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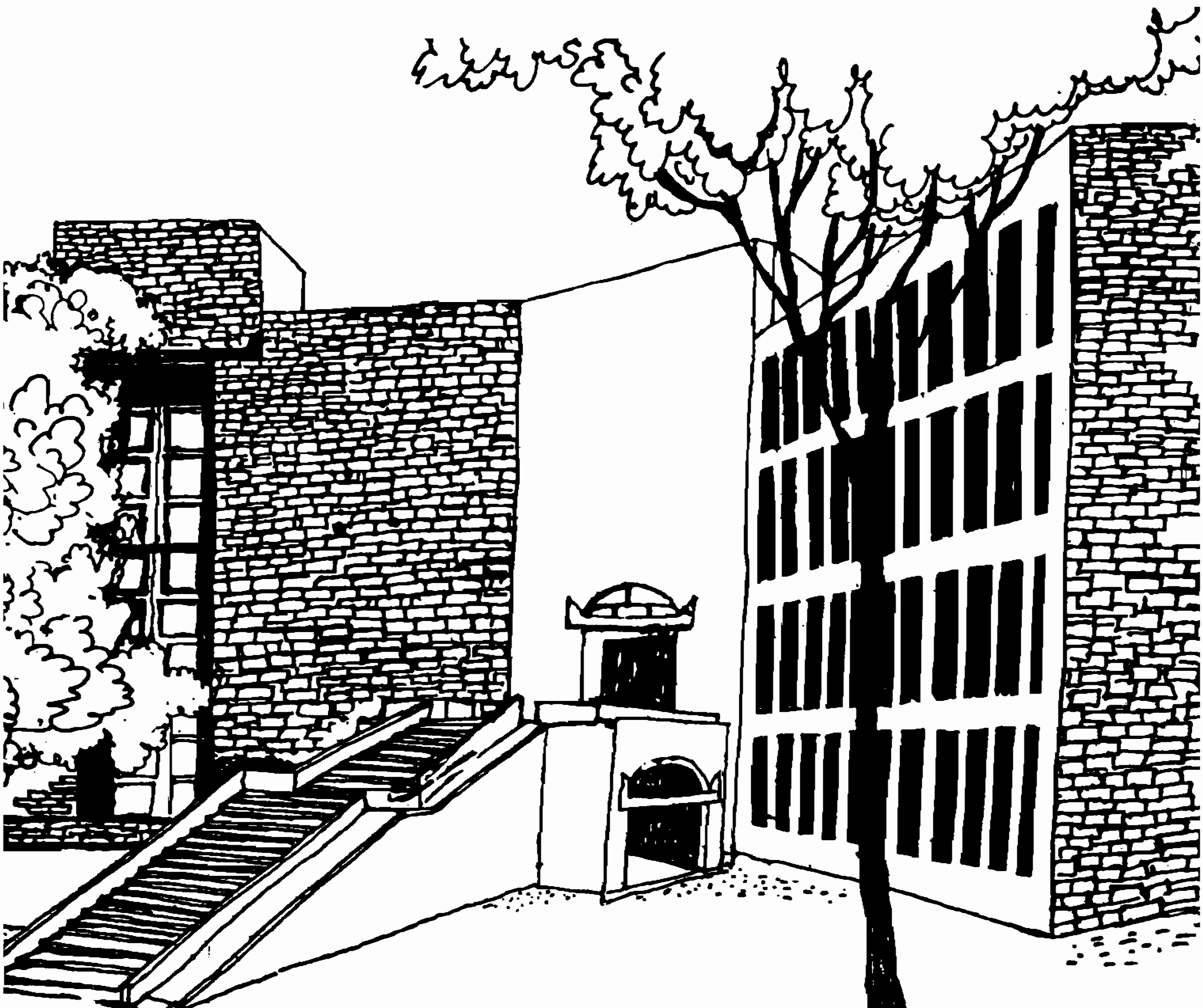

DIVIDEND DECISION: A STUDY OF MANAGERS' PERCEPTIONS

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Abstract

In finance literature several theoretical constructs have been propsed to explain the dividend policy of a comapny. Several empirical studies have been conducted to test these theories. Very few attempts have been made to understand the perceptions and attitudes of managers about the factors they think are important in determining dividend policy. It is with this objective that the present study purports to present the survey results. The study attempts to answer the following questions:

1. What factors do managers consider important in deciding their companies' dividend policy?

2. Do managers perceive a relationship between their companies' dividend policy and the value of the share?

3. Do managers consider last year's dividend policy relevant in deciding the current dividend policy?

4. Do managers think tax status of their shareholders as an important determinant of dividend policy?

5. Do managers use dividend policy as a signal for indicating the company's future prospects to shareholders?

6. Do managers consider dividend payment merely as a residue?

This study used a questionnaire to seek answers to above questions. The questionnaire was divided into two parts. Part I focussed on determinants which managers consider important (on a seven point scale) in deciding their dividend policy. Part II of the questionnaire was devoted to managers' views (strong disagreement to strong agreement scale) on different issues which have implications for dividend policy. The questionnaire was sent to the Economic Times 250 top companies and was addressed to finance directors of these companies.

This study reveals a number of interesting conclusions. First, it is shown that payment of dividend depends on current and expected earnings as well as the pattern of past dividends. This vindicates Lintner's findings in U.S.A. about forty years ago. Similar results are reported by Baker et. al. for U.S.A. companies in 1985. It is also pertinent to note that managers of companies in India would like their companies to continuously maintain payment of dividend. They do not consider liquidity to be a significant consideration in dividend policy.

Second, managers consider that there is a positive relationship between payment of dividends and share price. However, it is surprising to find that they do not consider the purpose of dividend policy as maintaining or increasing share price. They strongly believe that companies should strive to maintain an uninterrupted record of dividend payments, and they should avoid

making changes in dividend policy that might have to be reversed.

Third, respondents in our survey do not seem to fully understand the clientele hypothesis. They, of course, do not deny the existence of high-payout clientele. Managers do consider dividend policy as a signalling device.

Fourth, managers seem to prefer payment of dividend even if companies have profitable investment opportunities. Thus, they do not provide any support to dividend residual hypothesis. This is in tone with their perception that the dividend must be paid consistently and continuously.

DIVIDEND DECISION: A STUDY OF MANAGERS' PERCEPTIONS

INTRODUCTION

Dividend decision of a company involves the question of how much of the net earnings should be distributed to shareholders as dividends and how much to retain in the business. It is an important financial decision, particularly when markets are expanding and shareholders' expectations are very high. In view of the fact that companies constantly need funds for their operations, payment of dividends has remained a puzzle till date, and a frequently asked question "why companies pay dividends?" remains unanswered. In theory several propositions have been put forward to explain the relevance of dividend payment. Inter alia, "dividend irrelevance theorem" by Miller and Modigliani (1961), "tax clientele effect" by Farrar and Selwyn (1967), "agency costs implications" by Ang (1978), "signaling hypothesis" by Ross (1977) are some of them which make an attempt to provide answer to above question. The empirical testing of these propositions have shown mixed results and are not conclusive. The final conclusion of Black (1976) who wrote "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just do not fit together," still holds true. He asks the most relevant question: "What should the corporation do about dividend policy"? And he answers: "We don't know".

In spite of conflicting theoretical views and empirical evidences most companies in reality pay dividends. Table 1 provides the dividend payout ratio and dividend rate information for three CMIE samples of industrial firms in private sector over the period 1986-87 to 1990-91.

Table 1
Dividend Payout and Dividend Rate Information of Three CMIE Samples

	1986-87	1987-88	1988-89	1989-90	1990-91	Weighted Average
All Private Sector Industries (Same Set of 425 Companies)						
Dividend Payout	46.8	56.9	43.9	35.9	34.4	43.6
Dividend Rate	15.6	16.0	19.1	21.0	23.7	19.1
All Private Sector Industries (Profit Making Companies)						
Number of Companies	641	694	907	901	568	
Dividend Payout	33.6	38.8	32.1	30.3	31.3	33.1
Dividend Rate	16.4	15.7	17.4	18.9	24.4	18.3
All Private Sector Industries (All Companies)						
Number of Companies	896	1031	1242	1128	657	
Dividend Payout	57.2	84.9	50.6	37.9	35.2	54.0
Dividend Rate	11.9	11.7	13.7	15.4	20.9	14.3

As can be seen from Table 1 the profit making companies in India, on an average, have been distributing 33.1 per cent of their net earnings as dividends. In a sample of same set of 425 companies average dividend payout ratio is 43.6 per cent. In case of the sample companies including both profit making and loss making companies, the average dividend payout ratio is 54 per cent. The average dividend rate is in the range of 14.3 per cent and 19.2 per cent. The industry-wise dividend payout and dividend rate information is provided in Appendix 1.

Along with the various theoretical constructs as listed above, it is important to understand the perceptions and attitudes of managers about the factors they think are important in determining dividend policy. It is with this objective that the present study purports to present the survey results. The study attempts to answer the following questions:

1. What factors do managers consider important in deciding their companies' dividend policy?

2. Do managers perceive a relationship between their companies' dividend policy and the value of the share?

3. Do managers consider last year's dividend policy relevant in deciding the current dividend policy?

4. Do managers think tax status of their shareholders as an important determinant of dividend policy?

5. Do managers use dividend policy as a signal for indicating the company's future prospects to shareholders?

6. Do managers consider dividend payment merely as a residue?

SAMPLE AND DATA

A questionnaire similar to that of Baker, Farrelly and Edelman (1985) was designed to seek answers to above questions. The questionnaire was divided into two parts. Part I focussed on determinants which managers consider important (on a seven point scale) in deciding their dividend policy. Part II of the questionnaire was devoted to managers' views (strong disagreement to strong agreement scale) on different issues which have implications for dividend policy. The questionnaire was sent to the Economic Times 250 top companies and was addressed to finance directors of these companies.

Thirty-one questionnaires were received back, of which twenty eight were found usable for analysis. The list of companies who participated in this survey is provided in Appendix 1. The industry-wise classification of the responding companies is provided in Table 2. The sample contains a mix of companies belonging to different industries. The companies also belong to various size (using total assets as proxy for size) categories as shown in Table 3.

Table 2
Industry-wise Classification of Respondent Companies

Industry	Number of Companies
Pharmaceuticals and Chemicals	7
Automobiles/Tyre etc.	1
Light Engineering	8
Steel	1
Glass Fibre Glass	1
Textiles/Synthetic Yarn	3
Hotel	2
Paper products	1
Miscellaneous	4
Total	28

Table 3
Size Distribution of Sample Companies (Total Assets)

Size Category (Rs. in crores)	Number of Companies
Below 20	1
20 to 40	3
40 to 60	2
60 to 80	9
80 to 100	1
100 to 150	2
150 to 200	3
200 to 300	2
300 to 500	2

WHAT FACTORS DO MANAGERS CONSIDER IMPORTANT IN DECIDING THEIR COMPANIES' DIVIDEND POLICY?

Conflicting views are expressed in theory as regards the importance of dividend policy in influencing the wealth of shareholders. Their does not exist theoretically justified guidelines to determine the dividend policy in practice. Managers perhaps follow their own logic, arising out of individual circumstances of their companies, in deciding the dividend policy. A number of factors have been identified as important determinants of dividend policy in finance texts. We identified the following widely discussed ten factors as possible determinants of dividend policy in practice:

a. Patterns of past dividends
b. Availability of cash
c. Expected future earnings
d. Capital expenditure requirements
e. Current earnings
f. Restrictions imposed by lenders
g. Industry practices
h. Maintaining or increasing share price
i. Achieving target payout
j. Increasing equity base through retention

Scores and ranking of determinants are given in Table 4. The determinant which received highest score from almost all sample companies is *current earnings*. It has average score of 6.26 on a 7-point scale with a standard deviation of 0.97. The next high ranking determinant is *patterns of past dividends*. The next two determinants of dividend policy with almost equal importance are *increasing equity base* and *expected future earnings*. Thus, three factors out of the highly ranked first four factors are the ones which are consistent with Lintner's findings (Lintner, 1956).

In the finance literature, *liquidity* is considered to be an important determinant of a company's dividend policy since dividends have to be paid out of available cash. This factor has a fifth rank in our survey. What is perhaps implied by relatively lower rank of liquidity is that companies prefer to maintain their dividend policy even if they do not have internally available cash. It is for this reason that a number of companies in India have been found paying dividends after borrowing funds from the market.

The most surprising finding is the lowest ranking to *industry practices* as a determinant of the dividend policy. The industry practices are assumed to have considerable influence on dividend policy of companies. This influence emanates from the fact that companies in the same industry are exposed to common risk characteristics and many other financial variables are similar

Table 4

Determinant	Level of Importance: Not at all	Least	Moderate	High	Very	Average Score (Standard Deviation)	Rank
Patterns of past dividends	3.6%	10.7%	14.3%	25.0%	46.4%	5.21 (1.40)	2
Availability of cash	17.9%	17.9%	17.9%	14.3%	32.2%	4.36 (1.76)	5
Expected future earnings	7.1%	7.1%	21.4%	25.0%	39.3%	5.00 (1.44)	4
Capital expenditure requirements	25.0%	3.6%	28.6%	28.6%	14.3%	3.93 (1.56)	6
Current earnings	0.0%	0.0%	10.7%	3.6%	85.7%	6.25 (0.95)	1
Restrictions imposed by lenders	51.5%	3.8%	11.5%	11.5%	15.3%	2.96 (1.93)	9
Industry practice	43.6%	10.7%	17.9%	10.7%	7.1%	2.64 (1.72)	10
Maintaining or increasing share price	32.1%	17.9%	17.9%	14.3%	17.8%	3.50 (1.92)	8
Achieving target payout	21.4%	21.4%	14.3%	25.0%	17.9%	3.86 (1.60)	7
Increasing equity base through retentions	7.1%	0.0%	17.9%	39.3%	35.7%	5.04 (1.45)	3

for the companies. Results of empirical studies regarding industry influence on dividend policy indicate that the dividend payout, dividend yield and dividend rate of companies belonging to different industries statistically differ (Bhat, 1983). Studies in other countries also observe some effect of industry on dividend policy of companies (Dhrymes and Kurz, 1967; McCabe, 1979 and Michel, 1979). However, Rozeff (1982) shows that differences in dividend payout ratios of companies are not explained by industry factor. Similarly survey findings of US companies show that managers of non-regulated companies do not consider industry factor as important determinant (Baker, Farrelly and Edelman, 1985).

Our survey also reveals that the dividend policy of sample companies are hardly constrained by the *restrictions imposed by lenders*. This finding does not provide support to agency cost theory. This theory suggests the potential lenders (viz., debenture holders and financial institutions) have preferences for a particular type of dividend policy (Rozeff, 1982). From their point of view smaller dividend payout is always preferable because of the limited liability of shareholders. The payment of dividends to shareholders would be viewed as paying out of cash flows before settling the final claims (i.e., principal amount) of lenders. Therefore, the lenders would generally constrain the dividend payment of companies.

There has been a lot of debate in theory whether dividends influence share price. Managers of companies in India provide a low priority to dividend policy as a mechanism for maintaining or increasing share price.

Is there an empirical support for the perception of managers about, say the top ranked, determinants of dividend policy? We used current year's dividends per share, current earnings per share, and dividend per share of previous years to examine whether there is any relationship between this year's dividends per share and the current earnings and dividends of previous period. The results of correlation analysis are given in Table 5. The correlation results suggest that both these variables are significantly related to the current year dividends.

Table 5

Correlation of Current Dividends with Current Earnings and Previous Dividends

Variables	Firm Specific Analysis			Industry-wise Analysis			
	1990	1989	1987	1990-91	1989-90	1988-89	1987-88
Current Dividends and Previous Year's Dividends	0.824	0.840	0.928	0.855	0.770	0.740	0.856
Current Dividends and Current Earnings	0.827	0.624	0.515	0.272	0.516	0.400	0.487

How does the Indian experience compare with the experience of managers in a developed country like U.S.A.? In a survey of US companies, four high ranking determinants of dividend policy were found to be as follows: (a) anticipated level of future earnings, (b) pattern of past dividends, (c) availability of cash, and (d) concern about maintaining or increasing share price. Except for pattern of past dividends the remaining perceived determinants are different in the case of sample companies of our study (see Table 6).

Table 6
Comparison of Our Survey Findings with the USA Study

Determinants	Rank	
	US Study	Our Study
Anticipated level of future earnings	1	4
Pattern of past dividends	2	2
Availability of cash	3	5
Concern about maintaining or increasing share price	4	8

MANAGERS' PERCEPTIONS ABOUT DIVIDEND POLICY ISSUES

In the theoretical and empirical literature on dividend policy, a number of propositions have been put forward. Some of which conflict with each other. What do managers think about these propositions? To ascertain their perceptions, respondents were requested to express their views on 24 statements on a 7-point scale by indicating agreement/disagreement with each statement. The purpose was to find answers to following questions:

1. Do managers perceive a relationship between their companies' dividend policy and the value of the share?

2. Do managers consider last year's dividend policy relevant in deciding the current dividend policy?

3. Do managers think tax status of their shareholders as important determinant of dividend policy?

4. Do managers use dividend policy as a signal for indicating the company's future prospects?

5. Do managers consider dividend payment merely as a residue?

1. Do Managers Perceive a Relationship Between Their Companies' Dividend Policy and the Value of the Share?

According to Miller and Modigliani (1956), the dividend policy of a firm is irrelevant as it does not affect shareholders wealth. They argue that the value of firm depends on its earnings which result from its investment policy. Thus, if the investment policy is given, dividend decision, which is a split of earnings between dividends and retained earnings, is of no consequence in determining the value of the firm. Under the conditions of perfect capital market , no taxes and no uncertainty, the share price will adjust by the amount of dividend distributed. Thus, the existing shareholders are neither better off nor worse off; their wealth - market price of shares plus dividends - remains unchanged. This view is contested by the traditional school including Gordon(1962), Kirshman (1933) and Graham and Dodd(1934). The traditional view is based on the assumption that, since capital gains are received in future and are uncertain, they are discounted at a higher rate than dividends. This implies that the market price of.the shares of high payout companies will command high premium in the market.

We included seven statements relating to MM and traditional views. Managers responses clearly indicate that traditional view about the relationship between the share price and dividend policy holds valid. They show relatively strong agreement with statements such as "higher the dividend payout, higher would the price of equity share" or "dividend per share affects the price of the share" or "earnings distributed as dividend today are valued more by shareholders today than capital gains arising in future from reinvesting those earnings". This perception of managers is, however, not consistent with their view about their concern for maintaining or increasing share price. They do not consider it as an important determinant of dividend policy.

Table 7
Do Managers Perceive a Relationship Between Their Companies' Dividend Policy and the Value of the Share?

Statements	Level of Agreement			Average Score (Standard Deviation)
	Strongly Disagree	Indifferent	Strongly Agree	
Higher the dividend payout higher would be the price of equity share.	32.1%	7.1%	60.7%	0.71 (1.87)
DPS or dividend rate affects the price of share.	21.4%	7.1%	71.4%	1.11 (1.59)
Investors have different perceptions of the relative riskiness of dividends and retained earnings.	19.2%	26.9%	53.8%	0.77 (1.25)
Capital expenditure out of retained earnings should be independent of dividend decision.	39.3%	0.0%	60.7%	0.75 (2.25)
Capital gains expected from reinvesting earnings are riskier than the dividend expectations.	46.4%	7.1%	46.4%	-0.14 (1.88)
Investors are indifferent between dividend returns and capital gains return.	60.7%	7.1%	32.1%	-0.79 (2.18)
Earnings distributed as dividends today are valued more highly by investors than capital gains arising in future from reinvesting those earnings.	25.0%	10.7%	64.3%	0.89 (1.80)

2. Do Managers Consider Last Year's Dividend Policy Relevant in Deciding the Current Dividend Policy?

In practice, firms in india indicate their dividend policy in terms of dividend per share or dividend rate. Lintner (1956) in his study conducted in the US context, found that US companies generally think in terms of proportion of earnings to be paid out. Investment requirements are not considered by firms for modifying the pattern of dividend behaviour. Thus, according to his findings, firms generally have target payout ratios in view while determining change in dividend per share or dividend rate. In practice, firms do not change dividend per share or dividend rate immediately with changes in earnings per share; they change their dividends slowly and gradually. This means that firms have standards regarding the speed with which they attempt to move towards the full adjustment of payout to earnings. In summary, Lintner's findings indicate that firms establish their dividends in accordance with the level of current earnings as well as dividend of the previous year.

Our results show generally a very strong agreement with several of statements relating to Lintner's findings. For example, two of the statements viz., "a company should strive to maintain an uninterrupted record of dividend payments" and "a company is generally reluctant to decrease dividend rate, and it prefers a stable pattern in its dividend policy" have 100 per cent agreement. Similarly, the statement that a company should avoid making changes in its dividend rates that might have to be reversed in a year has 93 per cent agreement while the statement that current dividend depends in part on current earnings and in part on dividends paid in previous years has about 86 per cent agreement. Managers of sample companies have also been found to have strong agreement on the proposition that a company should have a target dividend payout and periodically adjust the payout towards the target.

Table 8
Do Managers Consider Last Year's Dividend Policy Relevant in Deciding the Current Dividend Policy?

Statement	Level of Agreement			Average Score (Standard Deviation)
	Strongly Disagree	Indifferent	Strongly Agree	
A company should have target dividend payout and periodically adjust payout towards this target.	21.4%	3.6%	75.0%	0.93 (1.85)
A company should have target DPS and slowly move towards this target.	17.9%	10.7%	71.4%	1.18 (1.60)
A company should avoid making changes in its dividend rate that might have to reversed in a year or so.	7.1%	0.0%	92.9%	2.11 (1.54)
A company should strive to maintain an uninterrupted record of dividend payments.	**0.0%**	**0.0%**	**100.0%**	**2.57 (0.68)**
Current dividends depend in part on current earnings and in part on the dividends paid in previous year.	14.3%	0.0%	85.7%	1.75 (1.38)
A company is generally reluctant to decrease dividend rate, and it prefers a stable pattern in its dividend policy.	**0.0%**	**0.0%**	**100.0%**	**2.43 (0.78)**

Using the dividend per share and earnings per share of respondent companies for the years 1990, 1989 and 1987 we estimated Lintner's model. The year-wise and pooled results are shown in Table 9. Results indicate that previous year's dividends are significant determinants of current years dividends. The significant positive coefficient validated Lintner's hypothesis.

The current earnings are significant only in the year 1990 and pooled results. We also examined these relationships at industry level using CMIE data of 53 industries. The industry list is given in Appendix 2. The aggregate data relating to dividend rate and return on equity were used in estimating the relationship of current divided rate with the previous dividend rate and current return on equity. The results are shown in Table 9. At the industry level previous year's dividend rate is significant in all years including the pooled observations. The return on equity is significant in two years and polled results. Thus Lintner's hypothesis is validated at industry level too.

Table 9

Estimation of Lintner's Model

Year	Number of Observatuons	Constant	DT_1	EPST	R^2	F
1990	20	0.372	0.51	0.132	0.854	56.62
		(1.74)	(4.92)	(4.97)		
1989	22	0.335	0.867	0.036	0.688	24.16
		(1.13)	(4.70)	(0.91)		
1987	24	0.171	1.047	-0.007	0.848	65.00
		(1.03)	(9.49)	(-0.29)		
Pooled	66	0.307	0.769	0.058	0.766	54.06
		(2.09)	(9.36)	(3.06)		
1990-91	53	-1.818	1.152	0.112	0.749	78.48
		(-1.81)	(11.9)	(2.41)		
1989-90	53	3.858	0.674	0.263	0.64	47.15
		(2.65)	(7.48)	(2.95)		
1988-89	53	2.308	0.924	0.081	0.56	34.07
		(1.46)	(7.02)	(1.45)		
1987-88	53	2.339	0.759	0.031	0.735	73.18
		(2.35)	(9.99)	(1.53)		
Pooled	212	2.002	0.904	0.065	0.674	88.24
		(2.61)	(17.8)	(2.97)		

3. **Do Managers Think Tax Status of Their Shareholders As Important Determinant of Dividend Policy?**

In practice, taxes do exist. Investors pay higher tax on dividends than on capital gains. The effect of the favourable tax differential in the case of capital gains results into tax savings for investors. Consequently, the value of share is expected to be higher if earnings are retained by the firm which has investors in high tax brackets. This is borne out by empirical studies. In case the company's majority shareholders are in no or low tax brackets, they may prefer high dividend payout.

There are three statements concerning the presence of dividend clientele hypotheses in this study. Response to the statement that *investors in high tax brackets are attracted to shares having low dividend yield* indicate that they disagree with the low-payout clientele hypothesis. However, they strongly agree with the statement that investors in low tax brackets are attracted to shares having high dividend yield. This implies that they feel that high payout clientele exits which is consistent with the earlier findings about their views about traditional hypothesis. However, their disagreement with the statement that an investor is attracted to companies which have dividend policies appropriate to his/her particular tax environment seems to suggest that they do not fully understand the implications of the clientele hypothesis (Table 10).

Table 10

Do Managers Think Tax Status of Their Shareholders As Important Determinant of Dividend Policy?

Statement	Level of Agreement			Average Score (Standard Deviation)
	Strongly Disagree	Indifferent	Strongly Agree	
Investors in high tax brackets are attracted to shares having low dividend yield.	46.4%	17.9%	35.7%	-0.29 (1.96)
Investors in low tax brackets are attracted to shares having high dividend yield.	14.3%	10.7%	75.0%	1.54 (1.64)
An investor is attracted to companies which have dividend policies appropriate to his/her particular tax environment.	57.1%	17.9%	25.0%	-0.68 (1.69)

4. Do Managers Consider Dividend Policy As a Signal For Indicating the Company's Future Prospects?

Investors in market generally do not have complete information about company's future prospects. In such a situation the market actually values a perceived stream of returns. The payment of dividends is used as a signaling device to inform shareholders about future earnings potential of the company and help them in forming appropriate perceptions about the future stream of dividends. The signaling hypothesis assumes that managers do possess more information about company's future prospects than an outsider investor (Ross, 1977). Such signalling also assumes that changes in dividend policy is least costly signal. It affects the market's perception about company's future and its perceived risk characteristics.

There were five statements in our questionnaire regarding the signaling effects. Managers showed strong agreement with the statement that dividend payments provide signals about the company's future prospects to shareholders. They also felt that a company should generally avoid making changes in dividend policy which can not be supported in future and if changes are made they should be adequately disclosed to investors (Table 11).

Table 11
Do Managers Use Dividend Policy As a Signal For Indicating the Company's Future Prospects?

	Level of Agreement			Average Score (Standard Deviation)
	Strongly Disagree	Indifferent	Strongly Agree	
Reasons for dividend policy changes should be adequately disclosed to investors.	17.9%	7.1%	75.0%	1.25 (1.70)
Stock markets use dividend announcement as information for assessing the value of the share.	21.4%	7.1%	71.4%	0.96 (1.57)
Management should be responsive to its shareholders' preferences regarding dividends.	7.1%	10.7%	82.1%	1.36 (1.17)
A change in the existing dividend payout is more important than the actual amount of DPS or dividend rate.	35.7%	10.7%	53.6%	0.11 (1.38)
A company should avoid making changes in its dividend rate that might have to be reversed in a year or so.	7.1%	0.0%	92.9%	2.11 (1.54)
Dividend payment provide signal about company's future prospects to shareholders.	10.7%	3.6%	85.7%	1.50 (1.18)

5. Do Managers Consider Dividend Payment Merely As a Residue?

When dividend decision is treated a financing decision, the earnings of the firm are viewed as a long term source financing capital expenditure. With this approach dividends would be paid only when the firm does not have profitable investment opportunities. Distribution of cash dividend reduces the amount of funds available to finance profitable investment opportunities and thus either restricts growth or forces the firm to find other expensive sources of financing. Thus, firms may retain earnings as part of a long term financing decision. With this approach, the dividend decision is considered merely as a residual decision.

Our results indicate that the residue theory of dividend policy does not find favour with Indian managers. For example, a large number of them disagree with the statement that the current year's profit after tax should be first used to finance desired capital expenditure and then the residue should be distributed as dividends (Table 12). This view is consistent with their attitude that uninterrupted dividends should be paid even under the circumstances when the company does not have sufficient liquidity.

Table 12
Do Managers Consider Dividend Payment Merely As a Residue?

Statement	Level of Agreement: Strongly Disagree	Level of Agreement: Indifferent	Level of Agreement: Strongly Agree	Average Score (Standard Deviation)
Capital expenditure requirements of the company generally have little effect on modifying the pattern of dividend behaviour.	25.0%	7.1%	67.9%	0.89 (1.90)
Retention of earnings by a highly profitable company is desirable since it results into capital gains for shareholders.	21.4%	0.0%	78.6%	1.07 (1.91)
The current year's profit after tax should be first used to finance desired capital expenditure and then the residue should be distributed as dividends.	57.1%	7.1%	35.7%	-0.57 (1.84)

CONCLUSION

This study reveals a number of interesting conclusions. First, it is shown that payment of dividend depends on current and expected earnings as well as the pattern of past dividends. This vindicates Lintner's findings in U.S.A. about forty years ago. Similar results are reported by Baker et. al. for U.S.A. companies in 1985. It is also pertinent to note that managers of companies in India would like their companies to continuously maintain payment of dividend. They do not consider liquidity to be a significant consideration in dividend policy.

Second, managers consider that there is a positive relationship between payment of dividends and share price. However, it is surprising to find that they do not consider the purpose of dividend policy as maintaining or increasing share price. They strongly believe that companies should strive to maintain an uninterrupted record of dividend payments, and they should avoid making changes in dividend policy that might have to be reversed.

Third, respondents in our survey do not seem to fully understand the clientele hypothesis. They, of course, do not deny the existence of high-payout clientele. Managers do consider dividend policy as a signalling device.

Fourth, managers seem to prefer payment of dividend even if companies have profitable investment opportunities. Thus, they do not provide any support to dividend residual hypothesis. This is in tone with their perception that the dividend must be paid consistently and continuously.

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Appendix 1
List of Respondent Companies

Alembic Chemical Works
Bajaj Steel Industries
Bhadrachalam Paper Board
Bharat Forge
Brooke Bond India
Cable Corporation Of India
Ceat
Forbes Campbell
FPG
Hawkins Cookers
Hindustan Ciba Geigy
Hindustan Electrograph
Hotel Leela Venture
IDL Chemicals
ITC
Cyanamid
Kanoria Chemicals & Industries.
Kirloskar Brothers
Modi Xerox
Nirlon
Pfizer
Saurashtra Cement
Searle India
Shree Synthetics
Surgiplast
Ahmedabad Electricity
Arvind Mills
KCP
Lakshmi Mills
Tata Oil Mills
Tin Plate

Appendix 2

Industry-wise Return on Equity (ROE), Dividend Rate (DR) and Dividend Payout (DP), 1986-87 to 1990-91

Industry	1986-87 ROE	1986-87 DR	1986-87 DP	1987-88 ROE	1987-88 DR	1987-88 DP	1988-89 ROE	1988-89 DR	1988-89 DP	1989-90 ROE	1989-90 DR	1989-90 DP	1990-91 ROE	1990-91 DR	1990-91 DP
Mining	18.5	14.0	20.0	-3.0	6.7	-68.0	4.2	6.6	76.9	15.3	6.2	25.5	18.2	7.1	20.3
Sugar	15.3	12.0	28.1	7.4	10.8	40.0	18.5	11.7	17.2	20.8	16.9	15.6	7.6	17.1	44.1
Vanaspati	11.7	11.0	19.3	6.4	17.2	82.9	0.6	12.1	460.9	6.3	27.6	126.9	16.8	29.9	41.0
Edible oil	10.5	6.8	38.0	2.9	1.8	35.4	12.5	1.6	6.9	13.9	5.5	22.4	10.8	10.9	29.6
Tea & Coffee	13.7	32.5	46.8	14.4	32.7	50.7	14.9	36.5	45.4	24.9	47.6	34.6	27.1	55.5	45.4
Food products, dairy	16.2	20.6	44.2	12.8	17.2	51.0	14.2	18.2	45.3	16.1	21.8	48.6	16.5	24.3	55.2
Beverages	7.5	11.2	26.3	8.8	14.1	35.5	13.1	16.5	30.2	12.2	14.7	37.2	12.0	19.2	38.7
Cigarettes, tobacco	0.5	26.2	1205.4	8.0	29.2	80.7	18.7	48.2	45.8	23.6	36.7	45.7	29.3	53.3	42.6
Cotton textiles	0.2	10.0	1335.4	-6.9	9.7	-37.8	-9.2	11.4	-36.9	5.5	15.8	81.2	15.1	22.5	28.6
Woollen textiles	-3.9	4.1	-40.0	-5.8	5.0	-36.3	-17.2	6.8	-18.1	2.5	15.2	133.7	8.2	9.4	31.9
Silk textiles	8.4	14.9	40.5	7.6	9.6	37.8	10.1	28.0	51.6	8.6	23.8	49.6	10.5	24.9	37.9
Jute & jute products	-73.8	1.6	-1.5	-129.4	0.8	-0.5	-25.9	4.1	-5.5	2.1	11.4	98.3	10.8	19.4	21.1
Other textiles	7.9	9.9	26.9	5.5	12.1	64.4	13.5	12.9	27.5	17.1	17.9	27.7	9.5	13.5	29.1
Wood & wood products	13.1	6.3	21.4	8.1	7.5	37.8	3.7	10.0	84.7	13.0	17.8	29.3	9.2	15.8	49.2
Paper & paperproducts	-1.5	-3.9	9.2	-8.0	8.3	-28.4	3.5	12.3	78.6	18.6	16.9	18.2	16.8	22.8	18.3
Leather products	1.2	9.5	16.4	7.9	11.5	54.2	0.7	8.8	586.0	8.2	12.4	66.6	6.0	5.7	27.6
Tyres and tubes	10.1	15.2	38.8	13.1	19.4	30.4	18.6	23.0	23.2	13.5	24.2	30.8	12.0	23.6	28.7
Rubber products	0.9	5.8	400.0	5.1	8.6	111.5	21.7	11.9	47.5	17.8	7.9	44.8	-6.4	-0.1	0.4
Plastic products	14.2	13.0	28.7	0.9	7.6	375.7	8.0	11.1	47.6	4.5	8.0	71.4	1.6	14.9	46.0
Petroleum products	7.2	5.0	38.2	13.7	1.1	46.2	15.9	17.5	35.1	14.4	20.0	36.1	43.3	47.6	19.7
Chemicals and gases	13.7	13.8	38.8	11.7	11.8	44.1	9.8	12.9	54.8	12.0	14.0	47.8	14.9	16.0	40.5
Fertiliserspesticides	5.7	5.3	44.6	2.8	6.4	109.0	7.9	7.1	44.5	8.6	6.6	37.1	7.6	14.8	65.9
Paints, varnishes	8.9	16.4	51.7	9.7	17.0	51.5	9.8	19.7	54.4	18.3	22.4	29.8	17.8	23.2	30.5
Drugs & medicines	8.1	12.9	57.4	10.1	12.6	46.2	12.3	16.4	42.2	14.9	19.1	37.5	10.1	17.2	42.6
Soaps, detergents	20.5	30.2	42.8	21.7	26.0	55.3	23.1	30.2	51.1	25.6	33.5	50.1	27.4	45.3	54.2
Man-made fibres	0.3	12.7	853.2	-4.4	9.4	-59.0	5.3	11.3	65.5	12.8	11.4	22.7	3.2	8.3	69.6
Synthetic rubber	13.1	13.5	30.8	10.0	14.4	45.1	-2.5	7.3	-172.9	14.7	17.1	33.3	14.2	16.7	36.9
Ammunitions	10.9	13.4	50.4	9.8	11.5	56.3	-4.6	7.4	-124.3	-5.4	6.1	-92.6	105.0	-0.1	-0.2
Other chemical	8.7	12.9	49.7	0.0	9.7	--	6.1	10.2	81.0	9.6	11.5	44.4	16.4	11.9	29.7
Structural clay	13.7	13.8	10.0	10.6	13.3	23.2	10.9	14.0	81.9	12.2	14.8	31.4	21.6	18.6	15.7
Glass & glass	-41.5	9.3	-26.8	-18.2	8.7	-77.5	10.9	0.9	80.4	12.6	11.5	35.3	20.9	16.3	18.4
Cement	3.3	10.5	82.1	-7.3	4.6	-23.8	-18.6	3.4	-9.2	-7.3	6.5	-37.6	28.7	19.0	17.0
Asbestos cement	9.3	9.9	22.6	11.9	12.6	21.5	12.8	15.9	24.2	14.4	21.8	26.7	10.3	11.8	42.7
Other minerals	5.0	9.9	52.9	5.3	7.7	45.4	9.8	13.7	42.5	9.9	14.8	47.1	9.8	17.7	51.1
Iron & steel	11.6	15.0	31.7	8.6	13.8	47.6	15.4	17.4	31.1	10.9	15.0	37.1	9.1	18.6	49.1
Aluminium	3.6	13.5	81.4	5.9	11.0	48.4	13.2	16.1	38.6	29.5	26.1	17.8	22.0	27.4	20.8
Fabricated structural	-11.1	3.8	-12.1	-81.8	2.6	-2.5	-76.9	6.7	-9.7	24.1	16.3	26.2	-52.0	5.1	-3.6
Other metal products	16.1	15.7	45.9	7.2	11.8	89.1	10.7	10.7	58.7	19.6	12.4	34.0	17.5	15.2	33.1
Refrigerators etc	13.1	12.6	19.4	10.7	12.6	22.0	9.8	5.5	20.4	7.5	4.7	25.5	12.5	3.1	11.6
Machinery	-2.3	10.5	-182.0	5.0	12.7	95.5	11.2	14.2	43.6	15.8	15.7	32.1	18.4	20.3	20.2
Electrical machinery	6.6	12.2	44.2	6.7	12.1	49.5	5.2	11.9	69.0	11.5	14.8	38.6	14.6	14.7	29.5
Insulated wires	7.5	7.3	38.7	6.2	10.2	33.3	19.6	15.2	24.5	10.1	14.8	37.7	9.0	15.8	36.2
Dry and wet batteries	14.9	28.2	49.2	7.5	17.8	107.4	6.7	11.0	69.8	8.0	13.7	63.5	14.6	20.6	44.2
Electrical appliances	0.0	5.6	--	-4.2	6.8	-75.9	-7.2	5.4	-40.1	-22.7	7.0	-17.6	8.3	2.1	10.4
Consumer electronics	-9.8	7.2	-33.7	-2.8	7.7	-133.7	-0.3	3.5	-502.0	16.4	9.7	26.4	26.6	16.2	24.2
Computers	25.5	7.3	10.0	15.8	5.0	17.7	7.6	4.1	29.3	14.2	4.0	13.7	5.9	3.0	28.2
Other machinery	4.9	6.7	108.7	-7.1	4.7	-52.9	11.8	5.0	28.7	5.4	5.6	60.1	20.1	7.6	18.4
Motor vehicles	3.4	8.7	74.0	0.5	10.4	699.7	10.0	13.4	44.3	16.2	16.1	29.0	17.4	19.3	29.0
Motor cycles etc	14.3	9.8	21.3	16.2	12.7	22.7	10.9	11.0	29.6	9.9	26.8	63.8	14.8	28.5	26.8
Bicycles and parts	5.6	16.1	44.2	13.9	19.5	18.3	15.6	23.0	15.9	13.1	21.4	19.9	12.2	23.1	20.7
Transport equipments	10.8	-0.2	-0.6	-76.7	-0.2	0.2	21.3	19.1	6.6	1.1	-0.3	-1.7	-20.2	-0.3	0.1
Miscellaneous	15.8	7.4	16.5	13.3	6.1	33.8	16.8	4.2	16.4	26.3	15.9	30.8	19.6	19.6	38.0
Diversified	5.9	17.0	56.5	5.2	16.6	62.4	8.2	18.9	45.5	10.1	22.0	40.4	11.8	24.7	34.5