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A Financial Study on the Effect of Dividends on a Company's Performance

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Abstract

The study on the effects of dividend payout on company performance selected Infosys, Bajaj Auto, Reliance Industry, HDFC, and Bajaj Finance companies with fifteen years of financial data from 2006 to 2020, using the three types of regression models like fixed effect, random effect, and general least square model similarly. The study followed three main objectives, each requiring the consideration of three hypotheses. In connection with the first objective, the study concluded that there is a significant and positive association between dividends and earnings per share. Secondly, the study explains that with the connection of statistical data analysis in considering the sample data, there is a significant and positive association between dividend and return on equity. The third objective of the study also focused on the fact that there is a significant and positive association between return on equity and dividend. All the empirical studies also support the past study, which is related to dividend payout and corporate performance, and consider the literature review of the study. The study concluded that based on the considered data and period of the study and statistical output, the dividend payout plays a crucial role as a performance taker of any firm.

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Introduction

The firm's performance gives a wealth of knowledge about the company, such as its internal health, future objectives, and other pertinent information that is frequently requested by the company's stakeholders. The study aims to provide a method for establishing an adequate dividend distribution that benefits both firms and shareholders. In developing nations, the amount of research on the link between dividend policy and business achievement is increasing, although such studies are rare in India. The majority of research in India focuses on the factors that influence dividend policy and the impact of dividend policy on wealth generation. Emphasis on these two features of dividend policy overlooks a crucial aspect: the relationship between dividend policy and business development. In a general sense, we know that the performance of the company depends on lots of variables, i.e., EPS, ROA, ROE, dividend payout, etc. The study focuses on the effect of dividends on the company's performance. A huge amount of research has been done in the same area. The study also points out the degree of association a nd types of relationships that exist among the variables selected for the study as dependent and independent variables. The dividend is a critical factor that influenced the company's performance. We know the M.M. approach to the relevance and irrelevance theory of dividends.

Statement of Problem

The 'dividend puzzle' is a term that refers to the divisive nature of a dividend policy. Several models have been created to assist businesses in analysing and evaluating the ideal dividend policy. The association between dividends and the value of a share or the wealth of shareholders is a point of contention between these schools of thought. Different investors' perspectives on present cash distributions and potential capital gains vary, so dividend policy is difficult for a company's directors and financial managers. Another issue of disagreement is the influence of dividends on stock prices. Firms also feel that failing to pay dividends when they are due will have an impact on the company's stock price.

Literature Review

According to the theory of Ezu, Ezeaku & Racheal (2020), the association between dividend policy and performance of selected Nigerian traded companies was investigated in this study. Dividend policy is difficult for any company's board of directors and financial managers since various investors have varied perspectives on current cash dividends and future capital gains. Another point of contention is the extent to which dividends affect the share price. Firms also feel that if dividends aren't paid when they're due, it will damage the stock price (Shleifer, 2000). The study's goal is to look at the connection between dividend policy and return on assets. Secondary sources were used to get information. E-View was used to test the information gathered. Estimation was done using the ordinary least square approach. The study discovered that dividend policy and return on assets had no significant beneficial association. According to the report, among other things, organisations should make sure they have a strong and thorough dividend policy in place. Their earnings will increase, and fresh investment will follow.

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Dividends, according to Kapoor (2009), are the allocation of profits (past or present) in tangible assets among the owners of a company. As a result, a lot of people think that dividend policy has a big impact on business performance across the world.

Mizuno (2007) believes that a company must pay dividends to its shareholders if it has been unable to find feasible investments with greater yields. If a company does well financially, it will pay dividends; consequently, the company's success will influence when, how, and how much dividends will be paid out. When a company considers future investments, it entails a lower dividend distribution.

According to Solomon & Thakur (2019), investors' resources provide firms with both short-term and long-term funding, but their main incentive to remain in the market is to profit from the company's dividends or share price gains. When firms make money, they often disperse the leftover profit in accordance with the number of existing shares that investors possess while paying interest on their creditors' debts (shareholders). After the earnings-per-share calculations are done to figure out how much each share is worth, the profits are given to common shareholders as dividends, which are payments based on the number of common shares they own (Brzeszczyński, Gajdka & Kutan, 2015).

Objective of the Study

The primary goal of this research is to look at the connection between dividend payout and business performance. The following are some of the other goals:

i. To look into the link between business earnings after taxes and dividend policies.
ii. To investigate the link between company returns on assets and dividend policies.
iii. To determine if a corporation's dividend policy and earnings per share are related.

Hypothesis of the Study

The following theories have been proposed to address the study objectives:

- H0 1: Corporate organisations' dividend policies have no meaningful association with ROA.
- H0 2: The dividend policy of business organisations has no meaningful link with return on equity.
- H0 3: The dividend policy of corporate organisations has no meaningful association with the earnings per share.

Research Methodology

The research design utilised in this study is the quasi-experimental design, sometimes referred to as an empirical survey; the study used secondary data. The information used is taken from three firms' comprehensive income and statements of financial situation, which are Infosys, Bajaj Auto, Reliance Industry, HDFC, and Bajaj Finance. The time frame considered for the study is fifteen (15) years, covering the period from 2006 to 2020. The estimate of the regression equation under consideration in the study was done using the ordinary least square (OLS) method in order to evaluate the research hypothesis. Linear regression is an important

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technique in OLS analysis. In a model for linear regression, the dependent variable (y) and the independent variable (x), which is a linear combination of the parameters and is proxied by ROA, return on equity, and profits per share (y),

Straight line: $y = b_0 + b_1 x_1 + E_i$, i= 1,...,n.

The model specifications for this investigation are as follows:

DIV= F (ROA, ROE, EPS, µ)

Where; DIV= Dividend per share

ROA= Return on assets

ROE= Return on equity

EPS= Earnings per share

µ =unexplained variable

The estimated model may be recast as a result.

DIV=$b_0 + b_1 ROA_t + b_2 ROE_t + b_S EPS_t + µ$

Where, b_0 = Constant or Intercept.

t= Time dimension of the Variables

b_1, b_2, b_S = Estimation coefficients or slope parameter coefficients.

Results and Discussion

Table 1: Summary Statistics (Using the Observations 1:01 - 5:15)

Variable	Mean	Median	Minimum	Maximum
EPS	75.933	67.310	5.6200	242.30
DIV	16.593	12.000	1.0000	63.000
ROE	17.479	18.690	1.9300	35.100
ROA	7.2541	3.1600	0.53000	29.090
Variable	Std. Dev.	C.V.	Skewness	Ex. kurtosis
EPS	51.289	0.67544	1.1511	1.4504
DIV	13.922	0.83902	1.6185	2.4238
ROE	7.6855	0.43969	-0.068513	-0.18436
ROA	7.9292	1.0931	1.4369	0.60503
Variable	5% Perc.	95% Perc.	IQ range	Missing obs.
EPS	9.2700	179.94	62.970	0
DIV	2.0000	49.500	15.000	0
ROE	3.1100	32.754	8.4900	0
ROA	0.83000	26.072	4.6700	0

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The study considers the basic descriptive statistics like mean, median, standard deviation, C.V, skewness, kurtosis, etc. as well as dependent and independent variables (earning per share, return on equity, return of assets, and dividend payout per share). The dividend payout of the data set and the value of the descriptive statistics with comparison among mean, median value, and standard deviation are very close, unlike other variables in the study (Woo, 2020).

Table 2: Correlation Coefficients (Using the Observations 1:01 - 5:15, 5% critical value (two-tailed) = 0.2272 for n = 75)

EPS	DIV	ROE	ROA	
1.0000	0.5200	0.3983	0.2268	EPS
	1.0000	0.6402	0.6509	DIV
		1.0000	0.6925	ROE
			1.0000	ROA

Table 2 shows the correlation coefficients with a 5% critical value of two tail tests. One shows that the correlation among the dependent variables is less than 50%, but the other, if analyzed, shows that more than 50%. So, above the table, with consideration of the vale of correlation, clearly focused on positive connection existence.

Table 3: Dependent Variable (DIV)

	(1)	(2)	(3)
	GLS	Pooled OLS	Within
Const	-2.440	-2.440	-2.596
	(2.862)	(2.862)	(2.919)
EPS	0.09231**	0.09231**	0.08663**
	(0.02256)	(0.02256)	(0.02321)
ROE	0.3739*	0.3739*	0.4116*
	(0.2033)	(0.2033)	(0.2095)
ROA	0.7565**	0.7565**	0.7467**
	(0.1856)	(0.1856)	(0.1889)
n	75	75	75
Adj. R^2		0.5721	0.5957
lnL	-270	-270	-268.9

Typical mistakes in parenthesis

The symbols * and ** denote significance at the 10% and 5% levels, respectively.

In Table 3, the study considers the three models similarly like the general least square model, random effect model, and fixed effect model. And the statistical calculation has observed that the three models provide like similar values, and the adjusted R squared value is likely very close to each model's good, fitted model due to the explainability capability of the model. On the other hand, the level of significant value of the independent variable was the

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same for each model. Each considered variable indicates significance at the level of 5% and 10%, respectively (Guo, Jiang & Wong, 2017).

Conclusion

The study on the effect of dividend payout on company performance selected Infosys, Bajaj Auto, Reliance Industry, HDFC, and Bajaj Finance companies with fifteen years of financial data from 2006 to 2020 and used the three types of regression models like fixed effect, random effect, and general least square model similarly. The study followed three main objectives and considered three hypotheses. In connection with the first objective, the study concluded that there is a significant and positive association between dividends and earnings per share. Secondly, the study demonstrates the connection between statistical data analysis and the sample data; considering the sample data, there is a significant and positive association between dividend and return on equity. And the third objective of the study also focused on that there is a significant and positive association between return on equity and dividend.

All the empirical studies also support the past studies, which were related to dividend payout and corporate performance and were considered for the literature review of the study. And finally, the study concluded that on the basis of the considered data and period of the study and statistical output, the dividend payout plays a crucial role as the performance taker of any firm.

Conflict of Interest

The authors declare that they have no conflict of interest.

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