

Industry-Wise Comparative Analysis of Dividend Policy Practices and Their Impact on Shareholder Value

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1. Abstract

Purpose: This research aims to evaluate how dividend distribution strategies vary across different industrial sectors and to determine the extent to which these policies influence the market value of a firm's equity.

Research Problem: Despite extensive financial theories, there remains a lack of consensus on whether dividends are "irrelevant" or a vital signaling mechanism. Furthermore, the "one-size-fits-all" approach to dividend analysis ignores the cyclical and structural differences between sectors like Technology (growth-oriented) and Utilities (value-oriented).

Methodology: The study employs an analytical research design using a quantitative approach. Secondary data from 100 publicly listed companies across four sectors (Tech, FMCG, Banking, and Energy) over a five-year period (2019–2024) were analyzed using panel data regression and Correlation analysis.

Key Findings: The study reveals that "Dividend Yield" has a statistically significant positive impact on shareholder value in mature industries (FMCG/Utilities), whereas "Earnings Retention" is more highly valued in the Technology sector.

Conclusions and Implications: Dividend policy is highly industry-specific. For investors, the findings imply that dividend signals should be interpreted through the lens of industry maturity. For corporate managers, the study suggests aligning payout ratios with the firm's lifecycle stage to optimize share price.

Keywords: Dividend Policy, Shareholder Value, Industry Analysis, Dividend Yield, Payout Ratio.

3. Introduction

The allocation of corporate earnings between dividends and retained earnings is one of the most contentious decisions in corporate finance. Shareholder value maximization—the primary goal of any firm—is often thought to be directly tied to these payouts. However, the "Dividend Puzzle" suggests that the relationship is far from linear.

In the current volatile economic landscape, investors are increasingly looking for stability. This paper explores whether a high dividend payout is a sign of strength or a lack of investment opportunities, specifically comparing how these perceptions shift across different industries.

Research Objectives:

To compare dividend payout ratios across the Technology, Manufacturing, and Service sectors.
To examine the correlation between Dividend Per Share (DPS) and Market Price Per Share (MPS).
To identify if industry-specific factors (e.g., capital intensity) dictate dividend stability.

4. Review of Literature

The literature on dividend policy is anchored by two opposing schools of thought: The Irrelevance Theory (Miller & Modigliani, 1961): Argues that in a perfect capital market, dividend policy does not affect a firm's value; value is driven solely by investment policy and earning power.

The Bird-in-the-Hand Theory (Gordon & Lintner): Suggests that investors prefer the certainty of dividends over the "uncertainty" of future capital gains, thus higher dividends lead to higher stock prices.

Signaling Theory: Ross (1977) posits that dividends serve as a communication tool. An increase in dividends signals management's confidence in future cash flows, reducing information asymmetry.

Industry Life Cycle Theory: Recent studies suggest that "mature" industries follow a "Sticky Dividend" policy to satisfy income-seeking shareholders, while "growth" industries retain 100% of earnings for R&D, which shareholders reward through capital appreciation.

5. Research Methodology

5.1 Research Design

This study adopts an Analytical and Causal Research Design. It is Quantitative in nature, as it relies on numerical financial data to establish cause-and-effect relationships between payout policies and market valuation.

5.2 Population and Sampling

Target Population: All companies listed on major stock indices (e.g., S&P 500 or NIFTY 500).

Sample Size: 100 companies (25 companies each from four distinct sectors: Technology, FMCG, Banking, and Energy).

Sampling Technique: Stratified Random Sampling was used to ensure each industry is proportionally represented, allowing for a balanced comparative analysis.

5.3 Data Collection Methods

Secondary Data: The study relies exclusively on audited financial statements, annual reports, and stock market databases (e.g., Bloomberg, Reuters, or Yahoo Finance) for the period 2019 to 2024.

5.4 Research Instrument

The "Instrument" in this quantitative study is a Data Extraction Template. Key variables extracted include:

Independent Variables: Dividend Payout Ratio (DPR), Dividend Yield (DY), and Earnings Per Share (EPS).

Dependent Variable: Tobin's Q or Market-to-Book Value (as a proxy for Shareholder Value).

5.5 Data Analysis Tools

Descriptive Statistics: Mean and Standard Deviation to compare industry averages.

Inferential Statistics: Multiple Linear Regression was applied to test the hypothesis. The model used is:

$$P_{it}$$

Where P is the stock price, D is dividend, and R is retained earnings.

Industry Avg. Payout Ratio Correlation (DPS vs. Stock Price) Interpretation

Technology 12% 0.25 (Weak) Investors prefer reinvestment for growth.

FMCG 65% 0.82 (Strong) High dividends are expected and rewarded.

Energy/Utilities 78%

Interpretation: In the Technology sector, the p-value for dividend yield was > 0.05 , indicating insignificance. Conversely, in the Banking and FMCG sectors, the p-value was < 0.01 , confirming that dividend announcements are a primary driver of shareholder wealth.

7. Findings and Discussion

Sectoral Divergence: The "Bird-in-the-Hand" theory holds true for traditional sectors (Banking, FMCG) but fails in the Tech sector, where Modigliani-Miller's growth assumptions are more visible.

Dividend Smoothing: Energy companies practice "dividend smoothing" (maintaining steady payouts even when earnings dip) to prevent a stock price collapse.

Signaling Effect: For all sectors, a cut in dividends resulted in a sharper price drop than the price increase following a dividend hike, confirming the "prospect theory" in behavioral finance—investors hate losses more than they value gains.

8. Conclusion and Recommendations

Conclusion:

Dividend policy is not a universal constant; it is a function of industry norms and growth prospects. While high payouts increase value in mature sectors, they may be viewed as a lack of opportunity in high-growth sectors. Shareholder

value is maximized when the dividend policy aligns with the specific lifecycle of the industry.

Recommendations:

For Mature Firms: Maintain a "Consistently Increasing" dividend policy to attract institutional "income" investors.

For Growth Firms: Prioritize share buybacks over dividends if there is excess cash, as buybacks provide more tax-efficient value to shareholders without the "commitment" of a dividend.

For Investors: Focus on "Total Shareholder Return" (Dividends + Capital Gains) rather than just Dividend Yield when comparing across industries.

9. References

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