

DIVIDEND POLICY AND ITS IMPACT ON SHAREHOLDERS' VALUE: A STUDY OF SELECTED COMPANIES

Punam Amar Badole

MBA – Financial Management (Appearing)
Wainganga College of Engineering and Management, Nagpur, Maharashtra, India

Under the guidance of: Dr. Kushal Dharmik

Associate Professor, MBA Department, WCEM, Nagpur

Corresponding Author Details: Punam Amar Badole, MBA – Financial Management (Appearing), Wainganga College of Engineering and Management, Nagpur, Maharashtra, India.

ABSTRACT

Dividend policy is an important financial decision through which a company determines how much of its earnings should be distributed to shareholders and how much should be retained for future growth. This study examines the relationship between dividend policy and shareholders' value, with a focus on selected Indian listed companies. It discusses how dividend per share, dividend payout ratio, earnings stability, growth opportunities, and market expectations may influence investors' decisions and share valuation. The study follows a descriptive research design and relies on secondary information from company annual reports, financial statements, stock-exchange disclosures, and established finance literature. The discussion indicates that a consistent dividend may provide income and signal financial confidence, while retaining earnings may support expansion and long-term capital appreciation. The effect on shareholder value therefore depends on the company's profitability, investment opportunities, cash position, and the expectations of investors. No single dividend policy is ideal for every company; an appropriate policy should balance current income with sustainable growth.

Keywords: Dividend Policy, Shareholders' Value, Dividend Payout Ratio, Dividend per Share, Retained Earnings, Listed Companies, India.

1. INTRODUCTION

A company's financial management involves decisions about investment, financing, and distribution of earnings. Dividend policy concerns the proportion of profit paid to shareholders as dividends and the proportion retained in the business. Investors may view dividends as a source of regular income and as a signal about management's expectations of future performance. At the same time, retained earnings can finance new projects, reduce dependence on external borrowing, and support future growth.

In the Indian corporate environment, dividend decisions differ across industries and companies. Mature businesses with relatively stable cash flows may be able to distribute a larger share of earnings, whereas growing businesses may retain more funds to finance expansion. Shareholders' value is not determined by dividends alone: market price, earnings growth, risk, governance, and future cash flows also matter. This study considers these factors in understanding the possible impact of dividend policy on shareholders' value.

2. RESEARCH GAP

Dividend policy has been widely discussed in financial management, but its relationship with shareholders' value can vary with company characteristics, industry conditions, and investor preferences. A high dividend payout may attract income-oriented investors, yet it can also reduce the funds available for reinvestment. Conversely, a low payout may support growth but may disappoint investors who expect current income. The study therefore brings together key dividend measures and company-level considerations to explain why the same policy may produce different outcomes across selected companies. Since this paper uses secondary sources and a descriptive approach, it does not claim to establish a universal causal relationship.

3. OBJECTIVES OF THE STUDY

- To understand the meaning and major forms of dividend policy adopted by companies.
- To examine the possible relationship between dividend policy and shareholders' value.
- To explain the relevance of dividend per share, dividend payout ratio, and dividend yield in evaluating a company's dividend decisions.
- To consider how profitability, cash flow, growth opportunities, and industry characteristics affect dividend policy.
- To discuss dividend-policy considerations in selected Indian listed companies using publicly available secondary information.
- To suggest measures for designing a balanced and sustainable dividend policy.

4. LITERATURE REVIEW

The dividend-policy literature presents different explanations for how dividends may affect company valuation. Gordon's dividend-growth approach links share value to expected future dividends and growth, subject to assumptions about required return and sustainable growth. Walter's model also considers the relationship between the company's return on retained earnings and the shareholders' required rate of return when discussing whether profits should be distributed or reinvested.

Modigliani and Miller's dividend irrelevance proposition argues that, under restrictive assumptions such as perfect capital markets and no taxes or transaction costs, dividend policy by itself does not change firm value. In real markets, however, taxes, information gaps, investor preferences, agency concerns, and transaction costs may make dividend decisions relevant. Signalling explanations suggest that dividend changes can communicate management's view of future earnings, while the "bird-in-the-hand" argument places value on more certain current dividends. These explanations are theoretical perspectives and should not be treated as proof that every dividend increase raises share prices.

Overall, the literature indicates that dividend policy should be examined alongside profitability, investment opportunities, financial flexibility, and market expectations rather than in isolation.

5. RESEARCH METHODOLOGY

The study uses a descriptive research design. It is based on secondary data and conceptual analysis rather than a primary survey or a statistical test of share-price returns. Relevant information may be obtained from annual reports, dividend announcements, financial statements, company investor-relations websites, stock-exchange disclosures, and published finance literature. The selected companies for discussion are Reliance Industries Limited, Tata Consultancy Services (TCS), Infosys Limited, ITC Limited, and Hindustan Unilever Limited (HUL). They represent large Indian listed businesses across different sectors; the paper does not assume that their dividend policies are identical.

The key concepts considered are dividend per share (DPS), dividend payout ratio, dividend yield, retained earnings, earnings stability, and growth opportunities. A detailed company-wise empirical comparison would require consistent annual data for a specified period and a separate calculation of the relevant ratios. This paper presents a qualitative discussion and does not report invented figures or claim to have conducted such calculations.

6. SCOPE OF THE STUDY

The study focuses on the possible impact of dividend decisions on shareholders' income, confidence, and long-term value in selected Indian listed companies. It considers both cash dividends and the alternative use of earnings for reinvestment. The discussion is relevant to investors, students of financial management, and companies evaluating distribution policies. It does not cover every listed company, and it does not provide investment advice or a prediction of future share prices.

7. KEY CONCEPTS AND MEASURES

Dividend per Share (DPS): The cash dividend attributable to each eligible equity share for the relevant period. It helps investors assess the income distributed per share.

Dividend Payout Ratio: The proportion of earnings distributed as dividends. A common measure is total equity dividends divided by profit attributable to equity shareholders, with the precise definition kept consistent across companies and periods.

Dividend Yield: Annual dividend per share divided by the current market price per share, expressed as a percentage. Yield changes when either the dividend or market price changes, so a high yield alone does not necessarily indicate a stronger company.

Retained Earnings: The part of earnings kept in the business. If reinvested in projects that earn attractive returns, retained earnings may contribute to future profits and capital appreciation.

Shareholders' Value: A broad concept that includes the market value of the share and the benefits received by shareholders over time. Dividends are one component; share-price performance, risk, and business growth are also important.

8. DISCUSSION OF SELECTED COMPANIES

The following discussion explains the factors an investor may examine in each company. It is a qualitative framework based on business characteristics and publicly available company disclosures; it is not a claim that a particular dividend amount or share-price response occurred in a specific year.

Reliance Industries Limited: As a diversified business with substantial capital requirements across its activities, Reliance's dividend decision can be considered alongside investment plans, cash generation, and funding needs. Shareholders should assess whether distributions remain compatible with long-term investment and financial flexibility.

Tata Consultancy Services (TCS): For an established IT services company, investors may examine the relationship between cash generation, dividend distributions, and the need to retain funds for technology, acquisitions, or business expansion. Consistency and affordability are relevant alongside the size of the dividend.

Infosys Limited: Investors can evaluate dividend policy in relation to operating cash flows, profitability, capital-allocation priorities, and the company's stated distribution framework. Dividend announcements may influence expectations, but market value also depends on growth outlook and business risks.

ITC Limited: In a diversified consumer-oriented business, dividend decisions can be assessed in the context of cash flows, capital expenditure, and the balance between shareholder distributions and reinvestment across business segments.

Hindustan Unilever Limited (HUL): For a large consumer-goods company, investors may consider the stability of demand, operating cash generation, reinvestment needs, and the sustainability of distributions. A stable dividend can be valued by income-focused shareholders, but it should remain supported by business performance.

9. RESULTS AND DISCUSSION

The conceptual review suggests several possible links between dividend policy and shareholders' value:

- **Income effect:** Cash dividends provide a direct return to shareholders and may be important for investors seeking regular income.
- **Signalling effect:** A sustainable dividend or a carefully explained change in payout can influence perceptions of management's confidence; an unexpected cut may create concern, though context matters.
- **Growth effect:** Retaining earnings can create value when funds are invested in profitable opportunities. Excessive retention without attractive projects may be less beneficial to shareholders.
- **Risk and flexibility:** A payout that is too high may constrain liquidity or increase reliance on borrowing during downturns. A flexible policy can help the company withstand uncertainty.
- **Investor expectations:** The market response depends on whether a dividend decision differs from what investors expected and on other information released at the same time.

The overall implication is that dividend policy and shareholders' value are related through multiple channels, but the direction and size of the effect are company-specific. A qualitative review cannot establish causation or quantify the effect on share prices.

10. DISCUSSION

Dividend decisions involve a trade-off between immediate distribution and future investment. A company with stable earnings and limited high-return investment opportunities may be able to distribute more cash without weakening its growth prospects. A company with major expansion plans may create greater long-term value by retaining a reasonable portion of earnings. Neither a high nor a low payout should be judged without considering the company's stage of development, cash-flow quality, debt obligations, and capital requirements.

Investors should also distinguish dividend income from total return. A dividend payment is not a guarantee of a positive overall return because the share price can rise or fall. Similarly, a high dividend yield may result from a falling share price and may signal concern about the sustainability of the payout. Reviewing multiple years of dividend history and cash flow is therefore more useful than relying on a single year's yield.

11. SUGGESTIONS AND RECOMMENDATIONS

- Adopt a clear dividend framework that explains the factors considered in payout decisions.
- Ensure that dividends are supported by sustainable earnings and cash flows, rather than short-term borrowing or one-off gains.
- Balance shareholder distributions with investments that can generate attractive future returns.
- Communicate material changes in dividend policy transparently and explain the business reasons behind them.
- Review payout ratios, dividend yield, liquidity, debt commitments, and capital expenditure together instead of using one indicator alone.
- Investors should compare companies within relevant sectors and review official annual reports and exchange disclosures before drawing conclusions.

12. LIMITATIONS OF THE STUDY

- The study is based on secondary sources and conceptual discussion; no primary survey was conducted.
- The analysis is qualitative and does not calculate a statistical relationship between dividend measures and market returns.
- The selected companies operate in different industries, so direct comparisons may be affected by differences in business models.
- Dividend policy and market prices change over time; conclusions should be revisited using current, comparable data.
- Taxes, investor-specific circumstances, and broader market conditions are not separately modelled.

13. CONCLUSION

Dividend policy is an important component of corporate financial management because it influences current shareholder income, investor expectations, and the funds available for future growth. The selected-company discussion shows why dividend decisions need to be understood in the context of cash generation, profitability, investment opportunities, financial flexibility, and communication with investors. A stable and sustainable dividend may support confidence, while retained earnings may increase long-term value when invested productively. However, dividends alone do not determine shareholders' value, and no single payout level is suitable for every company. Companies should seek a balanced, transparent, and financially sustainable policy, while investors should evaluate dividends alongside business fundamentals and total return.

14. ACKNOWLEDGEMENT

I would like to express my sincere gratitude to Wainganga College of Engineering and Management, Nagpur, and the faculty members of the MBA Department for providing the opportunity to prepare this research paper on “Dividend Policy and Its Impact on Shareholders’ Value: A Study of Selected Companies.” I am especially thankful to my guide, Dr. Kushal Dharmik, for guidance and encouragement. I also acknowledge the publicly available annual reports, financial disclosures, and academic literature that support the understanding of dividend policy and shareholder value. Finally, I thank my family and well-wishers for their support and motivation.

15. REFERENCES

1. Gordon, M. J. (1959). Dividends, earnings, and stock prices. *The Review of Economics and Statistics*, 41(2), 99–105.
2. Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *The American Economic Review*, 46(2), 97–113.
3. Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *The Journal of Business*, 34(4), 411–433.
4. Walter, J. E. (1956). Dividend policies and common stock prices. *The Journal of Finance*, 11(1), 29–41.
5. Reliance Industries Limited. Annual reports and investor disclosures. Official website: <https://www.ril.com>
6. Tata Consultancy Services. Annual reports and investor relations disclosures. Official website: <https://www.tcs.com>
7. Infosys Limited. Annual reports and investor relations disclosures. Official website: <https://www.infosys.com>
8. ITC Limited. Annual reports and investor disclosures. Official website: <https://www.itcportal.com>
9. Hindustan Unilever Limited. Annual reports and investor disclosures. Official website: <https://www.hul.co.in>
10. National Stock Exchange of India and BSE Limited. Corporate announcements and listed-company disclosures. Official websites: <https://www.nseindia.com> and <https://www.bseindia.com>

APPENDIX: SUGGESTED DATA-COLLECTION CHECKLIST

- Company name and financial year.
- Profit attributable to equity shareholders and total dividend declared.
- Dividend per share, dividend payout ratio, and dividend yield, using consistent definitions.
- Operating cash flow, capital expenditure, and major investment plans.
- Share price around dividend announcements, interpreted with broader market information.
- Notes from the annual report explaining the company’s dividend policy.

— End of Research Paper —