

VALIDITY OF DIVIDEND POLICY MODELS IN THE INDIAN HOTEL INDUSTRY- A PANEL DATA APPROACH

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Dividend decisions are an important aspect of corporate financial policy. There is an extensive literature devoted to corporate dividend policy, very few dividend Studies focus on Indian Hotel Industry. In this paper, we study the dividend policy of Hotel Industry in Indian service sector. The sample consists of 28 dividend paying listed firms of this sector covering a period of 15 years from 1997 to 2011. The data has been obtained from Prowess database. Many studies in India make an attempt in empirically testing the factors that shape the current year's dividend but none of these studies have tested the time trusted dividend models in their pure form in post liberalized era for the corporate India. So, the well-known regression models such as the Linter's (1956) model, the Britain's (1966) model, the Darling's (1957) model and Dobrovolskys (1951) model has been studied in their pure form to test their validity in Indian conditions. The results disclosed that Lintner's model and Britain's First model has best fit in the present scenario in case of Indian Hotel Industry. Current year earnings, previous year dividend payment and cash flow are important determinants for deciding the current year dividend payment.

Keywords: *Dividend policy, Indian Economy, Models, Validity.*

I. INTRODUCTION

There is a strong relationship showed by dividend policy and earnings of the company. The researchers like (Brickley, 1983; Healy & Palepu, 1988; Aharony & Dotan, 1994) have provided empirical evidences that earnings are directly related to dividends. Any increase in the current dividends will lead to an increase in future earnings of the company. This idea has been redundant by many researchers (Garret & Priestley, 2000). The literature suggests that dividends and earnings are interrelated.

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As dividends are paid out of the net earnings of a firm, there could be ways to look at this matter. One view is that dividends can be used as a predictor of earnings whereas another view is that earnings can also be used as a predictor of dividends. Thus both of these concepts are interrelated as both determine each other's value. This helps to understand why managers of a firm are more interested in maximizing the firm's earnings. Earnings are the most important item to signal how much firm is involved in value adding services.

Lintner (1956) argues that dividend policy is the primary decision criterion in determining how earnings are distributed between current dividends and retained earnings. Dividend policies include setting the existing dividend as the central benchmark, targeting a relatively fixed payout ratio, determining whether and how much to change dividend payments based on changes in earnings, and making partial adjustment to what is suggested by changes in earnings

The dividend policy and earnings management have the subject of many studies for many years from past to present. Since dividends have an effect on stock prices and company's future growth so corporate management should have a suitable dividend strategy. There are several dividend approaches such as stable dividends, payout ratio and cash availability. Corporate management needs to take different variables into account before taking the decision regarding payment of dividend and retention of earnings for future investment. The Main objective of this study is to empirically test validity of Lintner's (1956) model, the Britain's (1966) model, the Darling's (1957) model and Dobrovolsky's (1951) in their pure form to test its validity in case of Indian Hotel Industry. The remainder of the paper is organized as follows: section II briefly reviews the existing literature. Objectives and relevance of study is presented in section III while section IV presents the description of the data and the empirical models used. Section V contains the results. Finally, some concluding remarks are presented in Section VI.

II. REVIEW OF LITERATURE

With a view to recognize the basis for undertaking the present study, a concise appraisal has been carried out on the dividend policy. Following are the few well-known studies:

Lintner (1956) studied the behavior of 28 US firms for a period of seven years i.e. from 1947-53. Results indicated that the firms should follow a fixed target payout ratio. The rate of dividends was adjusted along with the increase in the level of earnings. Current year's earnings and previous year's dividend were found to be associated with current

year's dividend. It was also ascertained that the financial decisions of the firms were predominantly dividend oriented.

Brittain (1964) examined the dividend behavior of all major industries for a period of 1919-1960. The results have in favour of the inclusion of cash flows have been that depreciation does not reveal capital consumption but is an accounting change and as such need to be added back.

Pettit (1977) in this paper focused on studying the clientele effect regarding dividends and made a conclusion that retired persons wanted dividend in cash at high percentage of firm's earnings while who are earning at high rate prefer the reinvestment of cash and demand low dividend payments.

Khurana (1985) studied dividend policy of 68 private companies belonging to five industries namely, sugar, cotton textiles, general engineering, electrical goods and chemical industries for the period of 1962-63 to 1976-77. Lintners model of dividend behaviour was better than all other models i.e. Darling, Brittain's and Dobrovolsky's model. Dividend decision was primarily governed by net current earnings after tax and lagged dividend.

Gupta, Sharma (1991): emphasized on finding out the dividend behavior of firms in the tea industry for a period of 1982-1988. Out of 112 companies, this study includes five firms having collaboration with foreign companies and equal five such firms having no collaboration with foreign company by taking into consideration best statistical models i.e. Lintner, Brittain, Darling and Dobrovolsky. The results of the study disclosed the application of Lintner's model and Dobrovolsky's model on both type of firms while Brittain's model is not fully applied on both type of firms.

Coates, Davis and Golder (1998) analyzed the dividend behavior of 46 large U.K and 44 large German quoted companies over the period of 1980-95. Results showed that positive difference has been found out between these two countries with regard to payment of dividend per share in current year as well as in the preceding year. The results predicted that between these two countries there were some similarities or dissimilarities regarding payment behavior of dividend.

Ahmed, Javid (2009) studied the determinants of dividend of payout policies of 320 non financial firms listed on Karachi Stock Exchange for the period of 2001-2006. Lintners,

