THE SIGNIFICANCE OF DIVIDEND POLICY IN FOR GROWTH IN AN ORGANISATION

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ABSTRACT
One of the most critical policies in corporate finance is the dividend policy, not just for the corporation, but also for shareholders, clients, staff, regulatory bodies and the government. Dividend choices are critical since other financial choices rely on them. This covers theoretical review on the study of the relationship amongst growth and opportunities and dividend policy.

Keywords
opportunities, financial, banking, industry, payment, pattern

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Introduction

The company's importance under Modigliani and Miller Approach (1961) is independent of its dividend strategy since it is calculated by maximizing investments. Therefore, the decision of a company's dividend does not change the shareholder's income. Gordon and Walter put forward the principle of the "Bird in hand" (1963). As per this hypothesis, since low risk investors would still choose dividends over capital gains. As a consequence, analysts have been confused by the issue "why the shareholder's capital is influenced by the dividend strategy" for several years.

What is dividend?
1. The word dividend applies to that portion of profit (after tax) which is disturbed among the owners / shareholders of the corporation.
2. The dividend can be described as the gain that the shareholder earns from the corporation on his/her shareholding.

Dividend determination is one of the toughest decisions that the management makes in the distribution of earnings. This can be reinvested or paid to shareholders within the company. Investors pay attention to dividends so that they have a return on their investments or a chance to sell their shares in the future at a greater price. Looking closely at the dividend, lenders and they believe, the higher the amount of dividend is distributed, less money would be left for repayment of their claims. Dividend policy is the strategy adopted by a corporation in determining the volume and duration of earnings delivery to shareholders over time. Dividend distributions keep the owners satisfied. On the other hand, it decreases the internal supply of funds for making investments, which lowers the company's development and, in exchange, impacts the shareholders' income.
Therefore, the judgment on the sum of profits to be distributed as a dividend is one of the main financial choices made by the company's managers. Dividend strategy is the most critical mechanism for corporate finance. This is not only from the point of view of the corporation, but also from the point of view of customers, buyers, staff, regulators and the government. The inherent value of this strategy derives from the reality that it is a key mechanism in which all financial policies move, and is thus essential to the success and valuation of companies. The dividend strategy of a corporation applies to the option of whether to offer cash to shareholders, in what form, and in what sum. The most evident and significant element of this approach is the firm's determination whether to offer a cash dividend, how big a cash dividend should be. In a wider context, dividend strategy often includes choices such as whether to allocate capital to owners by issuing bonus shares or specifically allocate dividends. Non-traditional ways of dividend distributions, in particular equity repurchases, are

far more widely employed nowadays and hence the dividend determination is far more nuanced and complicated than in the past.

In a company, the financial manager would usually be interested in three forms of decisions, including acquisition, borrowing and dividend decisions. Investment choices include the diligent evaluation of feasible and sustainable investment ideas, the distribution of funds to investment initiatives with a view to achieving the net present value of the company's potential profits and optimizing its worth. Financial decisions apply to the combination of debt and equity in order to achieve optimal liquidity to reach potential business prospects and often to ensure that working capital is efficiently handled. Dividend judgments surrounding the calculation of the amount of dividends to be paid to investors and the duration of those distributions. Dividend declaration is known to be one of the most important methods for the transfer of capital to shareholders. The centre of the dividend strategy involves a determination as to whether to allocate income to shareholders in the form of a pay-out or to maintain income in the form of retained earnings.

Dividend is a pay-out to an investor who places his capital at a risk in business. Dividend will compensate current owners and allow them to acquire new common stock issues at elevated rates. On the other hand, investors pay more for dividend-paying stocks as they expect their investment to benefit or transfer to sell their stock at a better price in the future(Black, 1976).Dividend policy can be described as a trade-off between the sum of retained earnings and the amount of cash distributed or securities issued. The dividend pay-out of a business is regarded differently by various classes of citizens affiliated with the firm. For owners, dividends are not only a source of profits, but also a significant factor to assess the valuation and reputation of the company.

For investors, the dividend pay-out may well decide the amount of spending in successful ventures. On the one hand, the larger the dividend pay out, the smaller would be the internal capital of companies for carrying out investment programs, while the need for outsourcing would rise, which is an important part of the market price. It shall specify the proportion of earnings paid to the owners by way of dividends and the proportion of earnings held by the corporation for reinvestment purposes. The implementation of such a strategy would be heavily affected by the revenue prospects open to the company and the valuation of the dividends as against the capital returns to the owners. Management should implement such a dividend strategy that splits net earnings into dividends and preserves profits in an optimal manner in order to meet the goal of optimizing shareholder equity.

Review of literature

Miller and Modigliani (2011) offer an agreed case for irrelevance of dividends in an environment of optimal capital markets. At present, though, this claim has been disputed. If dividends are meaningless, why are businesses still paying dividends and why are consumers conscious of dividends when dividends are part of the return on the shares.

Shefrin and Statman (2013) also used ideas such as prospect theory and behavioural accounting to clarify why investors want dividends. Statman claims that it is difficult to overcome a dividend problem by avoiding the dynamics of regular investor conduct. If paying dividends is essential to businesses, we need to recognize the variables that affect the policy on dividends.

The definition and nature of the dividend policy and the principle of non-performance (Modigliani-Miller Model) dividends and the relationship between the method of dividend policy and share prices (companies listed in the CNX Dividend Opportunities Index were selected as a population universe) were examined by **Ranpreet Kaur (2014)** and the 5% of companies listed in the index were considered. The research was carried out over the 2013-2014 period and secondary data and simple random sampling were used. The report showed that there was no favourable or detrimental association between the price of the stock of the securities and the payment of the dividend. The author said the one that share-prices are influenced due to other causes. It may be argued that the theory of irrelevance reveals a real image in the present situation relative to the theory of significance in a brief amount of time.

Farrelly, Baker and Edelman (2015) conducted a study in which they found that, in estimation of investors, the ideal amount of dividend payments is provided and companies impacted by dividend payments. Baker and Powell (1999) noticed the

same findings in a study that dividend policy influences company's equity and shareholder capital. The potential viability of companies is measured by details on issuance of dividends in cash.

In their Dividend Policy Analysis with respect to the Lintner model, **George and Kumudha (2006)** point out that current earnings play a major role in dividend policy decision-making. The findings specifically demonstrate that the dividend per share for the current year is favourably related to current years of per share earnings and the prior years of dividends per share.

In the Indian background, a few studies have studied the actions of multinational companies in terms of dividends. The applicability of the Lintner (1956) dividend scheme in the banking sector of India was re-examined by **B S Bodla, Karam Pal and Jasvir S Sura (2007)**. The findings reveal that the lagging dividend and real earnings for both public sector banks and private banks are the key determinants of the current dividend.

Azhagaiah and Sabaripriya (2008) examined the effect of dividend payments on the organic and inorganic capital of shareholders in chemical companies in India and showed that the shareholders' wealth was heavily affected mainly by five variables: revenue rise, profit margin development, capital spending decisions, capital structure decisions and capital costs. There has been a substantial effect of dividend payments on the shareholder capital of organic chemical companies, although the shareholder equity has not been impacted by payment of dividend in case of organic chemical companies.

Olandipupo and Okafor (2011) centred on the parties regulating the maximizing of shareholder capital and forms in which it influences the company's output. The data used for the study was collected from the Indian stock exchange and from the annual reports of six sample food/tobacco and sub-sector firms over a span of 20 years. There was a beneficial relationship between the business size (FS) and the retained earnings (RE) and their impact on the shareholder fund was seen to be statistically relevant, whereas the dividend pay-out had a negative relationship with the assets of the shareholder. Depreciation and retained earnings, however, were more important in shareholder capital management than in the payment of dividends.

Gulet al. (2012), investigated impact of Dividend Payment on shareholder's wealth of the 75 companies which are listed in the Stock Exchange of Karachi. The analysis showed that gap in the overall stock valuation compared to the asset value of shares was very important between businesses paying dividends and non-paid corporations. The lagged market value of equity has a considerable effect on the stock price per share; nonetheless, retained earnings had a substantial impact on the market price of equity in terms of dividends earned by businesses, and the dividend payment has a significant impact on the assets of shareholders.

Onwumereet al. (2012) sought to research relationship between the financial framework of the companies and the goal of the companies to optimize shareholder capital by usage of three metrics for optimizing value, i.e. current ratio, dividend per share and net profit margin. This analysis showed that the external fund was optimistic and didn't have a substantial effect on current ratio and dividend per share and; the external fund has a detrimental and important influence on the margin of net profit.

Black, Fischer (2012) analyzed the relationship between the financial results and the payment of dividends of the companies listed in India over a five-year period, i.e. 2005-2010, and found that there was a strong positive correlation between the performance of the companies and the payment of dividends and the scale of the company on the dividend payment of the firms.

The findings of **Bawa and Kaur (2013)** have shown that, in the long term, the shareholder's income of dividend-paying IT firms had risen dramatically relative to firms in IT sector which are not paying dividends.

Chidinmaet al. (2013) observed that earnings per share earnings and per share stock price was having a substantial effect on shareholder's wealth; large dividends raised the market valuation of the securities and therefore the worth of the owners.

The findings of Tahir and Raja (2014) revealed a connection between predictor variables and response variables across both firms. Pakistan's oil and gas industry paid dividends on a regular basis, however there was confusion in the equity sector because the holding period returns were not effective because the company's share prices were not constant and the volatility existed in

companies and the analysis found that the dividend payment ratio had an insignificant association with the holding period returns.

Kumaresan (2014) concentrated on the top ten hotel and travel firms in Sri Lanka between 2008 and 2012 and the analysis also showed that there was a positive relationship between the return on stock (ROE), the dividend per share (DPS) and the dividend pay-out ratio (DPO) and the shareholder capital (SW) of selected hotel and travel companies in Sri Lanka, and that there was a positive relationship between hotels and travel companies in Sri Lanka.

Research gap

Dividend measures made by companies are perceived to be one of the essential decisions that the company will take. It would rely on which portion of the company's income is to be kept and the portion is to be distributed. There is still an opposite connection between these two main actions, such as acquisition choices and the firm's financial choices.

Owing to the uncertainties involved, it is unlikely that a one-size-fits-all dividend strategy approach would ever be embraced. Recent studies accept dividend strategies adopted by various businesses at various periods and dividend measures are made in the context of the unique circumstances of the particular situation. Any of the researchers evaluated the variables that decide the company's dividend policy and found that academic researchers could not define a quantitative ideal dividend strategy for all companies at the same period.

Suggestions

1. The dividend strategy is essentially decided at the discretion of the board. One of the main management considerations to be addressed is the involvement of shareholders.
2. Although the lowering of the dividend will produce a detrimental perception in the eyes of the shareholders and would have an effect on the financial status of the business, it is thus recommended to the businesses that the dividend paid should not be decreased.
3. Dividend declaration is required every year. As the founders are the owners of the business, the danger is explicitly related to the ownership of the firm. As shareholders bear the risk, they expect a fair return in the form of a dividend. It is also recommended that businesses offer equal returns to shareholders in order to boost the investment opportunities and the reputation of the business.
4. Dividend strategy should be determined, taking into consideration the development needs of the business. High dividend distributions limit the firm's link to retained profits, the lowest pool of income. For this reason, management might prefer lower dividend pay-out ratios, particularly in growth companies, as the retained funds will be needed for expansion purposes.

Conclusion

Corporate Financial managers regard the dividend determination to be a significant and valid judgment. However, it is important to provide guidance on a firm-specific basis how to view their dividend strategies. These managers may analyse how different market frictions impact companies, as well as their existing investors, in order to obtain optimum dividend strategies for their businesses. The financial sector plays a very significant position in the nation's economic existence. The stability of the economy is strongly tied to the soundness of the financial sector. The portion of the profits that is spread to the owners is considered a dividend. Dividend strategy points out how much profit does the company make will be distributed to the owners and how much will be kept. The ROI of the shareholder shall include the dividends earned and the capital gain or loss retained over the duration of the shareholding. A dividend is also an integral part of the profits of the shareholder.

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