakir Lamrani and Shah Khalid (2011)** dealt with following questions namely (a) if there was any relationship between dividend policy and firm performance (b) relationship between dividend policy and other factors such as capital structure, firm size and firm growth. The secondary data were collected from the annual reports of the cement companies listed in Karachi Stock Exchange for the period 2003 to 2010. Data were analyzed using linear regression method. The study reveals that the capital structure, firm size and dividend policy are statistically significant with the firm performance.

**Azhagaiah Ramachandran and Veeramuthu Packkirisamy (2008)** examined the effect of corporate leverage and dividend policy by using data of 73 firms listed in NSE over the period 1996 to 2007. The multiple regression technique was employed to investigate the impact of leverage on dividend payout. The empirical results have found strong evidence to show that corporate leverage significantly influences dividend payout across industries.

**Sanjeev Mittal and Monika Chopra (2006)** examined the trends of dividend payout ratio of NSE and BSE firms between 2000 and 2005. Furthermore, an investigation on the determinants of dividend payout and its impact on profitability,

growth and size of the firms were made. The study found that, there was an increasing trend over five years (2000 to 2005) of dividend payments. The study result shows that a positive relationship between dividend payout and profitability and all other variables shows a negative correlation.

**John Goddard, David McMillan, John Wilson (2006)** investigated the relationship between share prices, earnings and dividends by using data of 137 UK manufacturing and service companies for the period 1970 – 2003. The VAR method was used to examine the interactions between earnings, share prices and dividends. The author concluded that there was correlation between prices, dividends and earnings.

### **Summary**

The above literature indicates a summary of earlier studies carried out in the research area of factors influencing dividend policy and its impact on profitability and market price of share. Some studies were done on examine the factors affecting dividend policy of nifty companies and very few studies were conducted on impact of dividend policy on profitability and shareholders wealth. Therefore, to fill the research gap identified, the effect of dividend policy on profitability and share price of nifty companies were analysed sector-wise.