

## **IMPACT OF DIVIDEND POLICY ON FIRM'S VALUE**

Milton Kurangwa

Ashutosh Kumar

Undergraduate programme, B.com (hons) in international accounting and finance,

Faculty of Finance and Commerce, Galgotias University Plot number 2 Yamuna expressway sector  
17A, Greater Noida, Uttar Pradesh.

### **ABSTRACT**

This research project is aimed at analyzing the impact which the dividend policy of a firm has on the firm's value, be it in an indirect way or directly impacting the value of the firm. In this research, we used empirical and theoretical research on the dividend policy which has in turn produced an overwhelming volume of literature for us the researchers. The research, therefore, produced two different perspectives that the dividend policy of a firm has an impact on its value, and the other that dividend policy has no impact on the firm's value.

**KEYWORDS;** Dividend policy, Firms value

### **INTRODUCTION**

If we take a look at all the firms and their management, the main aim of the firm or their target is to maximize the value of the firm by factors such as how the business is being operated or the crucial part of them all which is the decision making in which in every decision made, the management strives to maximize or increase the value of the firm. Some of the decisions that the managers have to partake in include financing decision, which are the decisions that the management need to take regarding the proportion of equity and debt capital for example. Other decisions include hedging decisions, investment decisions, and also dividend payment decisions which we are going to be talking about most in this paper, and how it impacts the firm's value after the management has made that big decision.

This research project aims to examine the impact that a company's dividend policy has on its value, whether indirectly or directly. We used empirical and theoretical research on dividend policy in this study, which resulted in an enormous amount of literature for us as researchers. As a result of the research, two alternative opinions emerged: one that dividend policy has an impact on a firm's value, and another that dividend policy has no impact on a firm's value.

.If we take a look at all the firms and their management, the main aim of the firm or their target is to maximize the value of the firm by factors such as how the business is being operated or the crucial part of them all which is the decision making in which in every decision made, the management strives to maximize or increase the value of the firm. Some of the decisions that the managers have to partake in include financing decision, which are the decisions that the management need to take regarding the proportion of equity and debt capital for example. Other decisions include hedging decisions, investment decisions, and also dividend payment decisions which we are going to be talking about most in this paper, and how it impacts the firm's value after the management has made that big decision.

## **NEED AND OBJECTIVE OF THE STUDY**

Despite the fact that a large amount of study has been done on the impact of dividend payout on a company's cost. However, they differ in terms of geographical distribution and business to business; in some studies, the dividend has a significant impact on a company's cost, while in others, it has no effect. Based on a careful review of the literature on the impact of dividend payout at the company's expense. There is a paucity of research that examines the impact of dividend payout on the stock price of Indian companies. As a result, the question has been highlighted as 'what is the effect of dividend payout at the expense of the company?' Specifically, The authors' goal with this study is to see how dividend coverage affects how inventory cost responds to overall company performance. More specifically, determining whether or whether the stock price of firms that pay high dividends is more dependent on stated financial success than shares that pay lower dividends. The signalling concept states that excess money might be handed out as dividends to communicate good financial health. According to a poll conducted by Brav et al. (2005), managers are

hesitant to lower dividends even if it is within the company's fine hobby, which is partially defined by the dividend signalling concept.

The authors of this article believe that the price of shares with lower dividend yields should be more dependent on the company's overall success as stated in the financial statements than those with higher dividends. This concept is founded on the signalling principle, which states that high dividends lead to higher stock prices. As a result, shares with lower dividend yields may be more reliant on financial performance than shares with higher dividend yields, whilst high dividend stocks are more reliant on dividend policy.

## **PURPOSE OF THIS STUDY**

Dividend coverage has been the subject of extensive research for many years, as dividends have long been a contentious topic. Several studies, even in overseas, have been conducted on dividend coverage and its impact on percentage price. However, no consensus has been established within the experience of the phrase, and a study that includes the thing of company overall performance has not been carried out, to the authors' best knowledge. The authors hope to use this research to look at the effects of dividends in the future, in order to improve investor and control decisions. Furthermore, to contribute to theoretical dividend information and their potential.

## **REVIEW OF LITERATURE**

### **COMPANY VALUE**

According to Keown (2003: 74), enterprise values are the marketplace fee of debt securities and notable company equity. The enterprise fee is the notion of traders of the achievement charge of corporations this is frequently related to inventory expenses. High inventory expenses make the enterprise's fee additionally excessive. The excessive company fee will make the marketplace accept as true with now no longer handiest withinside the enterprise's contemporary overall performance however additionally withinside the destiny potentialities of the enterprise. Corporate fee is frequently proxied with a charge to ee-e book fee

Reilly and Brown (2000) recommended that PBV ratios may be used for all forms of corporations due to the fact ee-e book fee may be a rational degree to evaluate corporations.

Similarly, the ratio of charge to ee-e book fee may be used to evaluate corporations which have the equal accounting requirements in an enterprise sector. Even those measurements may be implemented to corporations with terrible profits or maybe terrible coins flow. The lifestyles of PBV may be very critical for traders to decide the funding approach withinside the capital marketplace due to the fact, via charge eel-e book fee, traders can be expecting shares which are overestimated or under the value. Price eel-e book fee illustrates how a whole lot the marketplace appreciates the fee of a enterprise's inventory eel-e book. Companies that run well, normally have a charge ee-e book fee ratio above one, which displays that the inventory marketplace fee is extra than the fee of his ee-e book. The excessive charge-eel-e book fee displays the extent of prosperity of shareholders, the prosperity for shareholders is the principal goal of the enterprise.

## **COMPANY SIZE**

Company length is a scale that may be labeled as a small organization with the aid of using numerous means, which include overall property, log length, inventory marketplace value, and so on. Basically, organization length is split into classes of a huge organization, medium-sized 38 organization, and small organization. The dedication of organization length is primarily based totally on the entire property of the organization (Mahfood, 1994). The organization length may be measured the use of the entire property, income, or capital of the organization. One of the benchmarks that display the organization length is the dimensions of the property of the organization. Companies with huge property display that the organization has reached the adulthood level in which this level the organization coins float has been fine and is taken into consideration to have a great prospect for a rather lengthy duration of time, however it additionally displays that the organization is rather extra strong and extra capable of generate earnings in comparison to a organization with a small overall of property

## **PROFITABILITY**

Profitability is the organization's cap potential to generate earnings. Profitability displays the blessings of monetary funding. Myers and Majluf (1984) argued that monetary managers who use the pecking order concept with retained income because the first alternative in assembly financing and debt wishes as a 2d alternative and issuing stocks as a 3rd alternative will usually boom profitability to enhance income. A profitability ratio is a ratio to degree the cappotential of groups to earn income on the subject of income, overall property, and very own capital. This ratio is quite taken into consideration with the aid of using potential traders and shareholders because it pertains to inventory charges and dividends to be received.

Profitability serves as a benchmark in figuring out the opportunity financing, however the manner to evaluate the organization's profitability is various and quite depending on income and property or capital on the way to be in comparison from income derived from operations or internet earnings after tax with very own capital. The life of numerous approaches to the studies profitability of a organization isn't surprising. As a result, there are a few groups which have variations in figuring out an opportunity to calculate profitability. The desire concerning which profitability may be used, the motive entirely relies upon at the device to degree the performance of capital use withinside the organization concerned. Profitability ratios may be measured from approaches: the income technique and the funding technique.

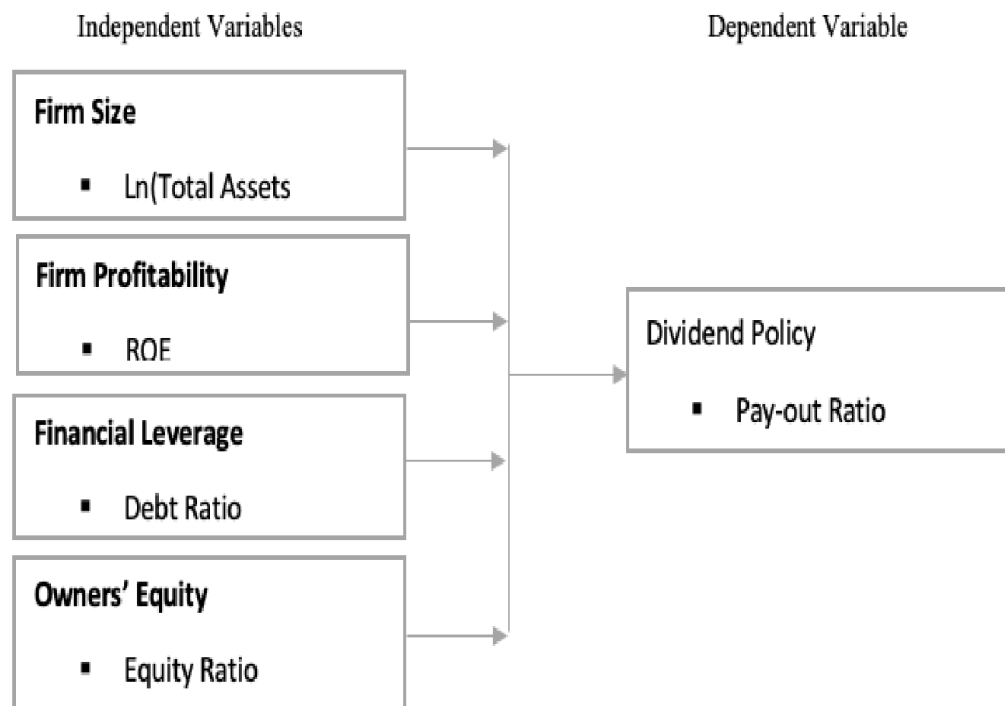
The extensively used measures go back on property (ROA) and go back on equity (ROE), profitability ratios measured with the aid of using ROA and ROE replicate enterprise attractiveness (Bussines attractive). Return on asset (ROA) is a degree of the organization's normal cappotential to generate income with the entire property to be had withinside the organization. ROA is used to look the extent of performance of a organization's normal operations. The better this ratio, the higher the organization is

## **RESEARCH METHODOLOGY**

As per the topic and examination targets, this exploration utilizes the example of clarification . Logical examination is a review that expects to depict the impact between at least two factors, which is balanced, causal and complementary. The example of impact that will be uncovered in this examination is the impact of profit strategy and company size on productivity and worth of buyer merchandise organizations. The sort

of information utilized in this study is auxiliary information, ie the wellspring of exploration information got by implication or through middle person media. Optional information, for example, information as corporate fiscal summaries and information assortment strategies utilized are documentation. Documentation is a strategy to get information by gathering information from existing literature. The prime point of this exploration study is to lay out the relationship between firm worth and profit strategy. Because of this goal, the yearly examined budget reports for the period 2015 - 2019 were assembled and dissected

## CONCEPTUAL FRAMEWORK



Overall, the studies approach may be divided into 2 predominant levels as follows:

1. The first segment consisted of gathering number one information for quantitative evaluation from 5 predominant companies. The statistics approximately the monetary parameters of those banks became effortlessly to be had from the yearly monetary reviews uploaded on their websites. The information of company values and dividend bills had been extracted from those reviews for the cause of evaluation.

2. The 2d segment of this look at method blended the findings of the preceding levels and consolidated the connection among the concerned monetary parameters. This element covered key factors of each quantitative and qualitative analyses. The number one styles and traits had been defined in detail, and the studies consequences had been defined withinside the mild of theoretical research and in evaluation with properly-hooked up fashions mentioned withinside the literature. The studies contributions of our paintings had been highlighted. Moreover, we defined how our look at replied the studies questions raised earlier than accomplishing this look at.

### **The Miller and Modigliani model**

Erstwhile to the ebook of the influential paper by Miller and Modigliani, it clearly became substantially usual that the greater dividends that a organization has to pay to its shareholders, the more the fee of affirms. in step with Allen and Michaely, this will be as a result of the extension of the discounted dividends technique to organization fee. The principle states that the really well worth of the organization on the doe if the first predicted dividends are paid after a year's calculate dated as follows

$$V = \sum_{r=1}^{\infty} \frac{Dt}{(1+r1)}$$

Where Dt is the dividends paid through the company on the quilt of length t r1= the specified charge of return Gordon has claimed that the traders' required charge of returnr1would boom because of elevated retained earnings. Gordon felt that better r1 might dwarf this impact despite the fact that destiny dividend circulation might likely be better because of the boom in funding (i.e., Dt might develop faster). The cause for the boom in r1 might be better uncertainty regarding coins flows because of the delaying of the dividend circulation.

The M-M model (1959) disagreed with this relevance dividend principal view and talked about a rigorous framework for studying dividend coverage]. Miller and Modigliani investigated the effect of dividend coverage on the proportion fee of the company. They exhibited that given an excellent capital marketplace; a company's dividend coverage will now no longer affect the company's cost. The simple concept underlying their argument is that company cost is decided through the company it's gift and destiny coins flows (i.e., a company's capital funding decisions). M-M confirmed that shareholder wealth isn't always stricken by the

dividend choice alone, and additionally argued that traders might evidently be detached to the selection among dividends and capital gains.

M-M (1961) in addition claimed that if traders wished income, they could basically create their personal self-made dividend coverage through promoting their present fairness shares. As noted in Malawi et al, M-M (1961) upheld that during their best world, dividends are irrelevant. M-M (1961) talked about that irrespective of how the company distributes its earnings; its cost is largely decided by its income electricity and its funding decisions According to M-M (1961), the irrelevance dividend coverage argument turned into primarily based totally on simple assumptions') Perfect capital marketplace and ii) Rational traders. In the right capital marketplace, all investors have same and perfect statistics approximately the cutting-edge proportion fee and all different relevant characteristic of shares. In this perfect capital markets there are no transaction fees, breakage fees, taxes and other cost.

Second, perfectly rational investor's options are detached as to whether or not a given increment to their wealth is in the form of cash (dividend income) or benefit in marketplace fee of the percentage (capital gains).

Thirdly they base their argument at the concept of best certainty, which shows whole warranty at the part of every investor as to the destiny funding choices of the corporation and the destiny earnings of each company. Because of this warranty, there's no want to differentiate among fairness percentage and debenture as a source of finance. According to the MM Hypothesis of dividend irrelevance, "the fee of a corporation is largely determined by the corporation's funding and financing choices.

Dividend selection has no function in growing or decreasing the fee of the corporation" . The end of this concept is that control ought to now no longer burden itself much about dividend coverage in terms of corporation fee, because the selection of whether or not to pay or now no longer pay dividends, has no effect at the fee of the corporation

Empirical proof of the M-M version:

The M-M speculation is primarily based totally on a super capital marketplace assumption. In reality, markets are imperfect. Soothing the belief of a super marketplace, Blackand Scholes investigates to look whether or not dividend guidelines are applicable and feature an effect on increasing or reducing corporation



fee. Black and Scholes instituted a portfolio of 25 not unusual place inventory indexed at the Newyork Stock Exchange (NYSE) to analyze the connection among dividend yields and inventory returns. The underlying version used became the Capital Asset Pricing Model.

After the portfolios we reconstructed, 4 years of beyond records became used to estimate the usual deviation beta ( $\beta$ ) and dividend yield was calculated for all of the shares that had as a minimum 5 years of beyond records. In realizing the dividend outcomes of a security, Black and Scholes used dividend paid to the shareholders withinside the preceding 5 years, and the marketplace fee on the cease of each 12 months for the same five years.

The securities had also been ordered on the foreseen yield from most to minimum, and separated into 5 groups. The results of the version did now not show that differences in dividend yield cause variations in stock returns. Thus it regarded just like the dividend coverage don't have any effect at the inventory prices. BlackSand Scholes outcomes are steady with the dividend irrelevance concept which states that dividend Policano effect at the corporation fee. Over years of researches, 4 fundamental theories of dividends relevancy have been existing: The bird-in-hand speculation, signaling theory, tax choice and enterprise price concept

## **BIRD IN HAND THEORY**

Myron Goldon and John Lintner advanced the chicken withinside the hand theory. They argue that there's a dating among dividend payout and the organization's price. Since investors value capital profits as riskier than dividend, corporations need to have a better dividend payout ratio maximized percentage charge. In different words, excessive dividend payout upsurges the inventory charge.

The reality of the problem is the threat of a organization is decided via way of means of the threat of its coins flows generated by its investments, which can not be modified via way of means of dividend coverage; therefore, the chicken in hand clarification may not maintain factual. In different words, the threat of a organization can not be decreased via way of means of an growth withinside the dividend bills]. Generally, the chicken in hand justification for dividend importance is rejected via way of means of maximum of the economic economics literatures

## **Signaling Hypothesis:**

Signaling Hypothesis argues that there's an lifestyles of asymmetric information among managers and shareholders. Modigliani Miller Hypothesis assumed that during a organization, facts is to be had for insiders and outsiders are same; however managers may also have facts pertinent to the price of the organization which out of doors traders do now no longer have . This information gap illuminates the manner managers use dividend assertion as a sign which expresses treasured information about destiny overall performance of the organization to traders. signaling speculation argues that the shareholders mayconstrue an growth in dividend fee as a sign of destiny profitability; for this reason in a nice reaction, the percentage charge will upward push and vice versa. . Signaling speculation of dividend coverage is supportedandcited via way of means of many researchers including Bhattacharya and Miller and Rock .

Empirical proof of the signaling theory:

Kaestner and Liu observe the facts content material of dividend bulletins and discovered sturdy assist for the coins-go with the drift signaling speculation. They pointed out that on common the inventory charge reaction is definitely and notably associated with the scale of dividend payment. They in addition infer that the marketplace understand dividend bills as a huge source of facts approximately the overall performance of the organization.

## **NUMERICAL RESULTS AND DISCUSSION**

A descriptive statistic has been performed to unveil the characteristic factors of the variables. This desk well-known shows the variables' traits because it manifests the usual deviation, minimal and maximum, suggest, and observations.

Table 1

Variable		Mean	Std. Dev.	Min	Max	Observations		
DP	overall	55.588	54.888	-84.634	292.618	N	=	35
	between		22.048	37	92.022	n	=	7
	within		50.831	-107.579	269.673	T	=	5
FP	overall	16.35	7.779	-7.033	25.497	N	=	35
	between		7.042	2.416	22.311	n	=	7
	within		4.094	6.902	24.574	T	=	5
LEV	overall	62.472	31.705	0.11	86.549	N	=	35
	between		33.709	0.227	86.124	n	=	7
	within		1.607	59.387	67.803	T	=	5
OE	overall	37.615	31.683	13.45	99.89	N	=	35

Table 1 above presents a summary of panel data statistics grabbed from 7 companies quoted at the stock Exchange as of December 2015. It shows a balanced panel data of 35 observations in a timebound of 4years. It shows that the Pay-out overall mean for all the 7 companies is 55.588, the overall mean profitability stands at 16.35, the overall mean of leverage is 62.472, equity was 37.615, and the overall mean of firm size stands at 18.881.

## INTERPRETATION

The creators of this record are utilizing benefit and benefits measures to assess association general by and large execution. Whenever association general by and large execution is talked about, it'll probably be founded for the most part on productivity estimations that permits you to address association widespread generally speaking execution. This is to give a probable example period that would however very address

association widespread by and large execution. The free and control factors and their individual gadgets of size are outfitted underneath. Free Variables (Firm Performance) Return on Equity - ROE = Net Income/Shareholders Equity Gross Profit Margin - GPM = (Revenue - Cost of Goods Sold)/Revenue Control Variables: Long Term Debt - LTD = Absolute Values Market Value - MV = Absolute Values Some of the mathematical material that permits you to be utilized for the examination as of now exist and not set in stone at one of the recently said sources.

### **The Effect of Policy Dividend on Profitability**

As per the aftereffects of the exploration, profit inclusion adversely affects the execution of - 0.306. Therefore, the expansion in profit pay out proportion brings down the profit from venture by 30.6 percent. Therefore, profit inclusion can be viewed as a choice to make.

### **The Effect of Company Size on Profitability**

Organization size doesn't give impact to productivity with way coefficient of 0.005. This outcome demonstrates the way that increment of absolute resources can increment return on resources simply equivalent to 0.5%. The impact isn't critical demonstrating that organization size isn't one of the fundamental factors that can give impact to productivity essentially. This is on the grounds that the size of a huge organization can not ensure the productivity of the organization is high, since enormous organizations may not set out to make new speculations connected with extension before commitments (obligation) is paid off .. These outcomes are showing that organization size affects productivity

### **The Effect of Dividend Policy on Company Value**

In light of the outcomes, it acquired proof that the profit strategy significantly affects the organization esteem. This outcome shows that the increment of profit address out proportion can inflate Cost book esteem. Profit strategy is a monetary choice made by the organization. The benefits acquired will be dispersed to investors or held as held income. Profit strategy frequently makes an irreconcilable situation between the administration of the organization and the financial backer. The profit payout made by the organization is viewed as a positive sign by financial backers to contribute on the grounds that financial backers incline toward an unmistakable profit from their speculation. Organizations that appropriate profits

will draw in financial backers to contribute. With such countless financial backers purchasing stocks it will raise the stock cost so it can expand the organization esteem.

These discoveries are upheld by the Bird in the Hand Theory proposed by Gordon and Lintner (1956), recommending that there is a connection between organization worth and profit strategy, where the organization worth will be boosted by a high profit payout proportion, as financial backers expect that the profit risk isn't risk expansion in capital worth. Financial backers incline toward benefits as profits instead of the normal gets back from capital appreciation.

### **The Effect of Company Size to Company Value**

In light of the outcomes, it acquired proof that the organization size is thought of as fit for influencing the company esteem. For this situation, the bigger the size or size of the organization, the more straightforward it is to acquire wellsprings of subsidizing both interior and outside. Organizations with enormous resources show that the organization has arrived at the development stage where in this stage the organization's income has been positive and is considered to have a decent possibility in a generally significant stretch of time, yet it likewise mirrors that the organization is somewhat more steady and more ready to create benefit contrasted with organizations with a little all out of resources.

With the bigger organization size, there is an inclination for additional financial backers to focus on the organization. This is on the grounds that the enormous organizations will quite often have more steady circumstances. The organization's soundness draws in financial backers to possess the organization's portions. Conditions are the reason for rising stock costs of organizations in the capital market. Financial backers have incredible assumptions for enormous organizations. Financial backer's assumption is as procurement of profits from the organization. Expanded interest for supplies of organizations will actually want to prod on the expansion in stock costs in the capital market. The increment demonstrates that the organization is considered to have more noteworthy "esteem" Theoretically, bigger organizations have more prominent sureness than little organizations which have more vulnerabilities with respect to their future possibilities. It can assist financial backers with foreseeing the dangers that might happen assuming they put resources into the organization .

### **The Effect of Profitability on Company Value**

In view of the outcomes, it was found that benefit affects the organization esteem. It shows that the higher benefit, the higher the organization esteem. The higher the organization capacity to create benefits, it will raise the organization esteem as demonstrated by the expansion in the organization's stock cost. Organizations that have enormous benefit consistently, will more often than not be popular by numerous financial backers. The financial backers believe that organizations that have huge benefits will create an enormous return also. This is caught by financial backers as a positive sign from the organization, which will increment financial backer certainty and will work with the organization's administration to draw in capital in stock. The higher benefit of the organization will likewise increment income per share (EPS or profit per share) of the organization. An expansion in EPS will make financial backers intrigued to contribute their capital by purchasing the organization's portions. This condition prompts a positive connection between benefit with stock costs where high stock costs will influence the organization esteem

### **CONCLUSION**

The aftereffect of the examination shows that profit strategy meaningfully affects benefit, while organization size gives no impact on productivity. Profit strategy, organization size, and productivity factors influence organization esteem. Productivity can not intercede the impact of the profit strategy on corporate worth yet it can intervene the impact of organization size on organization esteem. The consequences of this study are supposed to give contribution to financial backers and planned financial backers in going with speculation choices situated to stocks that have high profit, enormous corporate size, and high productivity

## REFERENCES

Merton H. Miller and Franco Modigliani. The Journal of Business 34.4 (1961): 411-433, "Dividend policy, growth, and the pricing of shares."

"Dividends, earnings, and stock prices," by Myron J. Gordon.

99-105 in The Review of Economics and Statistics (1959).

Keown, A. J. (2003). Basic Financial Management, Alih Bahasa, Chaerul D. dan Dwi Sulisyorini, Dasar-Dasar Manajemen Keuangan, Buku Kedua, Salemba Empat, Jakarta

Reilly, F. K., & Brown, K. C. (2000). Investment Analysis and Portfolio Management, Fifth Edition, The Dryden Press.

Machfoedz, M. (1994). Financial Ratio Analysis and The Predictions of Earnings Changes in Indonesia, 114-137

Myers, S. C., & Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have Information That Investors do Not Have. Journal of Financial Economics, 187-221.  
[https://doi.org/10.1016/0304-405X\(84\)90023-0](https://doi.org/10.1016/0304-405X(84)90023-0)

Brav, A., Graham, J.R., Campbell, R.H., and Michaely, R. (2005). Payout policy in the 21st century. Journal of Financial Economics. [online] Volume 77(3), p. 483- 527 Available at:  
<https://www.sciencedirect.com/science/article/pii/S0304405X05000528>