

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

Narain* and C. P. Gupta#

Abstract

The present study attempts to investigate the phenomenon of special dividend announcements made by Indian corporate sector which has not been analysed so far by the researchers. Using the data of BSE listed firms during Jan. 2000 – Mar. 2017, it was found that most of these announcements were made in the month of May in celebration of Jubilees and anniversaries with token amount of dividends. The analyses of these announcements using Event Study methodology with market model revealed that these announcements are predictable and their effects vanishes immediately after the announcement. The shareholders of these firms experienced 4 percent marginal return cumulated around the announcement date. This study supplements the Indian experience to the limited global literature on the issue of special dividend payments.

Keywords: Special dividend, Specially designated dividends, Event study, Dividend distribution policy

1. Introduction

One of the vital decision faced by the managers of today's corporation is the payment of earnings of the firm to its shareholders. This redistribution of the accumulated wealth of the shareholders of the firm is generally in the form of either the payment of dividends or buyback of shares. The payment of dividends by a going concern has generally categorised into: Interim, Final or Special. A final dividend is payable only if it is declared by the company at its Annual General Meeting on the recommendation of the Board of Directors. Whereas, interim dividend is declared by the Board of Directors between two Annual General Meetings of the shareholders when so authorised by the Articles of Association of the company. However, a special dividend is generally

* Assistant Professor, Faculty of Management Studies, University of Delhi. Email: narain@fms.edu

Professor, Department of Financial Studies, South Campus, University of Delhi, Delhi.
Email: guptacp@gmail.com

distributed in accordance with the special intent of the firm. It is generally non-recurrent and relatively infrequent in comparison to regular dividends (Interim or Final).

Among the various modes of repayment of accumulated wealth of the shareholders, the role of special dividends is quite special. Buckley (2003) suggested that whenever the market value of the shares exceeds its fundamental intrinsic value, the return of the surplus funds to the shareholders should logically be via a special dividend payment rather than by way of buyback of shares. This way managers are able to create wealth for the firm. Besides, special dividend can also be used to bring about organisation change. Lie (2000) opined that over-investment problem is the consistent basis for the disbursement of funds by the firms. Wruck (1994) reported that besides the typical announcement effects of special dividends by Sealed Air Corporation, improved post-dividend performance was resulted from the manager's conscious and successful use of financial leverage as a tool to disrupt the status quo and promote internal change, including establishing a new objective, changing compensation systems and reorganising manufacturing and capital budgeting process. Subramanian (2000) suggested a model to explain the role of special dividends, when financed by debt, in defending the incumbent management against the takeover. The management can use such debt financed special dividend as successful defence against a takeover attempt, without an increase in its ownership of shares. Hu (2012) sees the role of special dividend as a reducer of agency costs during market declines rather than takeover defence tactics in an overvalued market. As a result, Bratton (2005) included the phenomenon of special dividends as a part of new puzzles yet to be resolved and quoted that special dividends present the advantages of transparency with the possible spill-over of improved executive compensation policy.

However, the tool of special dividend had also been used in the modus operandi of tax avoidance. Gramlich and Wheeler (2003) mentioned the cartel consisting of Chevron, Texaco and the Government of Indonesia, in reported tax-avoidance of Federal and State taxes of USD 8.6 billion and USD 433 million, respectively, for the entire cartel with the help of special dividend as one of the tools of fund transfers. Certainly, the tax aspect of the special dividend payments cannot be overruled out rightly. It was for this reason that Briginshaw (2010) urged the US Corporate Sector to pay special dividend before the end of calendar year 2010 and take tax advantage of the use of debt in the entire process.

This study focuses on the positioning of the special dividend declaration by the companies listed in India. The declaration of special dividends, being non-recurrent, should not signal future expected cash flows accruing to the firm. Similarly, past

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

accumulated earnings of the firms can be utilised by the firms, not just by the payment of special dividends, but also, inter alia, by declaration of bonus shares, buyback of shares, takeovers and acquisitions, redemption of debt capital or hike in the payment of regular dividend amounts. Thus, historically accumulated earnings do not imply the declaration of special dividends; at the same time, such declaration should not project about the future earnings of the firm. Thus, the implications of special dividend declaration are located contemporaneously, and should not bring about temporal aberrations in the value. Also, in an efficient market, the announcements of the declaration of special dividends should not result in significant movement in stock prices, except at the time of release of the assets of the firm at the ex-dividend date. The present study attempts to explore the reasons publically announced by the Indian firms for declaring special dividends and also explore the informational content of special dividend announcements made thereto.

This study is segmented into five sections including the present one. The next section describes the literature related to special dividend payments made by different firms in both developed and the developing markets. The subsequent section discusses the specific objectives of the study, the data and methodology adopted to attain those objectives. The fourth section discusses the results and outcome of the study. The final section summarises the results and concludes the study.

2. Review of Literature

Most of the literature related to the empirical works about special dividend payments have been scattered around three of the developed economies of the world, viz. US, Australia and UK. The works done for the other markets have been scant. Despite all the efforts to trace, none of the Indian studies have focused on the issue of special dividends by Indian firms.

In one of the earliest study for the US market, Collier (1965) opined that the distribution of special dividends defeats, or at least delays, some worthwhile mergers. He also concluded that special dividend reduces the capacity of the surviving company. This role of special dividends as a tool to avert any hostile takeover threat by the management has been practiced for many decades. Denis (1990) concluded that special dividend payments generally increase the wealth of target firm's shareholders as opposed to the buyback plans

With respect to the role of special dividends in signalling the future performance of the firms in US, Brickley (1983) studied 165 declarations of special dividends for the decade 1969-79 and concluded that special dividends appear to convey positive information

about the future dividends and earnings beyond those relating to the current period. Resultantly, management uses the labelling of dividend increases to convey information to the market about the future potential of the firm. Gombola and Liu (1999) reported upward revision of earnings forecasts for the firms with Tobin's Q less than one, but not for the other firms. Whereas, Officer and Shelor (1992) concluded that market does not infer any unfavourable subsequent financial performance from the decapitalisation dividends. Crutchley, Hudson, Jensen, and Marshall (2003) found that special dividend announcing firms have unexpectedly high earnings in the years of the special dividend announcements. However, these unexpected earnings decline significantly in the years following the special dividend announcement. Thus, investors cannot expect the stock and operating performance that precedes a special dividend to continue (See also, Chou, Liu, and Zantout (2009)). However, McKelvey (2011) qualifies the strength of the signalling during the announcement year, and the year following the announcement, with the fact whether the special dividends are paid in isolation, or coupled with regular dividend, or coupled with increased regular dividends. Hu (2012) concluded that companies with excess funds to pay in tough times are better performers in both short-run and long-run, than their counterparts in good times. Baker, Mukherjee, and Powell (2005) compiles the opinions of firm managers that the special dividend announcements generally convey positive information about a firm's short-term (current) earnings only, and prices generally react positively to such unexpected announcements.

Information content of the special dividend announcements made in US were studied by Jayaraman and Shastri (1988) by analysing 2023 special dividend announcements during two decades of 1962-82 and drew the conclusion that special dividends are having positive signals by the equity market (See also Lie (2000), Bessembinder and Zhang (2015)). They also found that bond prices were not affected by these announcements to adjudge any possibility of transfer of wealth from bondholders to shareholders (Also see, Baker, Mukherjee, and Powell (2005)). Such positive returns also continue to realise on the ex-date and are not fully arbitrated (Chowdhury and Sonaer (2016)). Shih (1992) reported that such positive impacts are magnified during the bull markets as opposed to the bear phases of the market. Mitra (1997) further reported that this impact is higher for initial announcements of special dividends rather than last such announcements by the firm. Also, during the week around the announcement, bid-ask spread, trading volume, return variance and share prices were higher. The magnitude of cumulative abnormal return was found to be positively related to return variance, but negatively related to market-capitalisation, number of shares outstanding and the share price. Kaestner and Liu (1998) further associated the market reaction to the size of the dividend with little evidence of insider trading (See also, Mellet (2013)). Gombola and Liu (1999) found that

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

the share price reactions are larger for firms with Tobin's Q less than one (See also, McKelvey (2011)). Brady, Chira, and Madura (2014) report that restricted investment opportunities in a weak economy raises the propensity to pay special dividends, particularly when higher dividend tax is anticipated (See also, Hanlon and Hoopes (2014)).

While contrasting the special dividend payments with other forms of redistributions, Howe, He, and Kao (1992) concluded that the market reaction to buyback of shares and special dividend pronouncements are approximately the same and it contrasts the Free Cash Flow theory unlike Hu (2012). Whereas, Chhachhi and Davidson III (1997) found that special dividends are used far more frequently, are smaller on average in terms of the amount, and are associated with smaller reactions than tender offers. The firms which prefer special dividend payments over buyback, generally have larger dividend yields and greater insider ownership (See also, Parks (2006)). Caudill, Hudson, Marshall, and Roumantzi (2006) also concluded that special dividends are preferred mode of payout by the firms having high dividend payouts and strong performance. Lie and Lie (1999) appended this preference also by those firms whose shareholders have a low marginal tax rates on dividends and high marginal tax rate on capital gains as a formation of clientele effect (See also, Lightner (2001), Chetty and Saez (2004), Moser (2005 and 2007), Buchanan, Cao, Liljebloom, and Wehrich (2017)). Gelb (1999) found that such preference is also made by the firms who provide less informative accounting disclosures. Brunarski, Harman, and Kehr (2004) concluded that special dividends are more likely to be declared by the firm having large agency costs as opposed to a hike in regular dividends (See also, Hanlon and Hoopes (2014)). Lie (2005) found that the firms that pay special dividends have lower volatility in past earnings than for those firms preferring buyback of shares.

Moreover, while analysing the US firms for 1926-1995, DeAngelo, DeAngelo, and Skinner (2000) concluded that special dividends were once commonly paid, but are now rarely paid. However, the incidences of very large special dividends have increased in recent years. At the same time, special dividends were not displaced by the buyback of shares (See also, Bargeron, Kulchania, and Thomas, (2011)). These US firms typically paid special dividends almost as predictably as they paid the regular dividends. Similar opinions were expressed by Gombola and Liu (2009). Hu (2012) spotted wave patterns in the announcements of special dividends coupled with Halloween effects, January effects, business-cycle stages, market-timings and monthly patterns (See also, Beladi, Chao, and Hu (2016a and 2016b)). Special dividends are paid more in bear markets and negatively related to investor sentiments variables (See also Hu, Young, and Malone (2012)). Based on the primary survey conducted by Baker, Mukherjee, and Powell (2005), the authors

concluded that firms tend to pay special dividend when they experience strong earnings and cash flows, and want to increase the yield to shareholders. The firms declaring special dividends more often, typically make small special dividend payments, which results in modest price reactions.

The experiences of other developed economies are also worth reporting herewith. For UK, Hughes (2008) found that the special and regular dividends were positively related to the corporate value and also support signalling about firms' profitability in the wake of R&D expenditure. Balachandran, Dempsey, and Mahamuni (2009) reported that such positive reactions are directly related to pre-announcement cash flows and the size of the special dividend but inversely related to the growth opportunities. However, Dedman, Kungwal, and Stark (2009) report that regular dividends are more informative of value than the special dividends, and dividend displacement effects swamp out any tax benefit, or information benefits, of special dividend. Tucker, Guermat, and Prasert (2013) didn't observe any significant impact of the dividend announcements on the abnormal returns.

For Australian firms, Setia-Atmaja, Balachandran, and Skully (2004) found positive price reactions to the special dividend announcements. They also found that the insider ownership, outsider ownership, the presence and concentration of large shareholders and family block-holdings are all positively related to special dividend announcement effects. Balachandran and Nguyen (2004) further reported that the magnitude of reaction is related to the size of the special dividend, prior special announcements, abnormal cash flows for the announcement year, existence of dividend reinvestment plans (DRP) and preannouncement effect. Balachandran, Faff, and Nguyen (2004) appended that industrial firms react significantly stronger than the announcers of financial and resources firms. Further, resources firms react positively to the cross-announcements in the same industry groups while financial firms react negatively (See also, Balachandran, Faff, and Nguyen (2008) for the ex-date behaviour). Ruddock (2007) described the attributes of special dividend payer firms. These firms also distribute regular dividends, have reached sustainable profitability phases, are large firms and have higher return on equity. The payment of tax is negatively related to the payment of special dividends. Australian multinational firms pay significantly less special dividends relative to domestic firms (Akhtar (2015)). However, Rathie (2008) reported a significant larger market response for the buyback alternative of cash distribution.

Andres, Doumet, Fernau, and Thesissen (2013) analysed German firms and reported that the special dividends didn't lost importance subsequent to the introduction of buyback of shares. Rather, dividends are used to distribute permanent earnings and buybacks are

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

used for transitory earnings. Liira (2013) reported higher abnormal returns during special dividend announcements by Finnish firms. While analysing Hong Kong firms, Cheng, Fung, and Leung (2007) found that the special dividend distribution is a significant factor explaining the share price performance and cash ratio is an important ratio to explain the dividend payments.

The experiences of the emerging economies are also similar. Hung, Duan, and Nwanna (2003) reported positive impact of special dividend announcements by Taiwanese firms. Dehghani and Chun (2011) reported that the special dividend announcements signal good news to Malaysian investors. Sarma and Kok (2013) further reports that special dividends are more effective wealth creating tool as compared to the increased regular dividend for Malaysian investors, but fail to signal about future earnings. Past and current earnings were the major determinants of special dividends. Similar positive price response was also being reported by Bhana (1998) for the South African firms. The author further reports that frequent declaration of special dividends convey less information than infrequent declarations do. Extending the analyses further, Wesson (2015) reports that special dividends are preferred by the firms that have lessor undervaluation of shares. Smaller firms with fewer shareholders and more public investors favoured buyback over special dividends, and hence, special dividend payments dropped as proportion of total disbursement overtime.

Despite all efforts to list even a single study on special dividend pay-outs by Indian firms, nothing could be traced. As a result, the experiences of Indian firms regarding special dividend payments is missing from the enlarging body of knowledge on dividend policy decisions of the firms. This paper makes a modest attempt to throw some light on the issue of special dividend announcements done by Indian firms. The trend and progress of special dividend announcements made by the Indian firms are analysed here and their impact on the share prices of the such firms are assessed.

3. Data and Methodology

For analysing the practice of payment of special dividends in India, the data relating to the announcements of special dividends by various companies listed on Bombay Stock Exchange (BSE Ltd.), Mumbai, India, was gathered from ProwessIQ database maintained by Centre for Monitoring Indian Economy Private Ltd. Among the two prominent stock exchanges available in India, BSE Ltd. was a rational choice due to higher number of companies enlisted there to garner greater number of announcements. The data belongs to the period of

January 2000 to March 2017 which contains 401 announcements. The following table describes the data collected from the database.

Table 1: Announcements of Special Dividend Payments, 1999-2017

Year	Number of Announcements Made	Average Amount of Dividend (Rs. per share)	Average Rate of Dividend (% of Face Value)
1999-00	1	10	100
2000-01	1	0.80	8
2001-02	3	33	330
2002-03	13	7.54	91
2003-04	20	15.55	89
2004-05	30	9.78	189
2005-06	31	6.11	66
2006-07	27	7.91	99
2007-08	21	4.53	61
2008-09	27	13.49	160
2009-10	21	10.48	278
2010-11	38	8.01	151
2011-12	37	9.94	175
2012-13	27	12.90	218
2013-14	28	26.33	291
2014-15	26	11.89	286
2015-16	28	5.53	171
2016-17	22	10.85	237
Total	401	10.86	174

Source: Authors' compilation from ProwessIQ Database

The above table shows that the maximum number of announcements of special dividend payments are made during the financial years 2010-12. During this entire period of study, on an average, 22 annual announcements have been made of Rs. 10.86 to be paid on every share, which amounted to 174 percent of the face value of the share. These announcements were made by 280 companies over the sample period. A Box & Whisker

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

Plot of the Amount of Special Dividend Announced, after excluding three data-points of extremely high amount, is given below.

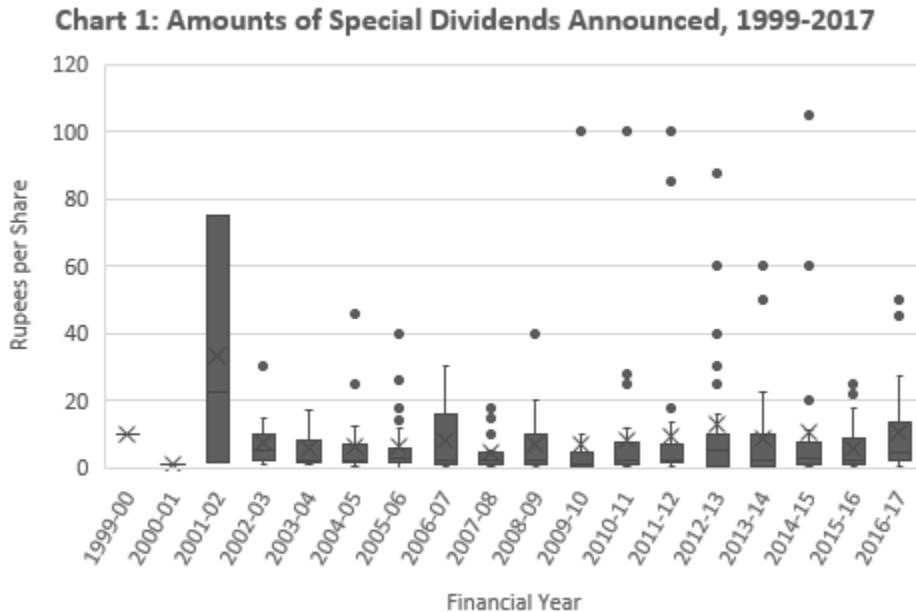
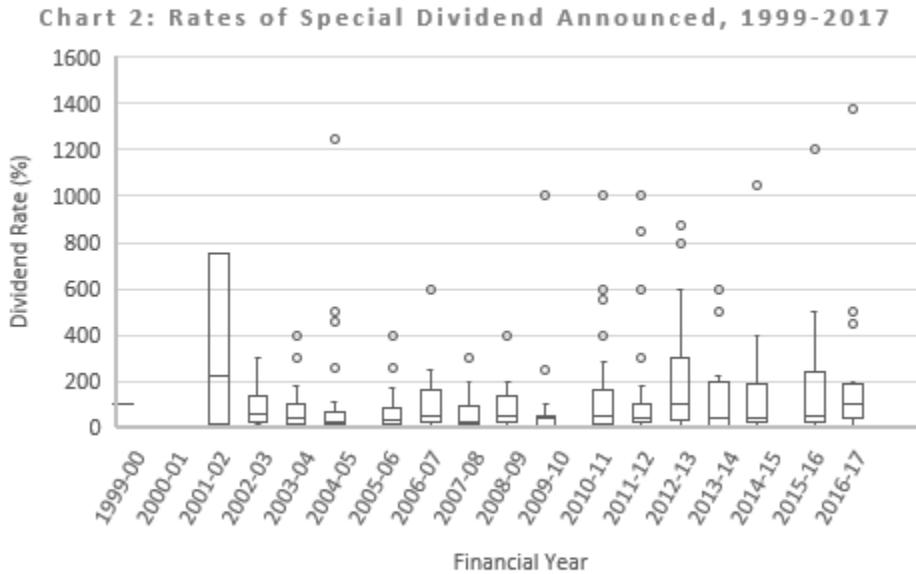


Chart 1 shows high amount of dispersion growing over the years with increasing number of outliers. The number of large special dividend announcements (more than 100% dividend rate) has also been found to have a positive trend over the years. However, this number has never exceeded 15 in any particular year, given that 25 announcements have been made every year on an average. Also, Chart 2 given below is the Box & Whisker Plot of the Rate of Special Dividend Announced, after removing four more such extremely high rates of dividends announced.



The effect of these announcements on the share prices of the respective firms is analysed using Event Study methodology. This methodology enables to assess the impact of a particular event on a response variable, which in our case is, firm’s share price. The share price data of all the companies making announcements of special dividend were also collected from the ProwessIQ database. Adjusted Closing Prices of all such companies along with the S&P BSE 200 Index closing values of the same day were collected from the database. S&P BSE 200 Index is a broad based index; it comprises of equity shares of 200 companies selected primarily on the basis of their current market capitalisation with calculation methodologies adopted in coherence with S&P Dow Jones Indices. Given thin trading of most stocks beyond top 200 stocks as per market capitalisation, BSE 200 Index was adopted as a proxy for the broad market portfolio.

The computation of returns from the prices and index values were made using the following formula:

$$R_{it} = \ln \left(\frac{P_{it}}{P_{it-1}} \right) * 100 \tag{1}$$

Where, R_{it} = Return on stock/index i on day t;
 P_{it} = Closing Price/value of the stock/index i on day t;
 P_{it-1} = Closing Price/value of the stock/index i on day t-1;
 ln = Natural logarithm

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

The event date selected under this methodology is the date of announcement, or the next trading day after announcement, in case the announcement date doesn't happen to be the trading day. The Event Window selected for the study is of 31 days (-15, 0, 15) with 100 days of Estimation Window (-115, -16) prior to the Event Window. In order to compute Abnormal returns around the event date, estimates of normal (expected) returns were computed using Market Model for each corporate announcement of special dividend payments. The use of market model for estimating normal returns is justified as sophisticated multi-factor models also do not lead to much reduction in variation of abnormal returns (MacKinlay (1997)). The following market model regression were run to estimate its coefficient using the data from estimation window:

$$R_{it} = \alpha + \beta * R_{mt} + \varepsilon_{it} \quad (2)$$

Where,

R_{it} = Return on stock i at time t of estimation window;

R_{mt} = Return on BSE 200 Index at time t of estimation window;

ε_{it} = Random error term in the estimation process.

With the use of Market Model, normal returns during event window were computed as follows using the coefficients estimated during estimation window:

$$Normal\ Return_{it} = \hat{\alpha} + \hat{\beta} * R_{mt} \quad (3)$$

Where,

Normal Return_{it} = Normal return estimated for stock i at time t of event window;

$\hat{\alpha}$ = Estimated Intercept of the market model regression;

$\hat{\beta}$ = Estimated Slope of the market model regression;

R_{mt} = Return on BSE 200 Index at time t of event window.

The daily Abnormal Return, an unexpected change in shareholders' value, for each stock in the 31 days' event window has been calculated by subtracting the normal returns from the actual returns for particular stock at a particular day.

$$Abnormal\ Return\ (AR_{it}) = Actual\ Return_{it} - Normal\ Return_{it} \quad (4)$$

To test the significance of the abnormal return around the event data, parametric t-test and non-parametric Rank test were conducted.

Parametric t-Test

To test that the announcement of special dividend results in abnormally high/low return on a stock, on an average, daily abnormal return is averaged across events (stocks) on a particular day of event window. This results in Average Abnormal Return (AAR_t) which is t-distributed with (n-2) degrees of freedom; where n is the length of the estimation window, i.e. 100 in our case.

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it} \sim t_{n-2} \left(0, \frac{1}{N^2} \sum_{i=1}^N \sigma_{\varepsilon_i}^2 \right) \quad (5)$$

To test the same phenomenon but around the event date, rather than on a particular day, these average abnormal returns are cumulated over a time horizon, let's say, from t_1 to t_2 with the length $L = t_2 - t_1 + 1$, so as to obtain Cumulative Average Abnormal Return (CAAR) which follows the normal distribution.

$$CAAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AAR_t \sim N \left(0, \frac{L}{N^2} \sum_{i=1}^N \sigma_{\varepsilon_i}^2 \right) \quad (6)$$

Non-parametric Rank Test

For the robustness of the results so obtained from the parametric test, the study also conducts non-parametric Rank test by Corrado (1989) as extended by Cowan (1992) for multi-day event window. Having ranked the various abnormal returns of an event in ascending order disregarding the demarcation of estimation and event windows, the test ignores the dependence in ranks for the event window. For the null hypothesis of equality of average rank of event window with average rank of overall data, the rank test statistic given below in equation (7) follows normal distribution:

$$Z = \left(\frac{1}{L} \sum_{t_1}^{t_2} \overline{R}_t - \overline{\overline{R}} \right) \sim N \left(0, \frac{\sigma_{\overline{R}_t}}{\sqrt{L}} \right) \quad (7)$$

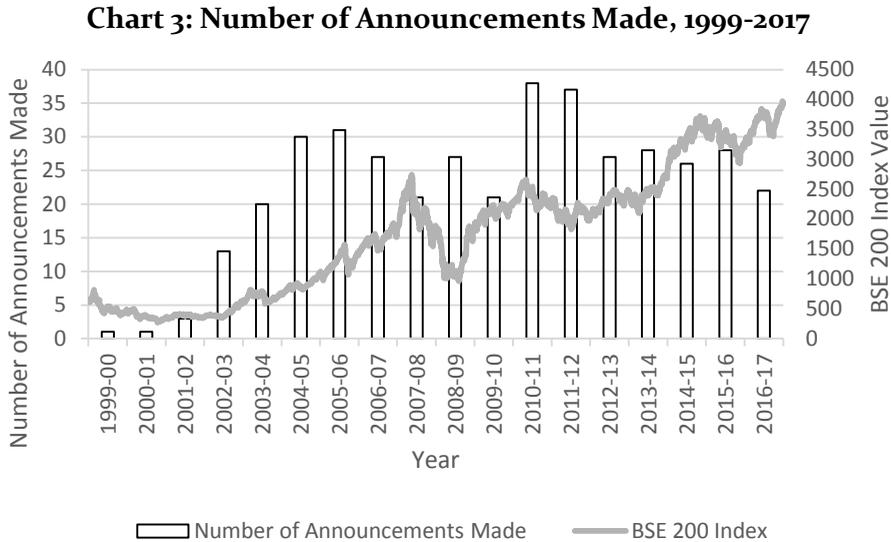
Where $\overline{R}_t = \frac{1}{N} \sum_{i=1}^N R_{it}$ and $\overline{\overline{R}} = \frac{n+L+1}{2}$.

The next section reports the results of these tests and discusses the implications in the context of announcements of special dividend payments.

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

4. Results and Analysis

To observe any impact of market conditions on the announcements of special dividend, Chart 3 superimposes the number of special dividend announcements on the BSE 200 Index graph for the same period.



The above chart doesn't depict any discernible relationship between the market conditions and the number of special dividend announcements made by various firms. This pattern signifies the special nature of these dividend payments disregarding the market and the firm performance in the payment of special dividends. The seasonal patterns in the announcements of special dividend payments are shown in the following table.

Table 2: Monthly Pattern of Announcements of Special Dividend Payments, 1999-2017

Months	Number of Announcements Made	Percentage of Announcements Made
January	19	5%
February	42	10%
March	39	10%
April	54	13%
May	128	32%
June	40	10%

July	18	4%
August	17	4%
September	5	1%
October	18	4%
November	12	3%
December	9	2%
Total	401	100%

Source: Authors' compilation from ProwessIQ Database

The monthly pattern of the special dividend announcements shows that May is the month of special dividend announcement, wherein about one-third of the announcements have been historically made. Thus, second quarter of the year accounts for more than fifty percent of the announcements with one-fourth of the announcements done in the first quarter. Unlike Halloween and Christmas effects documented in the literature (e.g., see Hu (2012)) for such announcements, in India, special dividend announcements are made at the closure of the books of accounts.

Sometimes, the firms announcing special dividends do disclose the ostensible reasons for doing so, but largely such reasons remain hidden from the public domain. An extensive search showed following six reasons ostensibly announced by the firms for declaration of special dividends:

- a) **Jubilee Celebration:** Firms reasoned to celebrate Jubilee years of operations, incorporation or annual general meeting.
- b) **Anniversary Celebration:** Firms reasoned to celebrate various anniversaries of incorporation, operation, listing, etc.
- c) **Event Celebration:** Firms reasoned to celebrate founder's anniversaries, Joint-Venture formation, Obtaining license, Millennium celebration, Plant completion, etc.
- d) **Performance Celebration:** Firms reasoned to celebrate Extraordinary Incomes, Revenue Milestones, Market dominance, etc.
- e) **Restructuring:** Firms announced special dividends as package of Amalgamation, Divestment, Buyback, Cash reduction, Stake reduction, etc.
- f) **Sale of Business Property:** Firms distributed cash received through the sale of units of business.

Table 3 reports the number of announcements made and reasons provided by the firm for declaring special dividend payments.

Table 3: Rationale Provided for Announcements of Special Dividend Payments, 1999-2017

Explanations Provided	Number of Announcements	Average Amount of Dividend (Rs. per share)	Average Rate of Dividend (% of Face Value)
Jubilee Celebration	114	6.56	127
Anniversary Celebration	20	6.65	278
Event Celebration	11	4.19	74
Performance Celebration	8	8.55	313
Restructuring	19	15.13	199
Sale of Business Property	12	61.56	926
Undisclosed	217	10.75	144
Grand Total	401	10.86	174

Source: Authors' compilation

As evident from Table 3, more than 50 percent of the announcements of special dividends have not been supplemented by the rationale of the decision. This creates gap in the information processing of the corporate announcement. From July 2016, Securities and Exchange Board of India, the exchange regulator of the country, has amended the Listing Obligations and Disclosure Requirements Regulations making it mandatory for the top 500 listed entities to formulate Dividend Distribution Policy to be disclosed in their annual reports. These regulations are voluntary for other listed entities. However, these regulations do not mandate these entities to provide a reason for declaring special dividends.

Among the disclosed reasons for declaring dividend, 62 percent announcements are made to celebrate Silver Jubilee, Golden Jubilee, Diamond Jubilee, Platinum Jubilee, Centenary and other years of operations, incorporation or general meetings. However, the pay-outs were relatively nominal, on an average. Even shorter anniversary celebrations are also reasoned for the declaration of special dividends. Business Restructuring is the third largest reason for declaring special dividend. The sale of properties of the business have resulted in highest payments in monetary terms as well as percentage of face value.

To evaluate the effects of these announcements on the share prices of the firm, event study analysis was also conducted. However, due to unavailability of the share price data during the entire period of the estimation and event window, the final analysis could only be conducted on 360 announcements out of 401 such announcements reported above. The results of the event study are reported below.

Table 4: Average and Cumulative Average Abnormal Returns around Event day

Event Day	AAR (%)	t-stat	p-value	CAAR (%)
-15	0.27	2.0283	0.0452	0.27
-14	0.15	1.1632	0.2476	0.42
-13	0.05	0.3411	0.7338	0.47
-12	0.00	-0.0027	0.9979	0.47
-11	0.00	0.0248	0.9802	0.47
-10	0.45	3.3770	0.0011	0.92
-9	0.12	0.8913	0.3750	1.03
-8	0.09	0.6680	0.5057	1.12
-7	0.12	0.8744	0.3841	1.24
-6	0.35	2.6308	0.0099	1.58
-5	0.10	0.7620	0.4479	1.68
-4	0.43	3.2604	0.0015	2.11
-3	0.65	4.8965	0.0000	2.76
-2	0.67	5.0579	0.0000	3.43
-1	0.38	2.8672	0.0051	3.81
0	0.85	6.4231	0.0000	4.66
1	1.03	7.8136	0.0000	5.69
2	0.14	1.0627	0.2905	5.83
3	-0.10	-0.7258	0.4697	5.73
4	-0.19	-1.4363	0.1541	5.54
5	-0.18	-1.3670	0.1748	5.36
6	-0.36	-2.7382	0.0073	5.00
7	-0.22	-1.6765	0.0968	4.78
8	-0.06	-0.4409	0.6602	4.72
9	-0.19	-1.4403	0.1530	4.53
10	-0.14	-1.0239	0.3084	4.40
11	-0.12	-0.9339	0.3526	4.27
12	-0.15	-1.1080	0.2706	4.13
13	-0.29	-2.1611	0.0331	3.84
14	-0.08	-0.6273	0.5319	3.76
15	0.01	0.0517	0.9589	3.76

Source: Authors' computations using MS Excel

As evident from Table 4, there is significantly positive abnormal return immediately on the announcement day and the day thereafter. The robustness of this result has also been established using Cross-sectional t-Test, Crude Adjustment t-Test [Brown and Warner (1980)], Standardised Residual Test [Patell (1976)] and Standardised Cross-sectional Test [Boehmer, Musumeci and Poulsen (1991)], the results of which have not been reported here for brevity. The graphical depiction of the above table is also presented below in Chart 4:

Chart 4: Impact of Special Dividend Announcement

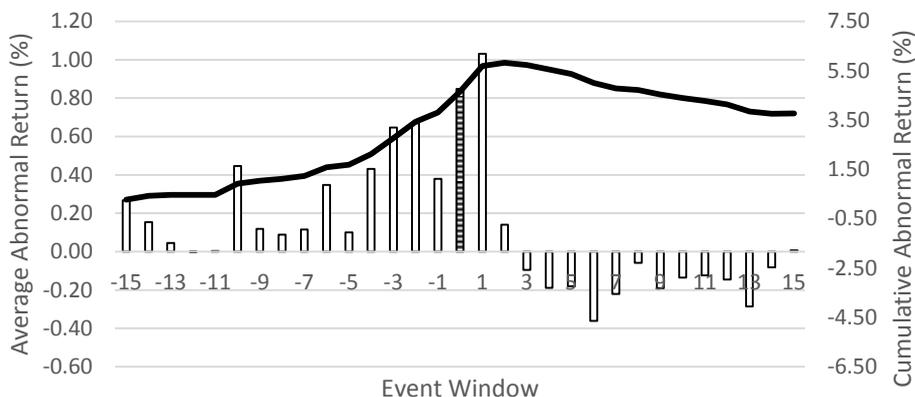


Chart 4 shows that the special dividend announcements are anticipated by the market participants, as most of the announcements are made in the month of May for celebrating company milestones and other events. Due to which, cumulative abnormal returns, on an average, start rising at least four days before the announcement and continue to rise up to the date of announcement. Upon the announcement, it takes one more day to incorporate the dividend information in the share price. Thereafter, the abnormal returns turn insignificant. At the end of the entire duration, at least in the time span of six days (-4,0,1), the cumulative abnormal return settles at the higher plateau and had positively affected the shareholders’ wealth (an increase of 4%) before actual distribution till the ex-dividend date.

A major fallout of the parametric test on security prices is the ubiquitous assumption of Normality of stock returns. Therefore, these results are also confirmed with the Non-Parametric Rank Test of Corrado (1989) which helps in relaxing the assumptions of normality of stock returns. This test was further extended by Cowan (1992) for multi-day event window. The results of this test is more parsimonious and powerful than other Sign tests of the same genre. Table 5 presents the Rank Test results for multiple event windows.

Table 5: Rank Test Results for Different Event Windows

Event Windows	Length of Event Window	Z-stat	p-value
(-15,+15)	31 Days	2.6310	0.0085
(-10,+10)	21 Days	3.1582	0.0016
(-5,+5)	11 Days	3.9479	0.0001
(-4,+1)	6 Days	7.0161	0.0000
(-2,+2)	5 Days	5.0458	0.0000
(-1,+1)	3 Days	4.6420	0.0000
0	1 Day	2.4939	0.0126

Source: Authors’ computations using MS Excel

As evident from Table 5, the special dividend announcement had a significant impact on the share price on the announcement day itself by observing the p-value of the last row representing the single-day event window, with 5% level of significance. It is also evident that the cumulative abnormal returns for all the selected event windows are also significant even at 1% level of significance. Thus, the assumption of Normality of returns does not hamper the conclusions drawn from the parametric test. The similar results were obtained using the Generalised Sign Test of Cowan (1992) which have not been reported here for sake of brevity.

5. Concluding Observations

In this study, we made a maiden attempt to investigate the special dividend announcements made by Indian companies. The time span of the study is from January 2000 to March 2017. During this period, there were 401 announcements; these were retrieved from CMIE ProwessIQ database pertaining to special dividend payments by the firms listed on Bombay Stock Exchange (BSE) of India, the exchange with largest listed companies in the country. Most of these announcements were found to be made in the month of May. An extensive search of the announcement section of the BSE website, newspaper websites and financial information sites showed that most of these announcements did not contain their rationales in the public domain. It is strongly recommended that the reasons for declaring special dividends should be included in the disclosure requirements of the Dividend Distribution Policy regulations issued by the market regulator, SEBI. Among the traced reasons for declaring special dividend, it was observed that most of the announcements were made in celebration of the Jubilees and anniversaries with a token amount of dividend per share. Using Event study methodology with market model, 360 announcements were analysed using both parametric and non-parametric tests. The results indicated that the special dividend announcements had positive impact on the shareholders' wealth. Such announcements are readily anticipated by the market participants at least 4 days in advance and their impact disappears after one more day post-announcement. Shareholders are able to generate an average return of four percent cumulatively during this six days' tenure over and above the normal return. The non-parametric Rank Test also confirmed these findings. Alternative tests of parametric and non-parametric genre validated the test results. Overall, the study makes a significant contribution to the special dividend phenomenon observed in Indian corporate sector.

References

- Akhtar, S. (2015). Dividend Payout Determinants for Australian Multinational and Domestic Corporations. *Accounting & Finance*, 1-45.
- Andres, C., Doumet, M., Fernau, E., & Thesissen, E. (2013). *The Lintner Model Revisited: Dividends versus Total Payouts*. CFR Working Paper: University of Cologne, Germany.

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

- Baker, H. K., Mukherjee, T. K., & Powell, G. E. (2005). Distributing Excess Cash: The Role of Specially Designated Dividends. *Financial Services Review*, 14(2), 111-131.
- Balachandran, B., & Nguyen, T. A. (2004). Signalling Power of Special Dividends in an Imputation Environment. *Accounting and Finance*, 44(3), 277-297.
- Balachandran, B., Dempsey, M., & Mahamuni, M. (2009). Special Dividend Announcements: Signaling or Free Cash Flow Hypothesis? Evidence from UK Firms. *Finance and Corporate Governance Conference 2010 Paper*. Australia: 22nd Australasian Finance and Banking Conference.
- Balachandran, B., Faff, R., & Nguyen, T. A. (2004). The Intra-industry Impact of Special Dividend Announcements: Contagion versus Competition. *Journal of Multinational Financial Management*, 14(4-5), 369-385.
- Balachandran, B., Faff, R., & Nguyen, T. A. (2008). The Ex-date Impact of Special Dividend Announcements: A Note. *International Review of Financial Analysis*, 17(3), 635-643.
- Bargeron, L., Kulchania, M., & Thomas, S. (2011). Accelerated Share Repurchases. *Journal of Financial Economics*, 101(1), 69-89.
- Beladi, H., Chao, C. C., & Hu, M. (2016a). A Macro-Analysis of Financial Decisions: An Examination of Special Dividend Announcements. *International Review of Financial Analysis*, 48(6), 162-181.
- Beladi, H., Chao, C. C., & Hu, M. (2016b). The Christmas Effect - Special Dividend Announcements. *International Review of Financial Analysis*, 43(1), 15-30.
- Bessembinder, H., & Zhang, F. (2015). Predictable Corporate Distributions and Stock Returns. *Review of Financial Studies*, 28(4), 1199-1241.
- Bhana, N. (1998). The Share Price Reaction on the Johannesburg Stock Exchange for Special (Extra) Dividend Announcements. *Investment Analysts Journal*, 27(47), 5-15.
- Boehmer, E., Musumeci, J., & Poulsen, A. B. (1991). Event Study Methodology Under Conditions of Event-induced Variance. *Journal of Financial Economics*, 30(2), 253-272.
- Brady, K., Chira, I., & Madura, J. (2014). Special Dividend Distributions, Firm Characteristics, and Economic Conditions. *Journal of Applied Finance*, 24(1), 58-72.
- Bratton, W. W. (2005). The New Dividend Puzzle. *Georgetown Law Journal*, 93(3), 845-895.
- Brickley, J. A. (1983). Shareholder Wealth, Information Signaling and the Specially Designated Dividend. *Journal of Financial Economics*, 12(2), 187-209.

- Briginshaw, J. (2010). Attn: The Corner Office - Why U.S. Firms Should Pay Special Dividends Before Year-End 2010. *Graziadio Business Review*, 13(4), Online.
- Brown, S., & Warner, J. (1980). Measuring Security Price Performance. *Journal of Financial Economics*, 8(3), 205-258.
- Brunarski, K., Harman, Y., & Kehr, J. B. (2004). Agency Costs and the Dividend Decision. *Corporate Ownership & Control*, 1(3), 44-60.
- Buchanan, B., Cao, C. X., Liljebloom, E., & Wehrich, S. (2017). Uncertainty and Firm Dividend Policy - A Natural Experiment. *Journal of Corporate Finance*, 42(1), 179-197.
- Buckley, A. (2003). Why is Fundamental Value so Fundamental to Directors? *European Management Journal*, 21(5), 635-646.
- Caudill, S. B., Hudson, C. D., Marshall, B. B., & Roumantzi, A. (2006). An Empirical Model of Choice of One-Time Corporate Cash Disbursement Methods. *Studies in Economics and Finance*, 23(1), 27-50.
- Cheng, L. T., Fung, H.-G., & Leung, T. Y. (2007). Information Effects of Dividends: Evidence from the Hong Kong Market. *Review of Quantitative Finance and Accounting*, 28(1), 23-54.
- Chetty, R., & Saez, E. (2004). *Do Dividend Payments Respond to Taxes? Preliminary Evidence from the 2003 Dividend Tax Cut*. USA: National Bureau of Economic Research.
- Chhachhi, I. S., & Davidson III, W. N. (1997). A Comparison of the Market Reaction to Specially Designated Dividends and Tender Offer Stock Repurchases. *Financial Management*, 26(3), 89-96.
- Chou, D.-W., Liu, Y., & Zantout, Z. (2009). Long-term Stock Performance Following Extraordinary and Special Cash Dividends. *Quarterly Review of Economics and Finance*, 49(1), 54-73.
- Chowdhury, J., & Sonaer, G. (2016). Ex-dividend Day Abnormal Returns for Special Dividends. *Journal of Economics and Finance*, 40(4), 631-652.
- Collier, J. A. (1965). Mergers and the Special Dividend. *Journal of Risk and Insurance*, 32(2), 255-265.
- Corrado, C. J. (1989). A Non-parametric Test for Abnormal Security-Price Performance in Event Studies. *Journal of Financial Economics*, 23(2), 385-395.
- Cowan, A. R. (1992). Nonparametric Event Study Tests. *Review of Quantitative Finance and Accounting*, 2(4), 343-358.

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

Crutchley, C. E., Hudson, C. D., Jensen, M. R., & Marshall, B. B. (2003). Special Dividends: What Do They Tell Investors About Future Performance? *Financial Services Review*, 12(2), 129-141.

DeAngelo, H., DeAngelo, L., & Skinner, D. J. (2000). Special Dividends and the Evolution of Dividend Signaling. *Journal of Financial Economics*, 57(3), 309-354.

Dedman, E., Kungwal, T., & Stark, A. W. (2009). Dividend Displacement, Market Value, Regular and Special Dividends, and Share Buybacks in the UK. *CEF.UP Finance Seminar Series*. University of Porto, Portugal.

Dehghani, P., & Chun, L. S. (2011). The Impact of the Special Dividend Announcement on the Stock Return: The Case of Malaysia. *Journal of International Business Research*, 10(1), 77-94.

Denis, D. J. (1990). Defensive Changes in Corporate Payout Policy: Share Repurchases and Special Dividends. *Journal of Finance*, 45(5), 1433-1456.

Gelb, D. (1999). Accounting Disclosures and Corporate Payout Policy: Special Dividends versus Stock Repurchases. *Journal of Accounting, Auditing & Finance*, 14(4), 385-399.

Gombola, M. J., & Liu, F.-Y. (1999). The Signaling Power of Specially Designated Dividends. *Journal of Financial and Quantitative Analysis*, 34(3), 409-424.

Gombola, M., & Liu, F.-Y. (2009). Special Dividends. In H. K. Baker, *Dividends and Dividend Policy* (pp. 309-323). New Jersey: Johan Wiley & Sons.

Gramlich, J. D., & Wheeler, J. E. (2003). How Chevron, Texaco, and the Indonesian Government Structured Transactions to Avoid Billions in U.S. Income Taxes. *Accounting Horizons*, 17(3), 107-122.

Hanlon, M., & Hoopes, J. L. (2014). What do Firms do When Dividend Tax Rates Change? An Examination of Alternative Payout Responses. *Journal of Financial Economics*, 114(1), 105-124.

Howe, K. M., He, J., & Kao, G. W. (1992). One-Time Cash Flow Announcements and Free Cash-Flow Theory: Share Repurchases and Special Dividends. *Journal of Finance*, 47(5), 1963-1975.

Hu, M. (2012). *An Examination of Stock Split and Special Dividend Announcements in Relation to Market-Timing Opportunities, Business Cycles, and Monthly Patterns*. School of Economics and Finance, College of Business. PhD Thesis: Massey University, New Zealand.

Hu, M., Young, M., & Malone, C. (2012). *Special Dividends and Business Cycle*. School of Economics and Finance. Working Paper: Massey University, New Zealand.

- Hughes, J. P. (2008). R&D and Dividend Payments as Determinants of Corporate Value in the UK: Empirical Evidence after Controlling for Endogeneity. *International Journal of Managerial Finance*, 4(1), 76-91.
- Hung, K., Duan, C.-W., & Nwanna, G. I. (2003). Announcement Effects of Specially Designated Dividends. In J. Kensinger (Ed.), *Research in Finance* (Vol. 20, pp. 181-212). Emerald Group Publishing Ltd.
- Jayaraman, N., & Shastri, K. (1988). The Valuation Impacts of Specially Designated Dividends. *Journal of Financial and Quantitative Analysis*, 23(3), 301-312.
- Kaestner, R., & Liu, F.-Y. (1998). New Evidence on the Information Content of Dividend Announcements. *Quarterly Review of Economics and Finance*, 38(2), 251-274.
- Lie, E. (2000). Excess Funds and Agency Problems: An Empirical Study of Incremental Cash Disbursements. *Review of Financial Studies*, 13(1), 219-248.
- Lie, E. (2005). Financial Flexibility, Performance, and the Corporate Payout Choice. *Journal of Business*, 78(6), 2179-2202.
- Lie, E., & Lie, H. J. (1999). The Role of Personal Taxes in Corporate Decisions: An Empirical Analysis of Share Repurchase and Dividends. *Journal of Financial and Quantitative Analysis*, 34(4), 533-552.
- Lightner, T. A. (2001). *An Analysis of the Tax-Rate Differential Between Ordinary and Capital Gains Tax-Rates and Its Effect on the Structure of Corporate Payouts*. School of Accounting. PhD Thesis: University of Oklahoma, USA.
- Liira, A. (2013). *Study of Special Dividend Announcements: Finnish Evidence*. Master's Thesis: Aalto University, Finland.
- MacKinlay, A. C. (1997). Event Studies in Economics and Finance. *Journal of Economic Literature*, 35(1), 13-39.
- McKelvey, S. (2011). *Specially Designated Dividends: Signalling or Free Cash Flow?* School of Business, Department of Accountancy and Finance. Master's Thesis: University of Otago, New Zealand.
- Mellet, J. (2013). *The Impact of Special Dividend Announcements, Insider Ownership, and Tax Increases on US Equity Prices*. Working Paper Series: New York University, USA.
- Mitra, D. (1997). The Information Content of Specially Designated Dividend Announcements. *Mid - Atlantic Journal of Business*, 33(1), 37-47.

SPECIAL DIVIDEND ANNOUNCEMENTS BY INDIAN FIRMS

- Moser, W. J. (2005). *The Effect of Shareholder Taxes on Corporate Payout Choice*. PhD Thesis: University of Arizona, USA.
- Moser, W. J. (2007). The Effect of Shareholder Taxes on Corporate Payout Choice. *Journal of Financial and Quantitative Analysis*, 42(4), 991-1019.
- Officer, D. T., & Shelor, R. M. (1992). Dividend Decapitalization and Financial Performance Signals. *Journal of Applied Business Research*, 8(4), 66-70.
- Parks, M. D. (2006). *Managerial Decisions and the Choice of One Time Cash Disbursements: Self Tendered Offers vs. Specially Designated Dividends*. PhD Thesis: Southern Illinois University, USA.
- Patell, J. (1976). Corporate Forecasts of Earnings Per Share and Stock Price Behavior: Empirical tests. *Journal of Accounting Research*, 14(2), 246-276.
- Rathie, A. (2008). *Share Buybacks, Total Returns and Shareholder Equity*. School of Business. Honours Thesis: University of Queensland, Australia.
- Ruddock, C. (2007). *The Informativeness of Dividends and Franking Credits*. PhD Thesis: University of New South Wales, Australia.
- Sarma, L. V., & Kok, L. K. (2013). Wealth and Signalling Effects of Cash Dividends. *Finance India*, 27(4), 1157-1171.
- Serra, A. P. (2004). Event Study Tests: A brief survey. *Gestão.Org - Electronic Journal of Organizational Management*, 2(3), 248-255.
- Setia-Atmaja, L., Balachandran, B., & Skully, M. (2004). *Ownership Structure and the Credibility of Special Dividend Signal: Evidence from Imputation Environment*. Australia: SSRN.
- Shih, F.-Y. L. (1992). Dividend Announcements Under Varying Market Conditions: The Case of Specially Designated Dividends. *Journal of Economics and Finance*, 16(3), 143-151.
- Subramanian, N. (2000). *Control Contests, Special Dividends and Defensive Debt*. Department of Economics. PhD Thesis: Brown University, USA.
- Tucker, J., Guermat, C., & Prasert, S. (2013). Short-Run Reaction to News Announcements: UK Evidence. *Studia Oeconomica*, 58(2), 41-71.
- Wesson, N. (2015). *An Empirical Model of Choice Between Share Repurchases and Dividends for Companies in Selected JSE-listed Sectors*. PhD Thesis: Stellenbosch University, South Africa.
- Wruck, K. H. (1994). Financial Policy, Internal Control, and Performance: Sealed Air Corporation's Leveraged Special Dividend. *Journal of Financial Economics*, 36(2), 157-192.