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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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IMPACT OF DIVIDEND ON INVESTORS' PERCEPTION TOWARDS EQUITY STOCKS**MINI MEHTA****ASST. PROFESSOR****COLLEGE OF MANAGEMENT & BUSINESS STUDIES****UTTARANCHAL UNIVERSITY****DEHRA DUN****MANISH GURUNG****ASST. PROFESSOR****COLLEGE OF MANAGEMENT & BUSINESS STUDIES****UTTARANCHAL UNIVERSITY****DEHRA DUN****ABSTRACT**

The primary objective of financial management is the maximisation of shareholders' wealth. To achieve this objective, management, the custodians of shareholders' interests, are faced with three important categories of decision making namely, investment, financing and dividend decisions. The behavior and attitude of investors toward dividend-paying stocks is one of the most important issues of behavioral finance and as well as for the Indian Stock Market. A lot of researches has been conducted by well-known researchers and provided the theories and empirical evidences regarding the determinants of investor attitudes toward dividends. The objective of the study is to find evidence of dividend clienteles in the Indian Stock Market by finding the **correlations** among dividend preferences and the different demographic and other characteristics of investors. This is achieved by using a sample of 229 investors who provided data related to their dividend preferences. It was found that investors in India prefer to receive dividends. If the company cannot pay cash dividends, they prefer to receive stock dividends compared to not receiving dividends at all. Furthermore, it was found that investors partly want dividends because of transaction costs. Transaction costs were also found to be the reason why investors prefer stock dividends over cash dividends.

KEYWORDS

Dividends Preferences, Attitudes, Perceptions, On Indian Investors.

INTRODUCTION

In corporate finance, the finance manager is generally thought to face two operational decisions: the investment (or capital budgeting) and the financing decisions. The capital budgeting decision is concerned with what real assets the firm should acquire while the financing decision is concerned with how these assets should be financed. A third decision may arise, however, when the firm begins to generate profits. Should the firm distribute all or proportion of earned profits in the form of dividends to the shareholders, or should it be ploughed back into the business? Presumably, in taking any course of action, managers should concentrate on how to maximise the wealth of shareholders for whom this is being managed. Managers must not only consider the question of how much of the company's earnings are needed for investment, but also take into consideration the possible effect of their decisions on share prices.

The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000, p.29). This issue of dividend policy is one that has engaged managers since the birth of the modern commercial corporation. Surprisingly then dividend policy remains one of the most contested issues in finance. The study of dividend policy has captured the attention of finance scholars since the middle of the last century. They have attempted to solve several issues pertaining to dividends and formulate theories and models to explain corporate dividend behavior. The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago Black (1976) described it as a "puzzle", and since then an enormous amount of research has occurred trying to solve the dividend puzzle. Allen, Bernardo and Welch (2000, p.2499) summarised the current consensus view when they concluded "Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance". The enduring nature and extensive range of the debate about dividend policy has spawned a vast amount of literature that grows by the day. For this reason, a full review of all debates is not feasible¹. However, this paper endeavors to give justice to the importance of both the topic of dividend policy as an area of financial economic research, and also to the literature that has been produced addressing that topic, by reviewing the most important and influential studies in this area. It attempts to outline the main theories and explanations of dividend policies and to review the main empirical studies on corporate dividend policy.

The remaining of this paper is organized as follows. Section 2 gives a short background of corporate dividend policy. Section 3 analyses the theories of dividend policy starting with the dividend irrelevance hypothesis of Miller and Modigliani, and then the alternative hypotheses including bird-in-the-hand, tax-preference, clientele effects, signaling, and agency costs hypotheses.

REVIEW OF LITERATURE

"Institutional and individual investors preferences for dividend and share repurchase" by Ravi Jain, Journal of economics and business 59{2007} 406-429. It studied the preferences of institutions and individual investors towards the dividend yielding stocks it was found that lower taxed institutions prefer low dividend yield stock where as higher taxed individuals prefer high dividend yield stocks.

"Corporate investment and dividend decisions under differential personal taxation" by Ronald W. Masulis, School of business, southern Methodist university Dallas, Tx 75275 and Brett Trueman, Journal of financial and quantitative analysis. This paper explored the relation between cash dividend payout and firm investment in real assets, given a personal tax disadvantage to dividends an issue that has received scant attention in the finance literature.

"The relationship between dividend payout and firm performance: a study of listed companies in Kenya. European scientific journal, 2013 may edition vol.8, no9 ISSN: 1857-7881{PRINT} E-issn 1857-7431 by Ochuodho Peter Ouma says that the findings of his research showed that cash dividend were the most commonly used form of dividend among listed firms in Kenya and the major factor that affects the investment are profitability, pattern of past dividend, legal rules.

"Individual Investors' Perceptions towards Dividends: The Case of Greece" 5th International Conference on Accounting and Finance in Transition (ICAFT), 12-14 July 2007 Greenwich, London organised by Greenwich University, The Business School Says Results of our study revealed that the vast majority of investors did show a strong preference for dividends. A large percentage of the whole sample showed a significant preference towards cash dividends.

"Growth, Beta and Agency costs as determinants of dividend payout ratios" by Michael S. Rozeff in the journal of Financial research, vol 5, no 3 this paper rationalized an optional dividend payout by appealing to the market imperfections, and stated that increased dividends relative to earnings lower agency costs but raise the transactions cost of external financing

"Dividend policy : A review of theories and empirical evidence" by Husam- Aldin ,Michael Rafferty and Rekha Pillai in International Bulletin of Business Administration ISSN: 1451-243X ISSUE 9 [2010] This paper focused on M.M approach of dividend policy which was an irrelevant approach , this article attempted to explain the basic argument for each theory followed by the most important empirical evidence on testing these theories.

"Measuring Investors' preferences attitudes, and perceptions towards dividends: An Empirical Study on the Egyptian Stock Market" by Gad Khaled A. and El Din Ghaydaa Gamalin proceedings of ASBBS Vol 20 no 1. This paper stated that if the company cannot pay cash dividends, they prefer to receive stock dividends compared to not receiving dividends at all. Furthermore, it was found that investors partly want dividends because of transaction costs. Transaction costs were also found to be the reason why investors prefer stock dividends over cash dividends.

OBJECTIVES

The main objective of the study is to find evidence of dividend clienteles in the Indian Stock Market by finding the **correlations** among dividend preferences and the different demographic and other characteristics of investors. The sub objective of the study includes:

1. To study the impact of Demographic characteristics of an investor on his preference towards dividend yielding stocks.
2. To study the impact of dividend distribution tax on an investors preference towards dividend yielding stock
3. To study the impact of the consistency of dividend payout policy of the firm on an investor.
4. To identify the factors affecting the investors in making preference towards dividend paying stocks.

HYPOTHESIS

Hypothesis no 1: There is no association between the dividend distributions and investment in dividend paying stocks

Hypothesis NO 2: There is no association of demand for dividend-paying stocks with the demographic characteristics of an investor

RESEARCH METHODOLOGY

The present study is descriptive in nature and is based on primary as well as secondary data. Secondary data was collected from the research work of many investors and their empirical findings; Indian Stock Market is taken into account while writing this paper. To measure the intensity of parameters open ended and close ended questionnaire was used. A well-structured questionnaire was designed covering various parameter laid down in objectives and was administered on 229 respondents, selected conveniently from Dehradun using snowball sampling method. To collect the necessary information, various parameters were developed with the help of literature. The responses to these parameters were gathered, coded, tabulated and analyzed. Cronbach's alpha test was carried out and found to be .665 which indicates that data is reliable for further test. KMO value was checked using SPSS software to assure data sufficiency. The value was found to be .597 that indicates that data is sufficient to go far factor analysis. Bartlett's test of sphericity was also found to be significant for factor analysis. To test the hypothesis Factor analysis, Mean, standard Deviation. Table 1 indicates the profile of respondents.

TABLE 1: RELIABILITY STATISTICS		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.665	.679	14

TABLE 2: KMO AND BARTLETT'S TEST ^a		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.597
Bartlett's Test of Sphericity	Approx. Chi-Square	1710.956
	df	91
	Sig.	.000
a. Based on correlations		

TABLE 3: DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

Category		Count	Percentage
Age	below 30	49	21.4
	30 to 40	49	21.4
	40 to 50	56	24.5
	50 and above	75	32.8
Gender	Male	109	47.6
	Female	120	52.4
Occupation	SALARIED	75	32.8
	BUSINESS	50	21.8
	RETIRED	47	20.5
	OTHERS	57	24.9
Income Level	Upto Rs15000 PM	80	34.9
	From Rs. 15000 TO Rs. 30000PM	37	16.2
	From Rs. 30000 TO Rs. 40000PM	52	22.7
	More than Rs40000PM	60	26.2
	Total	229	100

Interpretation: The information presented in the above table revealed that 21.4% respondents are below 30 years of age, 21.4% respondents are between 30 to 40 years of age, 24.5% respondents are between 40 to 50 years of age, and 32.8% respondents are above 50 years of age. it is interesting to know that 47.6% respondents are male and rest 52.4% respondents are females. it was found in the study that 34.9% of respondents earn income of less than Rs.15,000, 16.2% respondents earn Rs.15,000 to 30,000, 22.7% respondents earn income between 30,000 to 40,000 and 26.2% of respondents earn income of more than 40,000. Hence the study states either respondents earning less would invest or the group of respondents who are earning more would invest. the present study examines the consistency of occupation of respondents stating that 32.8% respondents are salaried employees, 21.8% respondents are businessmen 20.5% respondents are retired respondents and the rest 24.9% respondents belong to other occupations. Hence it is clear that maximum numbers of respondents are salaried employees

TABLE 4: POSSESSION OF SHARE

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	131	57.2	57.2
	NO	98	42.8	100.0
	Total	229	100.0	

Interpretation: On the basis of the survey the study examined that 57.2% respondents are those who own stock of exchange listed companies in last three years 42.8% respondents are those who do not own stock of exchange listed companies in last three years.

TABLE 5: WHETHER INVESTED IN MUTUAL FUND

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	104	45.4	45.4	45.4
	NO	125	54.6	54.6	100.0
	Total	229	100.0	100.0	

Interpretation: On the basis of the current study 45.4% respondents own mutual funds whereas the rest 54.6% respondents do not own mutual funds.

TABLE 6: TYPE OF DIVIDEND PREFERRED FROM INVESTMENT

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CASH DIVIDEND	106	46.3	46.3	46.3
	STOCK DIVIDEND	56	24.5	24.5	70.7
	BOND DIVIDEND	67	29.3	29.3	100.0
	Total	229	100.0	100.0	

Interpretation: It was amazing to notice that 46.3% respondents were interested in cash dividend, 24.5% respondents were interested in stock dividend, and the rest 29.3% respondents were interested in bond dividend. And the maximum return expected was in the form of cash dividend.

TABLE 7: MOTIVES OF INVESTMENT

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CAPITAL GAIN	60	26.2	26.2	26.2
	SHORT TERM GAIN	74	32.3	32.3	58.5
	REDUCING FUTURE RISK	53	23.1	23.1	81.7
	PROTECTION OF CAPITAL	42	18.3	18.3	100.0
	Total	229	100.0	100.0	

Interpretation: 32.3% respondents invested with the prospective of short term gain, 26.2% respondents invested for capital gain, 23.1% respondents invested to reduce future risk and the remaining 18.3% respondents invested for the protection of capital.

TABLE 8: MOST PREFERRED DIVIDEND POLICY OF FIRM TO INVEST

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	A company retaining less and distributing more	31	13.5	13.5	13.5
	A company retaining profit and retaining 50% as dividend	84	36.7	36.7	50.2
	A company retaining more and distributing less as dividend	38	16.6	16.6	66.8
	A company which does not retain profit and distributes completely as dividend	76	33.2	33.2	100.0
	Total	229	100.0	100.0	

Interpretation: The above fig 1.9 states 13.5% respondents would like to invest in companies which retain less and distributes more in the form of dividend, 36.7% respondents would like to invest in companies which distributes 50% of profit to the share holders, and 16.6% respondents would like to invest in company which retains more and distributes less, and the remaining 33.2% respondents stated that they would like to invest in companies which does not retain profit and distributes completely in the form of dividend.

FACTOR ANALYSIS

To strengthen our understanding toward different factors influencing the investor in favour of particular financial product, it was necessary to carry on factor analysis for identifying factors. On the basis of various literatures, statements were developed regarding the investors' attitude and perception toward Investment Avenue. The perception forms investors' attitudes that are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some investment avenues. These components are viewed together since they are highly interdependent and together represent forces that enhance investment. Keeping these into consideration, an attempt was made to identify the factors of investment. For this, respondents were asked to rate their views on the statements such as: I think that a stock repurchase is good because it is a signal that the stock is undervalued, I would sell those stocks which have stopped paying dividends, I think dividend paying stocks have more stable earnings expectations in future, I would like to invest in mutual funds in addition to holding shares in companies because mutual funds pay more reliable dividends, Shares that pay relatively higher dividends are less risky, In bearish stock market I would invest in dividend paying stocks, I take into consideration the overall stock market trend before investing, I would like to receive stock dividends over cash dividends to avoid transaction costs, I take into consideration dividend distribution tax rate while investing in stocks and funds, I believe that increase in dividends tells about future performance, I think dividend paying stocks follow trustworthy accounting practices, Respondents were asked to rate the various statement on a scale of 1 to 5 in order of their preference. The exploratory factor analysis was used in order to identify the various motivational factors of investment. Principal Component analysis was employed for extracting factors and orthogonal rotation with Varimax was applied. As latent root criterion was used for extraction of factors, only the factors having latent roots or Eigen values greater than one were considered significant; all other factors with latent roots less than one were considered insignificant and disregarded. The extracted factors along with their Eigen values are shown in **table 7**. The factors have been given appropriate names on the basis of variables represented in each case. The names of the factors, the statements, the labels and factor loading have been summarized in **Tables 1.10**. The percentages of variance explained by factors one to five are 3.149, 2.881, 1.497, 1.324, and 1.094 respectively. Large communalities indicate that a large number of variance has been accounted for by the factor solutions. It provides an insight about how many variables can be clubbed together to make a single factor. Eigen value represents the amount of variance associated with the factor. Only factors with Eigen value greater than 1.0 are retained. Factors with variance less than 1.0 are no better than single variable. Often, part of the total variation is called unexplained or residual. Where highest variance percentage is 24.168%. Initial Eigen values are 3.149 highest variations is quantified as variance; then, the more specific term explained variance can be used.

TABLE 9: TOTAL VARIANCE EXPLAINED

TABLE 3: TOTAL VARIANCE EXPLAINED										
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings			
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Raw	1	3.149	25.168	25.168	3.149	25.168	25.168	2.884	23.047	23.047
	2	2.881	23.022	48.189	2.881	23.022	48.189	2.386	19.069	42.115
	3	1.497	11.966	60.156	1.497	11.966	60.156	1.797	14.366	56.481
	4	1.324	10.578	70.734	1.324	10.578	70.734	1.398	11.172	67.653
	5	1.094	8.741	79.475	1.094	8.741	79.475	1.479	11.822	79.475
	6	.803	6.417	85.892						
	7	.461	3.687	89.579						
	8	.341	2.723	92.302						
	9	.277	2.213	94.515						
	10	.211	1.685	96.200						
	11	.179	1.429	97.629						
	12	.119	.948	98.577						
	13	.107	.857	99.434						
	14	.071	.566	100.000						
Extraction Method: Principal Component Analysis.										
a. When analyzing a covariance matrix, the initial eigenvalues are the same across the raw and rescaled solution.										

TABLE 10: ROTATED COMPONENTS MATRIX

	Component				
	1	2	3	4	5
I think that a stock repurchase is good because it is a signal that the stock is Undervalued.	.865				
I would only invest in mutual funds because these funds pay more reliable dividends	.826				
I would sell those stocks which have stopped paying dividends.	.619				
I think dividend paying stocks have more stable earnings expectations in future.	.553				
I would like to invest in mutual funds in addition to holding shares in companies because mutual funds pay more reliable dividends.	.871				
Shares that pay relatively higher dividends are less risky.	.813				
In bearish stock market I would invest in dividend paying stocks.	.668				
I take into consideration the overall stock market trend before investing.					
I would like to receive stock dividends over cash dividends to avoid transaction costs.		.864			
I wish to receive dividends because I believe that present cash inflow is better than expected future capital appreciation.		.711			
Companies paying less/no dividends are more growth oriented.			.847		
I take into consideration dividend distribution tax rate while investing in stocks and funds.			.655		
I believe that increase in dividends tells about future performance.			-.573		
I think dividend paying stocks follow trustworthy accounting practices.					.943

TABLE 11: ROTATED COMPONENTS AND ASSOCIATED VARIABLE

Factor name		Attributes	loading
F1	Reliability of returns	I think that a stock repurchase is good because it is a signal that the stock is Undervalued.	2.863
		I would only invest in mutual funds because these funds pay more reliable dividends	
		I would sell those stocks which have stopped paying dividends.	
		I think dividend paying stocks have more stable earnings expectations in future.	
F2	Risk reduction	I would like to invest in mutual funds in addition to holding shares in companies because mutual funds pay more reliable dividends.	2.352
		Shares that pay relatively higher dividends are less risky.	
		In bearish stock market I would invest in dividend paying stocks.	
F3	Liquidity	I take into consideration the overall stock market trend before investing.	1.575
		I would like to receive stock dividends over cash dividends to avoid transaction costs.	
		I wish to receive dividends because I believe that present cash inflow is better than expected future capital appreciation.	
F4	Growth perception	Companies paying less/no dividends are more growth oriented.	.929
		I take into consideration dividend distribution tax rate while investing in stocks and funds.	
		I believe that increase in dividends tells about future performance.	
F5	Trust	I think dividend paying stocks follow trustworthy accounting practices.	.943

CONCLUSIONS AND SUGGESTIONS

Research findings support the balancing theory that the effect of investment decisions on financing decisions depends on the reliability of return, which are addressed by the firms. The present empirical evidence shows that in less uncertainty (less risky) condition, investors tend to invest more as compared to situations which are more risky where investors tend to invest less. The present study shows that opportunity investment (future growth) more powerful influences financing decision than actual investments (realized growth). Liquidity is another factor which affects the investors on their investment plan. The behavior represents the actions which are readily seen by others but it is very important to know the basic motive which was behind the action. Investing in any financial instrument is just an action taken to fulfill some motives. According to our findings these could be classified into six motives. These are reliability, riskreduction, liquidity, growth perception and trust

SCOPE FOR FUTURE RESEARCH

With the harboring immense growth potential, the Researchers can undertake detailed study on the factors which affect the investor's decision making towards particular stocks, how, When, where to what extent these factors cast their influence buying aParticular brand or formulation. The sector is very wide, varied and diverseThus making it very attractive for future studies

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