DIVIDEND POLICY

Dr. S. K. Agrawal,
Assistant Professor,
DEPT. OF COMMERCE,
DURGA MAHAVIDYALAYA

Meaning of Dividend

" A dividend is a distribution to shareholders out of profit or reserve available for this purpose".

Types of Dividend

- On the basis of types of share
  - ❑ Equity Dividend
  - ❑ Preference Dividend

- On the basis of mode of payment
  - ❑ Cash dividend
  - ❑ Stock dividend
  - ❑ Bond dividend
  - ❑ Property dividend
  - ❑ Composite dividend

- On the basis of time of payment
  - Interim dividend
  - Regular dividend
  - Special dividend

Dividend Policy

A dividend policy can be defined as the dividend distribution guidelines provided by the board of directors of a company. It sets the parameter for delivering returns to the equity shareholders, on the capital invested by them in the business. While taking such decisions, the company has to maintain a proper balance between its debt and equity composition. A dividend is nothing but the return declared to the equity shareholders through the distribution of a portion of profits earned by the organization.

TYPES OF DIVIDEND POLICY

- **Stable Dividend Policy**

  In this policy, the company decides a fixed amount of dividend for the shareholders, which is paid periodically. There is no change in the dividend allowed even if the company incurs loss or generates high profit.

- **Regular Dividend Policy**

  Here, a certain percentage of the company’s profit is allowed as dividends to the shareholders. When the gain is high, the shareholders’ earnings will also hike and vice-versa. It is one of the most appropriate policies to be adopted for creating goodwill.

- **Irregular Dividend Policy**

  Under this changeable policy, the company may or may not pay dividends to the shareholders. The top management i.e., the board of directors solely take all dividend decisions, as per their priorities

- **No Dividend Policy**

  Here, the company always retains the profits to fund further projects. Moreover, it has no intention of declaring any dividends to its shareholders. This strategy may seem to be beneficial for business growth but usually discourages the investors aiming for sustainable income.

ESSENTIALS OF A SOUND DIVIDEND POLICY

- **Lower Dividends in Initial Stage**: When the company is at the beginning stage and earns little profit, it should still provide dividends to the shareholders, though less.

- **Gradual Increase in Dividends**: As the company prosper and grow, the dividend should be kept on increasing proportionately, to build shareholders' confidence.

- **Stability**: It is one of the crucial features of a superior dividend policy. When the company can survive in the market, it should ensure a stable rate of return in the form of dividends to its shareholders. This leads to retention of shareholders and gains investors' interest, all resulting in the enhancement of shares market value.

IMPORTANCE OF DIVIDEND POLICY

- Develop Shareholders' Trust
- Influence Institutional Investors
- Future Prospects
- Equity Evaluation
- Market Value Stability of Shares
- Market for Preference Shares and Debentures
- Degree of Control
- Rising of Surplus Funds
- Tax Advantage

THANKS