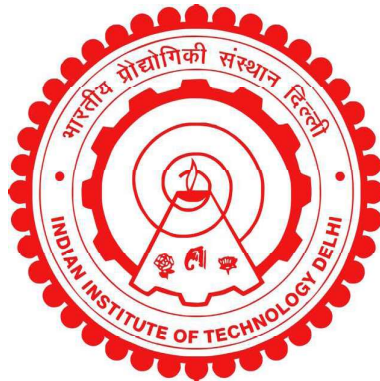


PEER EFFECTS AND FIRMS' PAYOUT POLICIES

NEERAJ JAIN



**DEPARTMENT OF MANAGEMENT STUDIES
INDIAN INSTITUTE OF TECHNOLOGY DELHI
JULY 2025**

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by

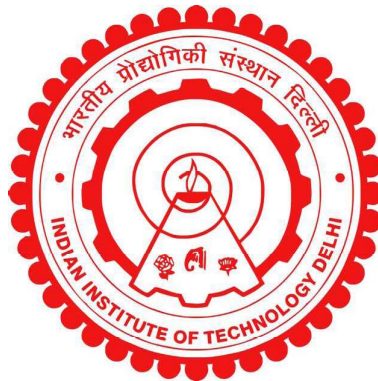
Neeraj Jain

Department of Management Studies

Submitted

in fulfillment of the requirements of the degree of Doctor of Philosophy

to the



INDIAN INSTITUTE OF TECHNOLOGY DELHI

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Dedicated to my parents...

Certificate

This is to certify that the thesis entitled “**Peer Effects and Firms’ Payout Policies**”, submitted by **Neeraj Jain** to the Indian Institute of Technology Delhi, for the award of the degree of **Doctor of Philosophy**, is a record of the original, bona fide research work carried out by him under our supervision and guidance. The thesis has reached the standards fulfilling the requirements of the regulations related to the award of the degree.

The results contained in this thesis have not been submitted in part or in full to any other University or Institute for the award of any degree or diploma to the best of our knowledge.

(Prof. Neeru Chaudhry)

Department of Management Studies,
Indian Institute of Technology Delhi.

(Prof. Smita Kashiramka)

Department of Management Studies,
Indian Institute of Technology Delhi.

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गुरुर्ब्रह्मा गुरुर्विष्णुः गुरुर्देवो महेश्वरः ।
गुरुः साक्षात् परं ब्रह्म तस्मै श्री गुरवे नमः ॥

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Abstract

Purpose

This study investigates the effects of peers on corporate payout policies in one of the largest emerging markets - India. Specifically, the study probes into (1) the heterogeneity in firms' mimicking behaviour, channels and motives of peer effects; (2) the role of institutional shareholdings and agency problems in shaping firms' mimicking behaviour; (3) the effects of firms' mimicking behaviour on firms' performance and value; and (4) the impact of economic policy and market uncertainty on firms' payout and mimicking behaviour.

Design/Methodology/Approach

The sample is composed of 3,024 non-financial and non-government firms listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) from 1995 to 2020. To define peer reference groups, the study uses the basic industry classification defined in the CMIE Prowess IQ Database. This is a micro-level classification that reflects the core operation of a firm and is based on its core business activities. To encounter the endogeneity problem, the instrumental variable (IV) technique based on peer firms' idiosyncratic risk is used to estimate the effects of peers on firms' payout policy. Therefore, 2-Stage Least Squares (2SLS) regression is deployed to infer the causal effects of peers on a firm's payout policies.

Findings

The results indicate a significant positive impact of peers on firms' dividend policies in India. A firm with all dividend-paying peers is 21.9 per cent more likely to declare dividends than the one with no dividend-paying peers. Further, peer effects are found to be more pronounced among larger and older firms, thus supporting the rivalry theory of mimicking. Firms in

emerging markets face more information asymmetry and agency problems. In such a scenario, mimicking the payout policies of peers becomes imperative to maintain a competitive advantage in the market. Small-sized firms and younger firms may not mimic the payout policies of their peers because of their inability to mimic their peers' behaviour. Moreover, findings suggest that a firm's ability to mimic the payout policies of its peers is affected by its access to the external capital market, growth opportunities, and cash flow. However, the effects of peers on firms' payout policies are not homogenous across varying economic and market uncertainties. Firms mimic more during unfavourable periods, especially when economic uncertainty is high and the market is declining. These results are consistent with the arguments made by Keynes (1936) regarding herd behaviour among managers who believe that contrarian actions could harm their reputations in the labour market.

Given the considerable influence of institutional shareholders (ISH) on firms' financial decisions, the study reveals non-linear, inverted U-shaped effects of ISH on firms' mimicking behaviour. Specifically, at low levels of institutional holdings, firms mimic to retain the ISH. However, beyond a certain level, the active role of institutional investors in firms' decision-making reduces the firms' incentive to mimic their peers' payout policies, thereby supporting the monitoring hypothesis. Furthermore, findings reveal more pronounced effects of peers amongst firms with high agency problems, as managers aim to reduce mistrust between shareholders and themselves. The results of this research can be effectively used by managers to reduce the firms' agency problem and help in the determination of the optimal level of dividends. By studying the role of institutional shareholders in firms' mimicking behaviour, managers can design payout policies that can help them to attract and retain institutional shareholders and thus meet the financial needs of the organisations.

By using a large number of indicators of firm performance and value, the study finds that

mimicking behaviour is value-enhancing. Firms that increase dividends aligned with their peers exhibit a significantly higher value of 6.5 per cent (average effects across all measures of value) than non-mimicking firms. However, in terms of market returns, only those firms that closely mimic their peers' payout policies generate higher returns in the long run but not in the short run. These results have practical implications for the managers, who can generate higher value for the shareholders by effectively mimicking their peer firms.

Originality/Value

To the best of our knowledge, this study is the first of its kind to examine peer effects on payout decisions in an emerging market like India, which offers a unique institutional setting characterized by a high economic growth rate, an underdeveloped financial market, significant information asymmetry, and higher agency costs. Moreover, we extend the existing literature by investigating the peer effects on a firm's payout policies considering various firm-level characteristics, such as growth opportunity, cash holding, and financial constraint in the context of emerging market. The study provides a new perspective into the motive of firms' mimicking behaviour by studying the role of ISH and agency costs on firms' mimicking behaviour. Moreover, the study adds to the scant literature on the impact of firms' mimicking behaviour on their performance and value and suggests that the market places a higher premium on closely mimicking firms than non-mimicking firms. These results add to our understanding of whether mimicking behaviour is value generative.

सारांश

लक्ष्य

यह अध्ययन सबसे बड़े उभरते बाजारों में से एक - भारत में कॉर्पोरेट भुगतान नीतियों पर साथियों के प्रभावों की जांच करता है। इसके अलावा, अध्ययन फर्मों के नकल व्यवहार, चैनल और सहकर्मों प्रभावों के मकसद में विविधता, फर्मों के नकल व्यवहार को आकार देने में संस्थागत शेयरधारिता और एजेंसी की समस्याओं की भूमिका, फर्मों के प्रदर्शन और मूल्य पर फर्मों के नकल व्यवहार के प्रभाव और फर्मों के भुगतान और व्यवहार की नकल करने में आर्थिक और नीतिगत अनिश्चितता की भूमिका की जांच करता है।

डिजाइन/कार्यप्रणाली/दृष्टिकोण

यह नमूना 1995 से 2020 की अवधि के लिए नेशनल स्टॉक एक्सचेंज (एनएसई) और बॉम्बे स्टॉक एक्सचेंज (बीएसई) में सूचीबद्ध 3,024 गैर-वित्तीय और गैर-सरकारी फर्मों से बना है। साथियों के संदर्भ समूहों को परिभाषित करने के लिए, अध्ययन में सीएमआईआई प्रोवेस आईक्यू डेटाबेस में परिभाषित मूल उद्योग वर्गीकरण का उपयोग किया गया है। यह एक सूक्ष्म स्तर का वर्गीकरण है जो किसी कंपनी के मूल कार्यक्षेत्र को प्रतिबिंबित करता है और इसे उसके मूल व्यापारिक गतिविधियों पर आधारित किया गया है। Endogeneity समस्या का सामना करने के लिए, सहकर्मों फर्मों के अज्ञात जोखिम पर आधारित वाद्य चर तकनीक का उपयोग फर्मों की भुगतान नीति पर साथियों के प्रभावों का अनुमान लगाने के लिए किया गया है। इसलिए, फर्मों की भुगतान नीतियों पर साथियों के कारण प्रभावों का अनुमान लगाने के लिए IV-Probit, IV-Tobit और 2-स्टेज कम से कम वर्ग (2SLS) प्रतिगमन को तैनात किया गया है।

निष्कर्षों

परिणाम भारत में फर्मों की लाभांश नीतियों पर प्रतिस्पर्धियों के महत्वपूर्ण सकारात्मक प्रभाव का संकेत देते हैं। लाभांश देने वाले सभी समकक्षों वाली फर्म के लाभांश देने वाले समकक्षों की तुलना में लाभांश घोषित करने की संभावना 21.9 प्रतिशत अधिक है। इसके अलावा, सहकर्मों प्रभाव बड़ी और पुरानी फर्मों के बीच अधिक स्पष्ट

पाए जाते हैं और इस प्रकार, नकल के प्रतिद्वंद्विता सिद्धांत का समर्थन करते हैं। उभरते बाजारों में फर्मों को अधिक सूचना विषमता और एजेंसी समस्याओं का सामना करना पड़ता है। ऐसे परिदृश्य में, बाजार में प्रतिस्पर्धात्मक लाभ बनाए रखने के लिए साथियों की भुगतान नीतियों की नकल करना अनिवार्य हो जाता है। छोटे आकार की कंपनियां और युवा फर्म अपने साथियों के व्यवहार की नकल करने में असमर्थता के कारण अपने साथियों की भुगतान नीतियों की नकल नहीं कर सकते हैं। इसके अलावा, निष्कर्ष बताते हैं कि अपने साथियों की भुगतान नीतियों की नकल करने की एक फर्म की क्षमता बाहरी पूंजी बाजार, विकास के अवसरों और नकदी प्रवाह तक इसकी पहुंच से प्रभावित होती है। हालांकि, फर्मों की भुगतान नीतियों पर साथियों के प्रभाव अलग-अलग आर्थिक और बाजार अनिश्चितता में समरूप नहीं हैं। जब आर्थिक नीति अनिश्चितता (ईपीयू) कम होती है और आर्थिक परिस्थितियां अनुकूल या अनुकूल नहीं होती हैं तो फर्म अधिक नकल करते हैं। ये परिणाम प्रबंधकों के बीच झुंड व्यवहार के बारे में कीन्स (1936) द्वारा दिए गए तर्कों के अनुरूप हैं, जो मानते हैं कि विरोधाभासी कार्य श्रम बाजार में उनकी प्रतिष्ठा को नुकसान पहुंचा सकते हैं।

फर्मों के वित्तीय निर्णयों पर संस्थागत शेयरधारकों (आईएसएच) के काफी प्रभाव को देखते हुए, अध्ययन से फर्मों के नकल व्यवहार पर आईएसएच के गैर-रेखीय, उल्टे यू-आकार के प्रभावों का पता चलता है। विशेष रूप से, संस्थागत होल्डिंग्स के निम्न स्तर पर, फर्म आईएसएच को बनाए रखने के लिए नकल करते हैं। हालांकि, एक निश्चित स्तर से परे, फर्मों के निर्णय लेने में संस्थागत निवेशकों की सक्रिय भूमिका फर्मों को अपने साथियों की भुगतान नीतियों की नकल करने के लिए प्रोत्साहन को कम करती है, जिससे निगरानी परिकल्पना का समर्थन होता है। इसके अलावा, निष्कर्ष उच्च एजेंसी समस्याओं वाली फर्मों के बीच साथियों के अधिक स्पष्ट प्रभावों को प्रकट करते हैं, क्योंकि प्रबंधकों का उद्देश्य शेयरधारकों और खुद के बीच अविश्वास को कम करना है। इस शोध के परिणामों को प्रबंधकों द्वारा फर्मों की एजेंसी की समस्या को कम करने और लाभांश के इष्टतम स्तर के निर्धारण में मदद करने के लिए प्रभावी ढंग से उपयोग किया जा सकता है। फर्मों के नकल व्यवहार में अंतर्ज्ञान शेयरधारकों की भूमिका का अध्ययन करके, प्रबंधक भुगतान नीतियों को डिजाइन कर सकते हैं जो उन्हें संस्थागत शेयरधारकों को आकर्षित करने और बनाए रखने में मदद कर सकते हैं और इस प्रकार संगठनों की वित्तीय आवश्यकताओं को पूरा कर सकते हैं।

प्रदर्शन और मूल्य के संकेतकों की एक बड़ी संख्या का उपयोग करके, अध्ययन में पाया गया कि व्यवहार की नकल करना मूल्य बढ़ाने वाला है। जिन फर्मों ने अपने साथियों के साथ जुड़े लाभान्श में वृद्धि की, उन्होंने गैर-नकल फर्मों की तुलना में 6.5 प्रतिशत (मूल्य के सभी उपायों में औसत प्रभाव) का सांख्यिकीय रूप से काफी अधिक मूल्य प्रदर्शित किया। हालांकि, बाजार रिटर्न के संदर्भ में, फर्म जो अपने साथियों की भुगतान नीतियों की बारीकी से नकल करते हैं, केवल लंबे समय में उच्च रिटर्न उत्पन्न करते हैं लेकिन अल्पावधि में नहीं। इन परिणामों में प्रबंधकों के लिए व्यावहारिक प्रभाव हैं, जो अपने सहकर्मी फर्मों की प्रभावी ढंग से नकल करके शेयरधारकों के लिए उच्च मूल्य उत्पन्न कर सकते हैं।

मौलिकता/मूल्य

हमारे सर्वोत्तम ज्ञान के लिए, यह अध्ययन भारत जैसे उभरते बाजार में भुगतान निर्णयों पर सहकर्मी प्रभावों की जांच करने के लिए अपनी तरह का पहला है, जो एक उच्च आर्थिक विकास दर, एक अविकसित वित्तीय बाजार, महत्वपूर्ण सूचना विषमता और उच्च एजेंसी लागत की विशेषता वाली एक अद्वितीय संस्थागत सेटिंग प्रदान करता है। इसके अलावा, हम विभिन्न फर्म-स्तरीय विशेषताओं, जैसे विकास के अवसर, नकदी धारण, वित्तीय बाधा और लाभप्रदता पर विचार करते हुए फर्म की भुगतान नीतियों पर सहकर्मी प्रभावों की जांच करके मौजूदा साहित्य का विस्तार करते हैं, जिन्हें पिछले अध्ययनों ने ध्यान में नहीं रखा है। इसके अलावा, अध्ययन फर्मों के नकल व्यवहार पर आईएसएच और एजेंसी लागत की भूमिका का अध्ययन करके फर्मों के नकल व्यवहार के मकसद में एक नया परिप्रेक्ष्य प्रदान करता है। इसके अलावा, अध्ययन फर्मों के प्रदर्शन और मूल्य पर फर्मों के नकल व्यवहार के प्रभाव पर बहुत कम साहित्य को जोड़ता है और सुझाव देता है कि बाजार गैर-नकल फर्मों की तुलना में फर्मों की बारीकी से नकल करने पर अधिक प्रीमियम देता है। ये परिणाम हमारी समझ को जोड़ते हैं कि क्या व्यवहार की नकल करना मूल्य-उत्पादक है।

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List of Abbreviations

2SLS	2-Stages Least Squares
BBD	Baker, S.R., Bloom, N., Davis, S.J
BSE	Bombay Stock Exchange
CMIE	Centre for Monitoring Indian Economy
CSR	Corporate Social Responsibility
DII	Domestic Institutional Investors
EMH	Efficient Monitoring Hypothesis
EPU	Economic Policy Uncertainty
FE	Fixed Effects
FII	Foreign Institutional Investors
GDP	Gross Domestic Product
HHI	Herfindahl–Hirschman Index
IPO	Initial Public Offering
IR	Idiosyncratic Risk
ISH	Institutional Shareholders
IV	Instrumental Variable
M&A	Mergers and Acquisitions
MA	Market Value of Assets
MB	Market-to-Book
ML	Maximum Likelihood
MM	Miller and Modigliani
NI	Net Income
NSE	National Stock Exchange
NYSE	New York Stock Exchange
OLS	Ordinary Least Square
PB	Price-to-Book
PIPE	Private Investment in Public Equity
PIR	Peers' Idiosyncratic Risk
PPP	Peers' Payout Policy
PSM	Propensity Score Matching
R&D	Research and Development
RE	Random Effects
RO	Research Objectives
ROA	Return on Assets
RQ	Research Questions
SD	Standard Deviation
TA	Total Assets
TBR	Treasury Bill Rates
TCS	Tata Consultancy Services
U.S.	United States