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ASSOCIATION BETWEEN DIVIDEND DECISION AND FINANCIAL PERFORMANCE: AN EMPIRICAL ANALYSIS

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ABSTRACT

Dividend decision is an important function of the managers. This study attempts to find the relationship between the profitability ratios, operating ratios, liquidity ratios, with the dividend payout ratio of the company. For this study companies listed on the BSE 200 index are taken from the year 2006-2008 through PROWESS and ICICI DIRECT. There are three research questions addressed by this study. The first is to examine the significance of dividend decision due to financial performance indicator of the firms. The second is to examine the significance of dividend decision to the dividend yield percentage. The third is to examine the significance of dividend decision to the average annual return. Financial performance/indicator here is measured in terms of liquidity ratio, profitability ratio, and the operating ratio. Descriptive statistics was used along with the non parametric test of significance i.e. Chi-square test to find out the significant association between the dividend decision and the financial performance of the companies. Also the strength of the association was also calculated using Cramer's V.

KEYWORDS

BSE 200 INDEX, CHI-SQUARE TEST, CRAMER'S V, ICICI DIRECT, PROWESS.

INTRODUCTION

Dividend decision is an important function of the managers. Literature suggests that dividend decision of the firm is influenced by various company specific factors and industry specific factors. Prior studies suggest that dividend decision of the firm is influenced by the cash flow of the firm, liquidity of the firm and profitability of the firm. Few studies have investigated the association between dividend decisions and financial performance/indicator of the firms (Anand, 2000; Bhattacharya, 1979; Davis & Pain, 2002; Linter, 1956a; Linter, 1956b; Modigliani & Miller, 1958; Miller & Modigliani, 1961). The study investigates the association between dividend decisions of the company with its financial performance/indicator measured in terms of liquidity, profitability and operating performance. The survey on BSE 200 companies suggests that liquidity measures are associated with dividend decisions which support the existing state of literature. Surprisingly the study did not find significant association between dividend decision and profitability. The study supports the findings that the dividend decision of the firm is very less associated with the financial performance/indicator of the firm (Anand, 2002; Omet, 2004).

This study attempts to find the relationship between the profitability ratios, operating ratios, liquidity ratios, with the dividend payout ratio of the company. For this study companies listed on the BSE 200 index are taken and the financial performance/indicator is measured through their different ratio like profitability ratio, operating ratio, liquidity ratio.

STATEMENT OF THE PROBLEM

In this paper, we examine whether the change in the financial position of the companies which is measured through the indicator of profitability ratios, the operating ratios, the liquidity ratios of the firm can explain their dividend decision in an emerging economy like India. Using detailed financial performance of 200 BSE listed Indian corporate firms over the period 2006-08; we try to answer some of the questions raised herewith. Is the financial performance of the firm influence the dividend decision of the firm?

These are some of the important questions which researchers are trying to explore in the recent literature of factor influence the dividend policy decision of the corporate India. In this context, we investigate Indian corporate firms in order to provide new evidence on how the financial performances influence the dividend decision. In finance literature the relationship between the financial performance and the dividend decision has received the considerable attention. According to the Manoj Anand there exists very less correlation between the firm financial position and dividend decision of the firm. The Argument tells us that –there are very less but positive correlation between the dividend payout ratio and the market value of the firm. According the finding of the paper in (1961) which declares dividend as irrelevant in a world without taxes, transaction cost, or other market imperfection and financial performance decision of the firm is not affected by the dividend. According to Lazo (1999) study find out that companies use dividends as a signal of their future earnings. There is a significant negative correlation between the variables –'dividend payout ratio' and 'investors are indifferent between receiving dividends and capitals gains.

REVIEW OF LITERATURE

The nature of relation between the dividend decision and the financial performance/indicator of the firm's, have been the core issue in the factor influence the dividend decision policy of the corporate India. From a firm's point of view, dividend decision is affected by the profitability and liquidity of the firm. The most important internal factor is that dividend decision of the company depends upon on company board of director. The effectiveness of every firm depends on the effectiveness of the board. There are many factors which may affect the performance of the firm life the board of directors holding in the company, promoters holding, non promoters holding, individuals holding, foreign investors holding, etc. Various studies have been done in this aspect examining the factor affecting the dividend decision and the performance of the company. In general, public sector firms are argued to be less efficient than private sector firms due to low powered managerial incentives and interest alignment. There could be reasons as government pursues multiple objectives, some of which are hard to be contracted upon. Shareholding pattern in such cases can make a difference in terms of firm's performance in the framework to capture the different dimensions influencing the dividend policy decisions of the corporate India. Linter (1956) made an analysis of the dividend policy of the companies and concluded that firms have three important concerns. Firstly, firms have long-run target dividend payout ratios. The payout ratio is high in case of mature companies with stable earnings and low in case of growth companies. Secondly, the dividends change follows shift in long-term sustainable earnings. The managers are more concerned with dividend changes than on absolute level. Finally, manager does not intend to reverse the change in dividends.

Fama and Babiak (1968) test of Linter's model suggest that it provides a good explanation of how companies decide on dividends rate. Asquith and Mullins Jr. (1983) study investigates the impact of dividends on stockholders' wealth by analyzing 168 firms that either pays the first dividend in their corporate history. Subsequent dividend increases for same the sample of firms have also been investigated. The findings are consistent with the view that dividends convey unique and valuable information to the investor. Lang and Litzenberger (1989) study suggest that information content of negative changes in dividends is greater than that of positive changes. Bond and Mougoue (1991), and Benartzi et al(1997) critically examined the applicability of the Lintner's mathematical model to describe the dividend decision process. Most of these studies have been done to identify the factors that corporate finance managers consider in laying down the dividend policy. The study samples a large cross section of 474 private sector and top 51 public sector top firms of corporate India based on market capitalization. In all, 81 Chief Financial officers (CFOs) form a broad cross section of the firms responded to the survey, for a response rate of 15.43%. According to the Anand survey the company they have selected are the India's most valuable 500 companies and ranks them based on their market capitalization. These reports consist of the private sector and India's 75 most valuable PSUs for the year 1999-2000. These constitutes the extent of the corporate India for the present study. So they exclude the 26 NBFCs from the private sector bank so they take the sample size of the 474 firms in the private sector. The study by the Anand use

some factors which accounted for 18.95%, 13.5% and 11.05% of the total variance explained. This show that the variation is very less while taking the dividend decision but it affected by the dividend payout ratio.

RESEARCH METHODOLOGY

There are three research questions addressed by this study. The first is to examine the significance of dividend decision due to financial performance indicator of the firms. The second is to examine the significance of dividend decision to the dividend yield percentage. The third is to examine the significance of dividend decision to the average annual return. Financial performance/indicator here is measured in terms of liquidity ratio, profitability ratio, and the operating ratio.

RESEARCH HYPOTHESES

The following is the list of the hypotheses that are to be tested in this study.

- Hypothesis 1: There is no significant association between quick ratio and the dividend payout ratio.
- Hypothesis 2: There is no significant association between current ratio and the dividend payout ratio.
- Hypothesis 3: There is no significant association between cash ratio and the dividend payout ratio.
- Hypothesis 4: There is no significant association between average PBT/total income ratio and the dividend payout ratio.
- Hypothesis 5: There is no significant association between ROCE and dividend payout ratio.
- Hypothesis 6: There is no significant association between PAT/net sale ratio and the dividend payout ratio.
- Hypothesis 7: There is no significant association between Debt equity ratio and the dividend payout ratio.
- Hypothesis 8: There is no significant association between Debt to capital ratio and the dividend payout ratio.
- Hypothesis 9: There is no significant association between proprietary ratio and the dividend payout ratio.
- Hypothesis 10: There is no significant association between dividend yield and the dividend payout ratio.
- Hypothesis 11: There is no significant association between annual return and the dividend payout ratio.

RESEARCH DESIGN

This study was conducted in three stages. In the first stage, relevant literatures were reviewed to propose the hypothesis on the dividend decision and the financial performance of the company. In the second stage, Dividend payout ratio and the financial performance indicator of the BSE 200 listed companies for the year 2008 was collected from the CMIE database PROWESS and then the data for various financial performance parameters for the year 2006-2008 was collected from PROWESS and ICICIDIRECT. In the next stage, association between the various dividend decision of the company and financial performance was measured. The total companies in the study were 200 from the BSE 200 listed companies.

STATISTICAL METHOD USED

Descriptive statistics was used along with the non parametric test of significance i.e. Chi-square test to find out the significant association between the dividend decision and the financial performance of the companies. Also the strength of the association was also calculated using Cramer’s V.

ANALYSIS AND RESULTS

1. Null Hypothesis: There is no significant association between quick ratio and the dividend payout ratio. To measure the association between of the quick ratio of these company and dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the quick ratio of the company and dividend payout ratio. To test if the quick ratio of the company and dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer’s V. The value of .135 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between quick ratio of the company and dividend payout ratio is accepted.

TABLE 1a: QUICK RATIO OF THE COMPANY AND DIVIDEND PAYOUT RATIO

		Dividend payout ratio					
			Less than .5325	.5325-.9000	.9000-1.8025	Above 1.8025	Total
Quick Ratio	Low	Count	11	7	16	15	49
		Expected Count	12.3	11.8	12.5	12.5	49
		% within quick ratio	22.40%	14.3%	32.7%	30.60%	100.00%
	Low-Moderate	Count	7	16	11	12	46
		Expected Count	11.5	11.0	11.7	11.7	46
		% within quick ratio	15.2%	34.8%	23.9%	26.1%	100.00%
	Moderate-High	Count	14	12	10	14	50
		Expected Count	12.5	12.0	12.8	12.8	50
		% within quick ratio	28.0%	24.0%	20.0%	28.0%	100.00%
	High	Count	50	48	51	51	55
		Expected Count	50.0	48.0	51.0	51.4	55
		% within quick ratio	25.0%	24.0%	25.5%	25.5%	100.00%
Total	Count	50	48	51	51	200	
	Expected Count	50	48	51	51	200	
	% within quick ratio	25.0%	24.0%	25.5%	25.5%	100.00%	
Chi-Square Tests							
		Value	Df	Asymp. Sig. (2-sided)			
	Pearson Chi-Square	10.948 ^a	9	0.279			
	Likelihood Ratio	11.236	9	0.260			
Strength of association test							
		Value	Approx. Sig.				
	Cramer's V	0.135	0.279				

2. Null Hypothesis: There is no significant association between current ratio and the dividend payout ratio. To measure the association between current ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is significant association between current ratio and the dividend payout ratio. To test if the current ratio and dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are statistically associated and the result was found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer’s V. The value of .167 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between current ratio and dividend payout ratio is rejected.

TABLE 2a: CURRENT RATIO AND THE DIVIDEND PAYOUT RATIO

		Dividend payout ratio					
			Less than 1.080	1.080-1.4800	1.4800-2.2175	Above 2.2175	Total
Current ratio	Low	Count	9	8	13	19	49
		Expected Count	11.5	12.5	8.9	14.2	49
		% within current ratio	18.4%	16.30%	32.40%	38.80%	100.00%
	Low-Moderate	Count	5	18	9	14	46
		Expected Count	10.8	11.7	10.1	13.3	46
		% within current ratio	10.90%	39.10%	19.60%	30.4%	100.00%
	Moderate-High	Count	14	11	10	15	50
		Expected Count	11.8	12.8	11.0	14.5	50
		% within current ratio	28.0%	22.0%	20.0%	30.0%	100.00%
	High	Count	19	14	12	10	55
		Expected Count	12.9	14	12.1	16	55
		% within current ratio	34.5%	25.50%	21.80%	18.2%	100.00%
Total	Count	47	51	44	58	200	
	Expected Count	47	51	44	58	200	
	% within current ratio	23.50%	25.50%	22.0%	29.0%	100.00%	
Chi-Square Tests			Value	Df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	16.724 ^a	9	0.053		
		Likelihood Ratio	17.107	9	0.047		
Strength of association test			Value	Approx. Sig.			
		Cramer's V	0.167	0.053			

3. Null Hypothesis: There is no significant association between cash ratio and the dividend payout ratio.

To measure the association between cash ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the cash ratio and the dividend payout ratio. To test if the cash ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .134 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between cash ratio and the dividend payout ratio is accepted.

TABLE 3a: CASH RATIO AND DIVIDEND PAYOUT RATIO

		Dividend Payout Ratio				
			Less than .5500	.5500-1.3750	1.3750-3.1225	Above 3.1225
Cash ratio	Low	Count	8	15	10	16
		Expected Count	11.5	12.7	12.5	12.3
		% within cash ratio	16.3%	30.6%	20.40%	32.7%
	Low-Moderate	Count	11	10	16	9
		Expected Count	10.8	12	11.7	11.5
		% within cash ratio	23.9%	21.7%	34.8%	19.60%
	Moderate-High	Count	12	9	15	14
		Expected Count	11.8	13	12.8	12.5
		% within cash ratio	24.0%	18.0%	30.0%	28.0%
	High	Count	16	18	10	11
		Expected Count	12.9	14.3	14	13.8
		% within cash ratio	8.0%	32.70%	18.2%	20.0%
Total	Count	47	52	51	50	
	Expected Count	47	52	51	50	
	% within cash ratio	23.50%	26.0%	25.50%	25.0%	
Chi-Square Tests			Value	Df	Asymp. Sig. (2-sided)	
		Pearson Chi-Square	10.750 ^a	9	0.293	
		Likelihood Ratio	10.863	9	0.285	
Strength of association test			Value	Approx. Sig.		
		Cramer's V	0.134	0.293		

4. Null Hypothesis: There is no significant association between PBT/total income ratio and the dividend payout ratio.

To measure the association between PBT/total income ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the PBT/total income ratio and the dividend payout ratio. To test if the PBT/total income ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two

variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .110 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between PBT/total income ratio and the dividend payout ratio is accepted.

TABLE 4 a: PBT/TOTAL INCOME AND DIVIDEND PAYOUT RATIO

		Dividend Payout Ratio					
			Less than 9.5200	9.5200-16.3200	16.3200-25.8750	Above 25.8750	Total
PBT/Total income	Low	Count	14	10	12	13	49
		Expected Count	12	12	13	12	49
		% within PBT/Total income	28.60%	20.4%	24.50%	26.5%	100.00%
	Low-Moderate	Count	11	15	10	10	46
		Expected Count	11.3	11.3	12.2	11.3	46
		% within PBT/Total income	23.90%	32.6%	21.70%	21.7%	100.00%
	Moderate-High	Count	7	12	16	14	50
		Expected Count	12.3	12.3	13.3	12.3	50
		% within PBT/Total income	14.0%	26.0%	32%	28.0%	100.00%
	High	Count	17	11	15	12	55
		Expected Count	13.5	13.5	14.6	13.5	55
		% within PBT/Total income	30.90%	20.0%	27.3%	21.8%	100.00%
Total	Count	49	49	53	49	200	
	Expected Count	49	49	53	49	200	
	% within PBT/Total income	24.5%	24.5%	26.5%	24.50%	100.00%	
Chi-Square Tests			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	7.268 ^a	9	0.583		
		Likelihood Ratio	7.519	9	0.983		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.110	0.609			

5. Null Hypothesis: There is no significant association between ROCE and dividend payout ratio.

To measure the association between ROCE and dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between ROCE and dividend payout ratio. To test if the ROCE and dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .145 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between ROCE and dividend payout ratio is accepted.

TABLE 5a: ROCE AND DIVIDEND PAYOUT RATIO

		Dividend payout ratio					
			Less than 6.6500	6.6500-16.3200	16.3200-25.8750	Above 25.8750	Total
ROCE	Low	Count	15	13	11	10	49
		Expected Count	11.8	12.7	12.3	12.3	49
		% within ROCE	30.6%	26.5%	22.4%	20.4%	100.00%
	Low-Moderate	Count	12	16	10	8	46
		Expected Count	11	12	11.5	11.5	46
		% within	26.10%	34.8%	21.7%	17.4%	100.00%
	Moderate-High	Count	7	16	13	14	50
		Expected Count	12	13	12.5	12.5	50
		% within ROCE	14.0%	32.0%	26%	28.0%	100.00%
	High	Count	14	7	16	18	55
		Expected Count	13.2	14.3	13.8	13.8	55
		% within ROCE	25.5%	12.70%	29.1%	32.7%	100.00%
Total	Count	48	52	50	50	200	
	Expected Count	48	52	50	50	200	
	% within ROCE	24.0%	26.0%	25.0%	25.0%	100.00%	
Chi-Square Tests			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	12.580 ^a	9	0.183		
		Likelihood Ratio	13.595	9	0.137		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.145	0.183			

6. Null Hypothesis: There is no significant association between PAT/net sale ratio and the dividend payout ratio.

To measure the association between PAT/net sale ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the PAT/net sale ratio and the dividend payout ratio. To test if PAT/net sale ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .124 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between PAT/net sale ratio and the dividend payout ratio is accepted.

TABLE 6a: PAT/NET SALE RATIO AND DIVIDEND PAYOUT RATIO

		Dividend payout ratio					
			Less than 3.5500	3.5500-8.1250	8.1250-16.3850	Above 16.3850	Total
PAT/net sale	Low	Count	17	12	9	11	49
		Expected Count	11.8	12.7	12.3	12.3	49
		% within PAT/net sale	34.70%	24.5%	18.4%	22.4%	100.00%
	Low-Moderate	Count	13	12	12	9	46
		Expected Count	11	12	11.5	11.5	46
		% within PAT/net sale	28.3%	26.1%	26.10%	19.6%	100.00%
	Moderate-High	Count	9	11	13	17	50
		Expected Count	12	13	12.5	12.5	50
		% within PAT/net sale	18%	22%	26%	34%	100.00%
	High	Count	9	17	16	13	55
		Expected Count	13.2	14.3	13.8	13.8	55
		% within PAT/net sale	16.4%	30.9%3	29.1%	23.6%	100.00%
	Total	Count	48	52	50	50	200
		Expected Count	48	52	50	50	200
		% within PAT/net sale	24.0%	26.0%	25.0%	25.0%	100.00%
Chi-Square Tests							
			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	9.234 ^a	9	0.416		
		Likelihood Ratio	9.113	9	0.427		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.124	0.416			

7. Null Hypothesis: There is no significant association between Debt equity ratio and the dividend payout ratio.

To measure the association between Debt equity ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the Debt equity ratio and the dividend payout ratio. To test if the Debt equity ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .113 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between Debt equity ratio and the dividend payout ratio is accepted.

TABLE 7a: DEBT EQUITY RATIO AND THE DIVIDEND PAYOUT RATIO

		Dividend Payout ratio					
			Less than .2025	.2025-.6200	.6200-1.2000	Above 1.2000	Total
Debt equity ratio	Low	Count	11	17	9	12	49
		Expected Count	11	13.5	12.3	12.3	49
		% within debt equity ratio	22.4%	34.7%	18.4%	24.50%	100.00%
	Low-Moderate	Count	7	10	13	16	46
		Expected Count	10.4	12.7	11.5	11.5	46
		% within debt equity ratio	15.2%	21.7%	28.3%	34.8%	100.00%
	Moderate-High	Count	12	14	15	9	50
		Expected Count	11.3	13.8	12.5	12.5	50
		% within debt equity ratio	24.0%	28.0%	30%	18.0%	100.00%
	High	Count	15	14	13	13	55
		Expected Count	12.4	15.1	13.8	13.8	55
		% within debt equity ratio	27.3%	25.5%	23.6%	23.6%	100.00%
	Total	Count	45	55	50	50	200
		Expected Count	45	55	50	50	200
		% within debt equity ratio	22.5%	27.5%	25.0%	25%	100.00%
Chi-Square Tests							
			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	7.642 ^a	9	.571		
		Likelihood Ratio	7.686	9	.566		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.113	.571			

8. Null Hypothesis: There is no significant association between Debt to capital ratio and the dividend payout ratio.

To measure the association between Debt to capital ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the Debt to capital ratio and the dividend payout ratio.

To test if the Debt to capital ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .124 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between Debt to capital ratio and the dividend payout ratio is accepted.

TABLE 8a: DEBT TO CAPITAL RATIO AND DIVIDEND PAYOUT RATIO

		Dividend payout ratio					
			Less than .1425	.1425- .4000	.4000-.5900	Above .5900	Total
Debt to capital ratio	Low	Count	11	16	11	11	49
		Expected Count	11.3	13	12.3	12.5	49
		% within debt to capital ratio	22.4%	32.70%	22.40%	22.40%	100.00%
	Low – Moderate	Count	7	10	11	18	46
		Expected Count	10.6	12.2	11.5	11.7	46
		% within debt to capital ratio	15.2%	21.7%	23.00%	39.10%	100.00%
	Moderate-High	Count	13	15	14	8	50
		Expected Count	11.5	13.3	12.5	12.8	50
		% within debt to capital ratio	26.0%	30.%	28.0%	16.0%	100.00%
	High	Count	15	12	14	14	55
		Expected Count	12.7	14.6	13.8	14.0	55
		% within debt to capital ratio	27.3%	21.8%	25.5%	25.5%	100.00%
	Total	Count	46	53	50	51	200
		Expected Count	46	53	50	51	200
		% within debt to capital ratio	23.%	26.5%	25.%	25.50%	100.00%
Chi-Square Tests							
			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	9.263 ^a	9	0.413		
		Likelihood Ratio	9.197	9	0.419		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.124	0.413			

9. Null Hypothesis: There is no significant association between proprietary ratio and the dividend payout ratio.

To measure the association between proprietary ratio and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between the proprietary ratio and the dividend payout ratio. To test if the proprietary ratio and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .123 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between proprietary ratio and the dividend payout ratio is accepted.

TABLE 9a: PROPRIETARY RATIO AND THE DIVIDEND PAYOUT RATIO

V9		Dividend Payout ratio					
			Less than 4.7300	4.7300-7.990	7.9900-12.4750	Above 12.4750	Total
Proprietary ratio	Low	Count	17	12	11	9	49
		Expected Count	12.3	12.3	11.5	13	49
		% within proprietary ratio	34.7%	24.5%	22.4%	18.4%	100.00%
	Low-moderate	Count	13	11	13	9	46
		Expected Count	11.5	11.5	10.8	12.2	46
		% within proprietary ratio	28.3%	23.9%	28.3%	19.6%	100.00%
	Moderate-High	Count	8	14	10	18	50
		Expected Count	12.5	12.5	11.8	13.3	50
		% within proprietary ratio	16.0%	28.0%	20.0%	36.0%	100.00%
	High	Count	12	13	13	17	55
		Expected Count	13.8	13.8	12.9	14.6	55
		% within proprietary ratio	21.8%	23.6%	23.6%	30.9%	100.00%
Total	Count	50	50	47	53	200	
	Expected Count	50	50	47	53	200	
	% within proprietary ratio	25.0%	25.0%	23.5%	26.5%	100.00%	
Chi-Square Tests			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	9.020 ^a	9	0.435		
		Likelihood Ratio	9.081	9	0.430		
Strength of association test			Value	Approx. Sig.			
		Cramer's V	0.123	0.435			
		Dividend Payout ratio					
			Less than 4.7300	4.7300-7.990	7.9900-12.4750	Above 12.4750	Total
Average of proprietary ratio	Low	Count	17	12	11	9	49
		Expected Count	12.3	12.3	11.5	13	49
		% within proprietary ratio	34.7%	24.5%	22.4%	18.4%	100.00%
	Low-moderate	Count	13	11	13	9	46
		Expected Count	11.5	11.5	10.8	12.2	46
		% within proprietary ratio	28.3%	23.9%	28.3%	19.6%	100.00%
	Moderate-High	Count	8	14	10	18	50
		Expected Count	12.5	12.5	11.8	13.3	50
		% within proprietary ratio	16.0%	28.0%	20.0%	36.0%	100.00%
	High	Count	12	13	13	17	55
		Expected Count	13.8	13.8	12.9	14.6	55
		% within proprietary ratio	21.8%	23.6%	23.6%	30.9%	100.00%
Total	Count	50	50	47	53	200	
	Expected Count	50	50	47	53	200	
	% within proprietary ratio	25.0%	25.0%	23.5%	26.5%	100.00%	
Chi-Square Tests			Value	df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	9.020 ^a	9	0.435		
		Likelihood Ratio	9.081	9	0.430		
Strength of association test			Value	Approx. Sig.			
		Cramer's V	0.123	0.435			

10. Null Hypothesis: There is no significant association between yield and the dividend payout ratio.

To measure the association between yield and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between of yield and the dividend payout ratio. To test if the yield and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are statistically associated and the result was found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .371 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between yield and the dividend payout ratio is rejected.

TABLE 10a: DIVIDEND YIELD AND DIVIDEND PAYOUT RATIO

			Dividend Payout Ratio				
			Less than 25.6700	25.6700-72.1650	72.1650-152.3300	Above 152.3300	Total
Dividend yield	Low	Count	32	9	6	2	49
		Expected Count	11.8	13.2	11.5	12.5	49
		% within dividend yield	65.3%	18.4%	12.2%	4.1%	100.00%
	Low-Moderate	Count	8	21	10	7	46
		Expected Count	11	12.4	10.8	11.7	46
		% within dividend yield	17.4%	45.7%	21.7%	15.2%	100.00%
	Moderate-High	Count	1	10	18	21	50
		Expected Count	12	13.5	11.8	12.8	50
		% within dividend yield	2.0%	20%	36%	42%	100.00%
	High	Count	7	14	13	21	55
		Expected Count	13.2	14.9	12.9	14	55
		% within dividend yield	12.7%	25.5%	23.6%	38.2%	100.00%
Total	Count	48	54	47	51	200	
	Expected Count	48	54	47	51	200	
	% within dividend yield	24%	27%	23.5%	25.5%	100.00%	
Chi-Square Tests							
			Value	Df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	82.460 ^a	9	0.000		
		Likelihood Ratio	82.015	9	0.000		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.371	0.000			

11. Null Hypothesis: There is no significant association between annual return and the dividend payout ratio.

To measure the association between annual return and the dividend payout ratio cross tabulation was used. The results were shown in Table. The results state that there is no significant association between annual return and the dividend payout ratio. To test if the annual return and the dividend payout ratio is statistically associated with each other, chi-square test was conducted. The result of the chi-square test suggests that the above two variables are not statistically associated and the result was not found to be significant at 0.1 levels. Further, the strength of the association was measured by Cramer's V. The value of .154 shows weak association between the above two variables. Hence the hypothesis that there is no significant association between annual return and the dividend payout ratio is accepted.

TABLE 11a: ANNUAL RETURN AND DIVIDEND PAYOUT RATIO

			Dividend Payout Ratio				
			Less than 15.2675	15.2675-37.6550	37.6550-70.1975	Above 70.1975	Total
Annual return	Low	Count	18	8	9	14	49
		Expected Count	12.3	11.8	12.7	12.3	49
		% within annual return	36.7%	16.3%	18.4%	28.60%	100.00%
	Low-Moderate	Count	10	13	8	15	46
		Expected Count	11.5	11	12	11.5	46
		% within annual return	21.7%	28.3%	17.4%	32.6%	100.00%
	Moderate-High	Count	8	15	18	9	50
		Expected Count	12.5	12	13	12.5	50
		% within annual return	16%	30%	36%	18%	100.00%
	High	Count	14	12	17	12	55
		Expected Count	13.8	13.2	14.3	13.8	55
		% within annual return	25.5%	21.8%	30.9%	21.8%	100.00%
	Total	Count	50	48	52	50	200
		Expected Count	50	48	52	50	200
		% within annual return	25%	24.0%	26.0%	25.0%	100.00%
Chi-Square Tests							
			Value	Df	Asymp. Sig. (2-sided)		
		Pearson Chi-Square	14.288 ^a	9	0.112		
		Likelihood Ratio	14.351	9	0.110		
Strength of association test							
			Value	Approx. Sig.			
		Cramer's V	0.154	0.112			

CONCLUSION

Dividend decision is an important function of the managers. Literature suggests that dividend decision of the firm is influenced by various company specific factors and industry specific factors. Prior studies suggest that dividend decision of the firm is influenced by the cash flow of the firm, liquidity of the firm and profitability of the firm. Few studies have investigated the association between dividend decisions and financial performance/indicator of the firms (Anand, 2000; Bhattacharya, 1979; Davis & Pain, 2002; Linter, 1956a; Linter, 1956b; Modigliani & Miller, 1958; Miller & Modigliani, 1961). The study investigates the association between dividend decisions of the company with its financial performance/indicator measured in terms of liquidity, profitability and operating performance. The survey on BSE 200 companies suggests that liquidity measures are associated with dividend decisions which support the existing state of literature. Surprisingly the study did not find significant association between dividend decision and profitability. The study supports the findings that the dividend decision of the firm is very less associated with the financial performance/indicator of the firm (Anand, 2002; Omet, 2004).

Null hypothesis	Chi square test at .1 level of significance	Cramer's v	Results
There is no significant association between quick ratio and the dividend payout ratio.	.279	.135	Not significant so null hypothesis accepted
There is no significant association between current ratio and the dividend payout ratio.	.053	.167	Significant ,so null hypothesis is rejected
There is no significant association between cash ratio and the dividend payout ratio.	.293	.134	Not significant ,so null hypothesis accepted
There is no significant association between PBT/total income and the dividend payout ratio.	.583	.110	Not significant ,so null hypothesis accepted
There is no significant association between ROCE and the dividend payout ratio.	.183	.183	Not significant ,so null hypothesis accepted
There is no significant association between PAT/Net sale and the dividend payout ratio.	.416	.124	Not significant ,so null hypothesis accepted
There is no significant association between Debt equity ratio and the dividend payout ratio.	.571	.113	Not significant ,so null hypothesis accepted
There is no significant association between debt to capital ratio and the dividend payout ratio.	.413	.124	Not significant ,so null hypothesis accepted
There is no significant association between proprietary ratio and the dividend payout ratio.	.435	.123	Not significant ,so null hypothesis accepted
There is no significant association between dividend yield and the dividend payout ratio.	0.00	.371	Significant ,so null hypothesis is rejected
There is no significant association between annual return and the dividend payout ratio.	.112	.154	Not significant ,so null hypothesis accepted

SUMMARY OF THE FINDINGS

This study provides the relationship between the dividend decision and the financial performance of the company. The study finds the relationship between the dividend of the company and its performance measured by various indicators. And we find that there is no significant association between the dividend decision and the financial performance of the company. Only on the debt equity ratio and the PBT/total income of the company is affected by the promoters holding in the company which in higher in case of companies with dividend decision.

In case of other financial performance indicator, we find that there is no significant relation between the financial performance and dividend decision of the companies. We find that there is no effect of dividend decision of the company with the liquidity ratio (quick ratio, cash ratio, current ratio), profitability ratio (avg. of PAT/Total income, avg. of ROCE, avg. of PAT/net sale), and operating ratio (Debt equity, debt to capital, proprietary ratio).

The results for the dividend given by the company, its price earnings ratio, dividend payout ratio are significant.

IMPLICATIONS OF THE FINDINGS

The finding of this study does not support the overall hypothesis of association between dividend decision and financial performance/indicators of the company. The findings of the study are in line with other studies conducted in this area (Anand, 2000; Pain, 2002). Further the study supports the belief that liquidity position of the company is associated with dividend decision of the company. There are large numbers of theoretical literature supporting this argument (Miller and Modigliani, 1958; Casey & Dicken, 2000). The study supports the argument of the importance of liquidity in dividend decision of the company. Hence the findings of the study is key to various class of investors in the equity market specifically retail investors investing to get current return from investment in terms of dividend earnings. The current ratio can be used as an important heuristics to compare companies while making investment decision. This becomes more important with the fact that there are large amount of information prevailing in the market and retail investors find difficult in assimilating information. Further the study can be expanded by increasing the sample size and the period of study to get further insight. The study can further be elaborated by developing the causal relationship between liquidity and dividend decision.

LIMITATION AND SUGGESTION FOR FUTURE RESEARCH

There are several key implications that deserve the attention of future research as a result of the findings and limitations of this study those implications will be discussed in this study.

First, data regarding the key variables were selected for three year period. The period was small to draw meaningful results. Further the period does not take into account economic cycle and the business cycle of the company. An expanded period may give more insights into the relationship studied.

Second, the study only reveals the association and does not measure the causal relationship. Further studies can expand on this direction.

Third limitation of the study is that we seen the results at 10% significance level. A more stringent process might further influence the findings of the study

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