

Effect of Dividend Policy on Share Holder's Wealth : A Study of IT and Banking Industry in India

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Abstract

The present study is an attempt to find out how far the dividend payout influence shareholders' wealth in general and in particular to study whether market value of common stock has strong relationship with cash dividend paid or with the growth in earning per share. From the results it can be concluded that in the IT sector, five predictor variables - earnings per share, lead price earnings ratio, lagged price earnings ratio, price earnings ratio and retained earnings ratio have a significant positive effect on shareholder's wealth while dividend per share has a significant negative effect, which shows that dividend per share does not strongly affect the shareholder's wealth. In the banking sector, earnings per share, lead price earnings ratio and retention ratio were identified as significant positive predictors of shareholders wealth while price earnings ratio has a significant negative effect.

I. Introduction

DIVIDEND POLICY HAS been an issue of interest in financial literature since joint stock companies came into existence. Dividend means the distribution of earnings (past or present) in real assets to the shareholders of the firm in proportion to their ownership. Dividend policy refers to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over a period of time. Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved.

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earnings ratio since its significance value is 0.389 which is much greater than the significance level of 0.05

- vi. The R^2 value for the banking sector is 68.8 per cent; it shows that only 68.8 per cent of variation in shareholders wealth is due to the predictor variables variables.

V. Conclusion

The study was conducted to examine the effect of dividend policy on shareholder's wealth of the IT and Banking industry. For this study a sample of 30 listed companies of IT and banking sector were identified using the list of listed companies in National Stock Exchange. The data were collected for the period of 7 years from the year 2007 – 2013. The results are concluded by applying multiple regression analysis. From the results it can be concluded that in the IT sector, five predictor variables - earnings per share, lead price earnings ratio, lagged price earnings ratio, price earnings ratio and retained earnings ratio have a significant positive effect on shareholder's wealth while dividend per share has a significant negative effect, which shows that dividend per share does not strongly affect the shareholder's wealth. In the banking sector earnings per share, lead price earnings ratio and retention ratio were identified as the significant positive predictors of shareholders wealth while price earnings ratio has a significant negative effect.

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