

PREFACE

The financial objective of a firm is to maximize the shareholders' wealth. It consists of two components : (i) dividend flows; and (ii) capital appreciation. To achieve this objective, a concern must earn profits at a certain minimum rate. The interests of businessmen and investors centre increasingly round the earnings of an enterprise. They are interested not only in the direct return which they receive but also in the market worth of the enterprise.

A company does not distribute the entire amount of earnings made by it, but retains a part of it for expansion schemes and to bear the shocks of financial vicissitudes. It manages its earnings in such a way as to reward the owners adequately (for supplying the risk capital) in the form of dividends, and to strengthen the financial health of the concern adequately through retention. A concern that pays regular dividends and steadily augments its future earning capacity through retention commands a respectable position in the market.

An entity-oriented management will attempt to pursue that policy which serves all interests and suits the convenience of the organization. Although, what is good for the company is also good for the shareholders in the long run, but shareholders, generally, are not a homogeneous group but a heterogeneous group with a variety of motives. Thus, management

of earnings depends upon the strategy, objectives and philosophy of the organization rather than solely upon the interests of shareholders.

Therefore, the problem of utilizing profits in the best possible manner is of crucial importance. The crux of the problem is to achieve a synthesis between the needs of the undertaking, sound principles of finance, and the demand on profits by the shareholders. The two opposite forces - the shareholders' pressure for greater distribution and the concern's pressure for more retention of the same profits, are to be mutually balanced.

How successfully/efficiently this problem of management of earnings is tackled by managements in pharmaceutical industry is the main purpose of this study. It is an analysis and discussion of policies and practices followed by the managements in regard to appropriations of earnings in pharmaceutical industry.

The study is confined to 10 units which are exclusively engaged in the manufacture of drugs and medicines and are quoted on the Stock Exchange. An attempt has been made to scrutinise their depreciation, dividend and retention policies. In the study, statistical tools, viz., ratio analysis, partial correlation and regression models have been applied for the comparative study of the units.

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