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## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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# A Study on Investors Opinion towards the Impact of Dividend Distribution on Stock Prices

Dr. A. R. Kanagaraj<sup>1</sup>, Mugesh Kumar D<sup>2</sup>

Professor, Department of Commerce with CS CA, Dr. N.G.P. Arts and Science College, Coimbatore, India

Student of B.Com (CSCA), Department of Commerce (Corporate Secretaryship With CA), Dr. N.G.P. Arts and Science  
College, Coimbatore, India

**ABSTRACT:** The stock market plays a crucial role in shaping investment decisions, with dividend distribution being a key determinant of stock price movements. This study examines investors' opinions on the impact of dividend announcements on stock prices. By analyzing investor perceptions, market reactions, and historical price trends, the research aims to assess whether dividend declarations significantly influence stock valuation. A combination of quantitative and qualitative methods, including surveys and statistical analysis, is employed to evaluate investor sentiment and market behavior. The findings of this study will provide valuable insights for investors and companies in formulating effective dividend policies and making informed investment decisions.

**KEYWORDS:** Dividend distribution, stock prices, investor perception, market reaction, dividend policy, stock valuation, investment decisions.

## I. INTRODUCTION

Dividends are one of the key elements in corporate finance and are considered a primary mechanism by which firms return profits to their shareholders. As a fundamental aspect of an investor's return on investment, the way in which companies distribute dividends has significant implications not only for shareholder satisfaction but also for stock prices in financial markets. The relationship between dividend distribution and stock prices has been a subject of considerable debate and research within the field of finance. Understanding this relationship is vital as it influences both corporate dividend policies and the investment strategies of individuals and institutional investors. Dividends serve as a signal to investors regarding a company's financial health, profitability, and future growth potential. Firms that maintain a stable or increasing dividend payout are often perceived as financially secure, which may lead investors to view them as safer or more attractive investments. Conversely, firms that reduce or eliminate dividends may be interpreted as experiencing financial distress or anticipating future difficulties, potentially causing negative reactions in the stock market. The impact of dividend distribution on stock prices is influenced by multiple factors, including investor expectations, market conditions, and the general economic environment.

## II. NEED FOR THE STUDY

This study aims to explore how investors perceive the impact of dividend distribution on stock prices, particularly focusing on whether they view dividends as a critical factor in stock valuation or if other market forces hold more weight. By collecting data through surveys, investor interviews, and analyzing historical stock price reactions to dividend announcements, this research seeks to provide a clearer understanding of the prevailing opinions on this issue. Additionally, the study will examine the role of dividend policies in shaping stock prices in both developed and emerging markets. While established markets may have more predictable responses to dividend announcements, emerging markets may have different reactions based on varying investor behavior, market dynamics, and the volatility associated with those markets.

## STATEMENT OF PROBLEM

The relationship between dividend distribution and stock prices has long been a subject of interest in the field of finance, as dividends represent a primary means of returning value to shareholders. Despite the extensive research conducted on dividend policies, there remains a lack of consensus regarding how dividend distribution directly impacts





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stock prices, particularly from the perspective of investors. While some theories suggest that dividend announcements can signal a company's financial health, leading to either an increase or decrease in stock prices, others argue that factors such as market conditions, company performance, and investor sentiment play a more significant role in stock price movements.

### OBJECTIVES

1. To examine the relationship between dividend distribution and stock prices
2. To assess the impact of dividend distribution on stock price
3. To identify the key factors influencing the impact of dividend distribution on stock prices
4. To provide valuable suggestion to enhance the stock prices and dividend distribution

### SCOPE OF THE STUDY

1. To analyse investor perceptions on dividend impact.
2. To Examine stock price reactions to dividend announcements.
3. To Compare investor behavior in different market environments.
4. To Evaluate dividend policies in developed and emerging markets.
5. To Understand investor preferences for dividends versus capital gains.

### III. RESEARCH METHODOLOGY

The research will use a descriptive research design with a stratified random sampling approach, targeting individual and institutional investors. Data will be collected through structured surveys and interviews to capture both quantitative and qualitative insights. Statistical analysis will evaluate the relationship between dividend distribution and stock prices, while thematic analysis will interpret investor opinions.

### SOURCE OF DATA

**Source of data** refer to the origins or places from which data is gathered to answer research questions or test hypotheses. These sources are crucial for the research process, as they determine the quality, reliability, and relevance of the data. Broadly, there are two main types of data sources: **primary** and **secondary** data sources.

#### PRIMARY DATA

Primary data refers to original, firsthand information collected directly from sources for a specific research purpose. It is gathered through methods like surveys, interviews, observations, and experiments.

#### SECONDARY DATA

Secondary data are collected from existing sources such as books, journals, research papers, government reports, company filings, and online databases. These data are not gathered for the specific research study but are analyzed to gain insights relevant to the research topic, saving time and resources compared to primary data collection.

### IV. RESEARCH DESIGN

Research design is the framework or plan used to guide the entire research process. It outlines how data will be collected, analyzed, and interpreted to address the research questions or hypotheses. The design ensures the study is systematic, structured, and reliable. In this context, a descriptive research design will be used to explore investors' opinions on dividend distribution and stock prices, combining qualitative and quantitative methods to provide comprehensive insights into the subject.

### SAMPLE SIZE

This study investigates investors' opinions on the impact of dividend distribution on stock prices. A survey of 134 investors revealed their perceptions, expectations, and experiences. The study employed a descriptive research design, using a structured questionnaire to collect primary data.



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### TOOL FOR ANALYSIS

- simple percentage method
- chi-square test
- correlation analysis
- ANOVA

### V. REVIEW OF LITERATURE

**Wang & Sun (2022)** Noted that future research should focus on the interaction between dividend policy and technological innovations, particularly how companies in tech-driven industries may balance capital reinvestment and dividend payouts.

**Jain & Purohit (2021)** studied dividend traps, where companies with unsustainable dividend policies attract investors only to later reduce or eliminate dividends, leading to sharp declines in stock prices. They suggested that investors must be cautious about firms with unusually high dividend payouts.

**Cohen & Pantz (2020)** examined the interaction between dividend policies and the value-growth stock style. They found that value stocks, which typically pay higher dividends, experience more significant price increases after dividend declarations compared to growth stocks.

### SIMPLE PERCENTAGE METHOD

**Table: AGE WISE CLASSIFICATION OF RESPONDENTS**

Age Group	Frequency	Percent
Below25years	32	23.9
25-34 years	35	26.1
35-44 years	34	25.4
45yearsand above	33	24.6
<b>Total</b>	<b>134</b>	<b>100.0</b>

**Source: Primary Data**

### INTERPRETATION:

Table reveals that the age group of 25-34 years recorded the highest percentage of respondents at 26.1%, followed closely by the 35-44 years group with 25.4%. The age group of 45 years and above accounted for 24.6%, while the lowest percentage was observed in the below 25 years category with 23.9%.

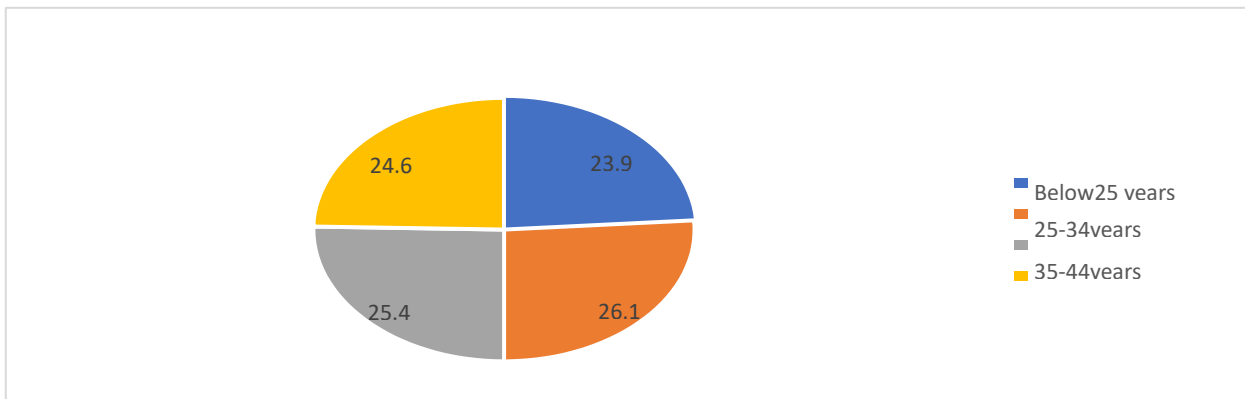
Most (26.1%) of the respondents belong to the age group of 25-34 years.



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**Chart : AGE WISE CLASSIFICATION OF RESPONDENTS**



### CHI-SQUARE ANALYSIS

#### AGE GROUP AND INFLUENCE OF DIVIDEND PAYMENT FREQUENCY ON INVESTMENT DECISIONS

Crosstab						
Count						
		Influence of Dividend Payment Frequency on Investment Decisions				Total
		Prefer quarterly payments	Prefer annual payments	Frequency doesn't matter	Not sure	
Age Group	Below 25 years	4	8	13	7	32
	25-34 years	7	6	16	6	35
	35-44 years	16	8	4	6	34
	45 years and above	10	6	7	10	33
Total		37	28	40	29	134

Chi-Square Tests			
	Value	df	Asymptotic Significance(2- sided)
Pearson Chi-Square	19.316 <sup>a</sup>	9	.023
Likelihood Ratio	19.846	9	.019
Linear-by-Linear Association	1.961	1	.161
No of Valid Cases	134		

a. 0 cells(0.0%) have expected count less than 5. The minimum expected count is 6.69.

Source: Computed from Primary data



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### INFERENCE:

Table reveals that the Pearson Chi-Square value is 19.316 with an Asymptotic Significance (2-sided) value of 0.023, which is less than the standard significance level of 0.05. This indicates that there is a statistically significant relationship between age group and influence of dividend payment frequency on investment decisions. Hence, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_a$ ) is accepted, confirming that age group significantly influences the perception of dividend payment frequency in investment decisions among the respondents.

### CORRELATION ANALYSIS

#### FREQUENCY OF INVESTING IN DIVIDEND-PAYING STOCKS AND BELIEF ON DIVIDENDS AS AN INDICATOR OF FINANCIAL HEALTH

Correlations			
		Frequency of Investing in Dividend- Paying Stocks	Belief on Dividends as an Indicator of Financial Health
Frequency of Investing in Dividend-Paying Stocks	Pearson Correlation	1	-.203*
	Sig. (2-tailed)		.019
	N	134	134
Belief on Dividends as an Indicator of Financial Health	Pearson Correlation	-.203*	1
	Sig. (2-tailed)	.019	
	N	134	134

\*.Correlation is significant at the 0.05 level(2-tailed).

Source: Computed from Primary data

### INFERENCE:

Table reveals that the Pearson correlation coefficient is -0.203 with a significance value of 0.019, which is less than the standard significance level of 0.05. This indicates a statistically significant negative correlation between the frequency of investing in dividend-paying stocks and the belief on dividends as an indicator of financial health. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_a$ ) is accepted, confirming that as the frequency of investing in dividend-paying stocks increases, the belief in dividends as a strong indicator of financial health tends to decrease among the respondents.

### ANOVA ANALYSIS

#### AGE GROUP AND INFLUENCE OF DIVIDEND PAYMENT FREQUENCY ON INVESTMENT DECISIONS

ANOVA					
Influence of Dividend Payment Frequency on Investment Decisions					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	10.120	3	3.373	2.827	.041
Within Groups	155.111	130	1.193		
Total	165.231	133			

Source: Computed from Primary data INFERENCE:



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Table reveals that the F-value is 2.827 with a significance value of 0.041, which is less than the standard significance level of 0.05. This indicates a statistically significant association between age group and the influence of dividend payment frequency on investment decisions. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_a$ ) is accepted, confirming that age group significantly influences how dividend payment frequency impacts investment decisions among the respondents.

### VI. FINDINGS OF THE STUDY

#### SIMPLE PERCENTAGE ANALYSIS

- Most (26.1%) of the respondents belong to the age group of 25-34 years.
- Majority (51.5%) of the respondents are male.
- Most (28.4%) of the respondents hold a Bachelor's Degree.
- Most (29.1%) of the respondents invest in dividend-paying stocks rarely.
- Majority (51.5%) of the respondents believe that dividend distribution affects stock prices occasionally.
- Most (29.9%) of the respondents prefer to hold the stock when a dividend is announced.
- Most (30.6%) of the respondents prefer high dividend payouts.
- Most (29.1%) of the respondents consider dividend payout as somewhat important in their investment strategy.
- Most (31.3%) of the respondents believe that a dividend increase leads to a stock price rise in most cases.
- Most (27.6%) of the respondents believe that the relationship between dividend stability and stock price volatility depends on the company.
- Most (29.1%) of the respondents sometimes consider dividends when choosing between similar companies.
- Most (28.4%) of the respondents believe that dividends are a strong indicator of financial health.
- Most (30.6%) of the respondents would not sell stocks due to an unexpected decrease in dividend payout.
- Most (28.4%) of the respondents monitor dividend yield in their portfolio occasionally.
- Most (29.1%) of the respondents believe that dividends are important and there is not too much focus on them.
- Most (29.9%) of the respondents perceive no noticeable change in stock prices after a dividend announcement.
- Most (28.4%) of the respondents prefer dividend-paying stocks.
- Most (29.9%) of the respondents stated that dividend payment frequency doesn't matter in their investment decisions.
- Most (29.1%) of the respondents believe that dividend-paying stocks are not necessarily safer than non-dividend stocks.
- Most (28.4%) of the respondents would reassess their investment only if the company is facing financial troubles.
- Most (27.6%) of the respondents believe that dividend payouts contribute to long-term stock price growth.
- Most (28.4%) of the respondents believe that dividends are important and focusing on them does not necessarily lead to missing capital gains.
- Most (29.1%) of the respondents believe that market sentiment has a moderate influence on stock prices after dividend distribution.
- Most (29.1%) of the respondents prefer growth over dividends when considering investment options.
- There is a significant relationship between age group and influence of dividend payment frequency on investment decisions
- There is a significant relationship between gender and opinion on investment emphasis on dividend payouts
- There is a significant correlation between frequency of investing in dividend-paying stocks and belief on dividends as an indicator of financial health.
- There is a significant correlation between stock preference (dividend vs. non-dividend) and the consideration of dividends when selecting between similar companies.
- There is a significant association between age group and influence of dividend payment frequency on investment decisions



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- There is a significant association between educational qualification and frequency of investing in dividend-paying stocks

### SUGGESTIONS

1. Financial literacy programs should educate investors about the strategic role of dividends in portfolio management.
2. Companies should maintain consistent dividend policies to enhance investor confidence.
3. Investment advisors can guide clients to evaluate dividend yield along side stock growth potential.
4. Investors should be encouraged to track dividend announcements for informed decision making.
5. Corporates can use dividend announcements strategically to reduce stock price volatility.
6. Companies may communicate the rationale behind dividend changes to avoid panic selling.
7. Personalized investment strategies should consider age and educational background of investors.
8. Firms can offer targeted communication to different age groups regarding dividend frequency.
9. Companies should address gender-based differences in dividend perception through tailored investor relations.
10. Clear information on dividend payout policies should be provided during company comparisons.
11. Investors should assess both dividend payouts and overall financial health before investing.
12. Encouraging moderate monitoring of dividend yield can help long-term investors stay engaged.
13. Financial advisors should explain how dividends relate to long-term capital gains.
14. Companies should be transparent about their dividend stability to attract more informed investors.
15. Investment platforms can develop tools to correlate dividend frequency with investor preferences.

### VII. CONCLUSION

This study aimed to analyze the impact of dividend distribution on stock prices and explore investor behavior in relation to dividend-related decisions. The findings reveal that dividends continue to play a notable, though not sole, role in shaping investor preferences and perceptions. Most respondents believe dividend distribution affects stock prices on occasion rather than consistently, indicating an announced view that dividends are just one of many factors influencing market performance. The majority of investors prefer to hold their stocks upon dividend announcements rather than buying or selling, reflecting a cautious and stable investment approach. Investor preferences for high dividend payouts, alongside their view of dividends as somewhat important, highlight a moderate reliance on dividend information in making investment decisions. While dividend increases are perceived to positively impact stock prices in most cases, the belief that the impact to dividend stability on price volatility depends on the company underlines the investor's recognition of broader market and firm-specific factors

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