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हिमाचल प्रदेश विश्वविद्यालय HIMACHAL PRADESH UNIVERSITY

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Determinants of Dividend Policies in Indian Business Environment

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Abstract

The dividend is one form of profit sharing by a firm. Companies declare the dividends to reward the sacrifices of shareholders and are used as a tool to reduce the agency cost associated with the capital funds. Various factors affect the dividend decisions of a company in India. The present study is an attempt to examine the determinants of dividend decisions of Indian Information Technology Companies by using Multiple Regression Model. The study found that both the factors of Corporate Governance (CG) and Firm Characteristics did affect the dividend decisions of Indian IT Companies. Firm Size and Profitability are other two factors which enabled the firms to declare and pay the dividends.

Keywords : *Board Independence, Corporate Governance, Dividend per Share, Earnings per Share, Firm Characteristics, Information Technology, Market Capitalization.*

I. INTRODUCTION

Business Enterprises address the ultimate objective of maximizing the wealth of stakeholders in the long run. The dividend is one form of rewarding the equity shareholders. A portion of the annual accounting profit of a business enterprise is normally declared and paid as dividend to the equity shareholders. The dividend is disbursed normally in the form of cash dividend, special dividend, bonus share, stock split, buyback of shares and dividend warrants. The dividend decision of a firm is influenced by various factors such as the size of firm, profitability which differ across time and industry. The dividend payout is considered as the means to reduce the agency cost and it can also be used to reduce the cash flow that the managers can use at their discretion.

Lintner (1956) argued that there exists relationship between present earnings and history of past dividends among the corporate enterprises of developed economies. Firms strive hard to achieve a stable dividend policy in spite of several difficulties and challenges. Miller and Modigliani (1961) also felt that the dividend policy is irrelevant in measuring the current valuation of equity shares in the presence of

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