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Dividend Paying Practices in the Non-Financial Sector of Pakistan: An Empirical Evidence from Karachi Stock Exchange

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Abstract
The study intends to investigate the dividend paying practices in the non-financial sectors of the Karachi Stock Exchange. All the dividend paying sectors of the Karachi Stock Exchange were probed into for the period 2002-2008. A well developed mixture of six variables along with the descriptive statistics were made the use of to scrutinize the dividend paying behavior of sectors. Inconsistency, reluctance and trivial average rate from 1.5% to 5% of the dividends were being paid by the sectors. The profitability was not functioning adequately regarding the dividends and the highly profitable sectors were also in the habit paying nominally. Most of the funds were noticed to be used for financing the growth opportunities and only the mature and highly profitable sectors were keeping pace with the growth opportunities and endeavoring to transform it to the shareholders. The market capitalization was observed to oppose the trend of the dividends in almost all the sectors but the lick of it varied with the rate of surge in the market capitalization numbers. All the sectors were having a trend to disburse and dwindle the rate of the dividend at the very beginning, middle and at last to make a drift in it during the last couple of years, particularly in 2008. The corporate governance should be strengthened in order to protect the rights of the individual shareholders.
Keywords: Dividend Policy, Determinants and Paying Behavior.

I. INTRODUCTION

The dividends are the compensation to the shareholders for risk bearing on the investments (Shamsi, 2000).The process of paying the dividend is an amazing riddle of modern finance. Numerous studies have been carried out to resolve this mystery, but still the ball is destination ridden. It is normally considered to be as "Dividend puzzle" which is still unresolved (Black, 1976). More recently, Brealey & Myers (2005) discovered that the dividend was one of the top ten vital unresolved problems of the corporate finance. After no lapse of more than three decades, the situation is still baffling, one the much more empirical and theoretical researches are deemed to have developed a universal consenses on the dividend policy (Allen & Michaely, 2003). The scholars have endeavoured to resolve this issue by contributing to the existing body of litrature in the form of models and theories. Uptill now they have successed in developing five theories regarding the dividend policy. The most former theory emphasize the dividend payments instead of the capital gains (Gordon, 1963). A change in the dividend impact on the price of the stock as the investors perceive this change to be a statement about the expected future earnings (Miller & Modigliani, 1961).The dividend mitigates the information asymmetry between the management and the shareholders by transmitting same secret information about a firm's future prospects (Bhattacharya, 1979).The dividend help curtail the agency costs associated with the separation of ownership and control (Jensen, 1986). The catering theory calls upon the managers to put a spur to the investors after their needs (Baker & Jeffrey, 2004). Along with these models, the defining factors (The determinants) of the dividend policy also are equally imperative. The empirical researches have been evolving numerous potential determinants of the dividend policy since 1956 which have a two way effect on the policy like. Some of them enforce dividend initiation while others the inflict omissions. Profitability is an important predictor of the dividend policy that initiates it. The current earnings are an important variable that defines the dividend policy, like as to how much portion is distributed or retained (Patsouratis, 1989; Eriotis ,2005). Baker at el. (2007) have argued that the current and the expected future earnings enforce more dividends. The size of the firm works as a catalyst in the dividend payments, large firms can afford more. Firm's propensity to distribute squeezes with the small size and the low earnings (Fama, 2001). It seems that earnings only work for dividends but firms also have some strategic objectives that press for the accumulation of the earnings instead of paying the dividends.

While defining the dividend policy, managers were confronted with a challenge like as to how much should be distributed or retained for the future needs (Linter, 1956). Radner & Shepp, (1996) narrated that a threshold characterizes an optimal dividend policy, whenever the retained earnings cross this threshold, the firms start to pay the dividend. Eije & Muggings (2006) the earnings preferably retained even some time at the cost of the shareholders. The earnings are retained to finance the growth opportunities through the internal cheap source of financing. (Myers, 1984; Kuwari, 2009). It is a bit controversial to cut down the dividend payments for fuel up the growth opportunities. Normally, the managements endeavor to solve this enigma on the basis of the projected returns (Décamps & Villeneuve, 2007). It has been mulled over that the earnings are the costal predictor of the dividend while on the other hand the retained the earnings are preferably mounted to finance growth opportunities through internal and cheaper source of financing.

All of the above stated determinants work in a chain reaction like; the profitability the defines dividend and the retained earnings; the investments opportunities try to finance through the retained earnings, some time even at the cost of the dividends, while later on size of the firms defines the results of the capitalizing growth opportunities. Stulz et al. (2005) have given a new facet regarding the dividend the payment decision. A mixture of the factors governs the dividend policy like; the profitability; the retained earnings, the size, the investment opportunities, the dividend history and the cash balance. By having a critical eye on the game of these determinants, on the optimal dividend policy can be evolved in the developed one, but the dividend policy of developing countries is substantially different form developed world. Unlike the developed countries, in second world dividends intentionally are neglected for the retained earnings. The dividend payout ratios of the developing countries is just about two third of the developed ones (Glen et al., 1995). Because, the earnings of the firms are wobbly in nature, define thereby the current dividend payments (Naceur et al., 2006). The shareholders are more inclined towards rocking the retained earnings in the developing countries. They perceive that the accumulation of the retained earnings is at the cost of dividends and most of these earnings are exploited by the management of its own ends. So, the retained earnings should be disposed off as the dividends (Buffet, 1984). It is due to the weak legal framework, investment opportunities are financed at the cost of the dividends (La Porta et al., 2000).

Pakistan is an emerging and developing country. The corporate governance is not flourishing well here (Mehar, 2002). Here most of the ventures are owned and controlled the families and the managerial positions are held by them. The mangers exploit the minor shareholders for the sake of their own ends. Most of the earnings are retained and used for the investment opportunities instead of distributing the dividends (Shah et al., 2010). The issue of the corporate governance however can be resolved by giving more dividends (Mitton, 2004). In Pakistan, however companies are the reluctant to pay the dividends. The amount of dividend paid by the companies is pathetically low as Rs 0-2.5 Rupees per share (Naeem & Nasr, 2007). Normally, the ventures switch over to the dividend after achieving certain level of growth (Mehar, 2002). The investment policy is being preferred to the dividend policy but after the achieving growth, it is not being transformed properly to the shareholders. It has been observed that properly high- market capitalized sectors are not paying proper dividends, while the existing literature has proved that market capitalization is a dividend initiation determinant (Chen et al., 2009; Horace, 2003).

In Pakistan, low capitalized sectors like the engineering sector cable & electronic goods ones are at the top and the leader in the dividend payments and its more than 90% and 80% companies of these sectors disburse respectively. Fuel and energy in at the top in capitalization but 55% companies of these sectors are the dividend payers (ESP, 2007). The high capitalize sectors in Pakistan are reluctant to pay the dividends while the low capitalized sectors are distributing more. There is not any set pattern between the dividend policy and the market capitalization in listed companies of Karachi Stock Exchange. It has been observed many a time that the companies prefer to retain their earnings instead of distributing those (Ahmed & Javad, 2009). The mounting retained earnings create panic among the investors so they should be distributed (Buffet ,1984). There exist certain issues of the corporate governance and the weak legal system in Pakistan, hence the investors run after dividend payments, which shoot up the turnover of the dividend paying (announcing) stocks by 100% to 300% (Kaleem & Salahudin, 2006). The low dividend payments and heavy retained earnings infringe the rights of most of the investors as; they are not the active participant in daily speculative tricks for the sake of capital gains (Mangi, 2007)**.**

The study is intended to portrait the dividends paying practices in the non-financial sectors of the KSE and indentify the compliance between the dividend policy and the market capitalization. The objectives of this study are to investigate the compliance between the dividend policy and the market capitalization of the companies listed in Karachi stock exchange. It further focuses on to investigate how to the companies utilize their earning as to whether they disburse it or retain for the growth opportunities. The dividend policy is a curtail topic of the corporate finance because of its sensitivity, the scholars have probed it in several ways. Formally, it explored that what the factors are (determinants) that define the dividend, since 1956 till now the researches are on the move to derive something conducive. The dividend having been defined adequately these confronts the management, Five different theories and models have been evolved and tested with the passage of time like signaling hypothesis and the agency cost model. In the developed world, all these stages have been pulled off and even more, the investors, the policy makers and other concerned parties do know better about their capital markets, that enhances its efficiency. The Karachi Stock Exchange is an emerging market in Asia and it pocketed was the best performance award in 2003 (Nishat, 1999). There is a harsh need to study its dividend-paying trends and behavior to project its picture properly in front of its stakeholders, after the massive economic progress and the stock market reforms in 1990s that encourages the dividend disbursements (Nishat & Irfan, 2004).

The next section contains the previous literature regarding the dividend policy and its determinants. Section 3 includes the methodology of the contemporary research work while
section 4 contains the finding and the discussion of the research work. The last section comprises the

conclusion of the study.

II. LITERATURE REVIEW

The existing literature provides a handful of knowledge about the dividend payments practices the entire world over during different time spans.

The fact that the firms pay dividend is considered as "dividend puzzle" (Black, 1976). Frankfurter & Wood (2000) tried to solve this puzzle and provide a conclusive approach to the selection of the payout strategy. The dividend policy of company should be compliance with nature of the firm and country. Brealey and Myers (2005) filed that the dividend is one of the top ten vital unresolved problems in corporate finance. After the leaps of three decades the ball is still wandering among the courts. The dividend payments are bit favorable to the shareholder, as it covers the agency cost aspect. It is possible that the managers may exploit the surplus money of the company hence it is better to dispose of as the dividend (Jensen & Meckling, 1976). Agarawal & Jayaraman (1994) described the Indian scenario and second the agency theory of dividend policy, claiming that the dividend and the managerial ownerships are controlling the factors for the reducing agency costs. Akbar & Stark (2003) had conducted a study in England regarding the dividend payments and the firm value. They tested a new model and determined that, the R&D and the dividend payments have positive impact on corporate value. The scholars had tried their best to resolve this hitch as a result they developed five theories regarding dividend policy. The dividend "Irrelevance theory" explained that the dividends are irrelevant from shareholders wealth in the perfect economic environment. The theory also explained tax preference effect and clientele effect. They believe that investors are generally indifferent to a choice between the dividend or the capital gains (Miller & Modigliani, 1961). Gordon (1963) gave "The Bird In The Hand" theory which emphasis that the investors prefer today not earnings in future.

These are the five important theories of dividend policy that evolve with the passage of time. The dividends mitigate information asymmetry between the management and shareholders by transmitting private information about a firm's future prospects (Bhattacharya, 1979). The dividend help to shrink the agency costs associated with the separation of ownership and control (Jensen & Michael, 1986). The "Catering theory" suggests that the managers try to entertain investors according to their needs and wants.That is the way to cater investors by paying dividend (Baker, 2004). Along with these models, defining factors (determinants) of dividend policy are also evenly imperative.

There are certain the determinants that lead the dividend policy. The current earnings are an important variables that defines dividend policy, how portion is distribute or retained (Patsouratis, 1989). Baskin (1989) further suggested that operating earnings, size of the firm, level of debt financing, payout ratio and level of growth have impact on dividend policy. The most important factors influencing dividend policy are the level of current and expected future earnings, size of the firm, stability of earnings, and the pattern of past dividend (Baker et al., 2007). Mature profitable firms prefer to pay more dividends.

Smith (1992) argued that firms' dividend policy expands with firm size in positive way. But later on, Eriotis (2005) inspected the role of distributed earnings and size of the firms to it's the dividend policy of Greek firms. The study investigated that earnings and size of the firm are the costal determinants of dividend policy. Gadhoum (2000) showed that the signaling efficiency of dividends disbursements diminishes for the larger firms; it is consider as control variable in studies. However, large firms used to pay more the dividend than small. Belanes et al. (2007) related the probability to pay dividends of profitable and mature firms with growth.

The dividend is affected substantially by the profitability and the size of the firms but the retained earnings also the influence the dividend policy. Stulz et al. (2005) examined the relationship between the retained earnings and the dividend policy by applying life cycle theory of dividends. Eije.v & Muggings (2006) examined a huge sample of 3400 listed firms in fifteen different countries of the European Union period of 1989 - 2003. The tendency of the dividend paying firms squeezed for the entire period while the ratio of the dividend payments for net the profits surged up. Angelo et al. (2004) investigated the dividend paying sentiments in three different dimensions, the dividend policy, the agency cost and the earned equity. Décamps & Villeneuve (2007) explained the decision critaria for the managers when deciding among the dividend and the investements. Thay analized the interaction between the optimal dividend policy and the decision on investment in a growth opportunity.

Fama & French (2001) explained the dividend-paying propensity of listed firms, in the light of changing characteristics. The new lists over the couple of years tended to be the smaller firms with the more growth opportunities but less portability, concentrate on low the dividend payment and preferring the growth opportunities. They otherwise started mounted retained earnings to finance internally the growth opportunities instead of paying the dividend (Angelo et al., 2004). The earnings were retained to finance the growth opportunities curtailing the dividends mostly at the cost of the shares holders. The Buffet (1984) demonstrated that the shareholders favored the utilizion of the retained earnings as dividends. The investors perceived that the accumulation of the retained earnings were at the cost of the dividends and most of the these earnings were exploited by the management for its own ends. So, the retained earnings better hed been disposed of as the dividends. La Porta et al. (2000) explained the reason why the investors were worried about rocking the retained earnings. They probed the countries with high legal protections and concluded that fast-growing firms use to pay low dividends in the era of progression with view to capitalizing growth opportunities.

The dividend policy of the developed world substantially differ from the developing ones but the profitability was also the costal predictor of the dividends there. In the emerging markets, the firms do not have long-term any dividend orientation, dividend policy is the secondary issue for the firms. Usually, the profitability defines the the dividend policy but dividend is being rated as the second one to them the one was to cater the growth investments (Naceur et al., 2006). Dividend payouts ratios of developing countries is just about two third of developed countries (Glen et al., 1995)**.** Pakistan is a developing country and she has an emerging capital market. Nishat (1995) termed the Karachi Stock Exchange as a high risk high return market, therein the dividend payments have a signaling effect on the the market price, normally the prices move with the direction of the dividends. Another study also determined the same; the dividends are found to be positively linked with the corporate value, sustaining the signaling hypothesis, which assume that managers might use the dividend as a signal for the companies' future profitability (Hughes, 2008). However, in Pakistan companies are reluctant to pay the dividends. In Pakistan, the investors run after dividends payments only there. That shoot turnover of dividend up paying (announcing) stocks from 100% to 300%. (Kaleem & Salahudin, 2006). The market capitalization is link positively with the dividend policy. Horace (2003) examined the relationship between the dividend policy and the market capitalization in two countries. Chen et al. (2009) further explained that, the more the firm is lavishly market capitalized the higher is the chances of the dividend payments. The firms tend to activate the tradable equity into the market by making it charming for investors.

It had been derived from the above stated literature that in the developed countries the firms had a long term and smooth dividend policy. A mixture of factors function the dividend policy in such a way as the earnings defined the dividend policy and the level of the retained earnings, the firms prefer to cut dividend and finance the investment opportunities when the project had the attractive returns. In the developing countries, the earnings are preferably retained to finance the growth opportunities and the dividends intentionally neglected. Owing to the issue of the corporate governance and the weak legal system, the shareholders have a concern for mounting the retained earnings, as the growth was not being transformed properly to the shareholders and the funds were exploited by the management.

III. METHODOLOGY

As for the investigating the dividend paying practices in the non-financial sectors of the KSE all the dividend-paying sectors were selected except; the financial sectors during the period of 2002–2008. The dividend paying sectors were identified from the report published by State Bank of Pakistan (Hussain et al., 2007). The period consisted of seven years, being equal to two operating cycles, not least enough for study (Kenwar, 2003). It was the period in which Pakistan's economy had received a buffet of economic progression (Ahmed & Javad, 2009). The multiple items of the data were explored from several sources.

A. Variables

An established blend of five independents variables like; the profitability, market- to- book value ratio, retained earnings, the total assets growth, the market capitalization and one dependent variable dividend yield ratio were made use of in this study. The bucketful of variables were adopted from the study of a Bharti scholar who had used them in the same way as it was investigated in this study (Kenwar, 2003). Stulz et al. (2005) also had indentified the chain reactions of these variables when the defining dividend policy.

1. Dividend Yield

The dividend yield ratio was scaled as the dependent variable instead of the payout ratio to shun the effect of the negative incomes. It had been calculated as dividend per share divided by the average market price per share (Ahmed & Javad, 2009).

2. Growth Opportunities

The Market-to-book value was used as the proxy of the growth opportunities. It had a negative impact on the dividend policy because firms prefer to avoid transaction costs due to external financing and retained a greater proportion of the cash if they have opportunities of the growth (Lang & Litzenberger, 1998).

3.Size

The Size of the firm was the dividend initiation determinant of the dividend policy. It was defined as the figures of total assets. The firm with a large size had easy access to the market and to explore opportunities properly. So, they intended more towards the dividend payments (Kouki , 2009).

4. Market Capitalization

The market capitalization was the product of a number of shares outstanding in the market and current market price of the share. It was associated positively with dividend policy of a company (Horace, 2003).

5. Profitability

The earning was the costal determinant of the dividend policy. The profitable firms with stable net earnings could afford more dividend than take of the low profitable firms. The earnings per share were the proxy of the profitability (Ahmed & Javad, 2009).

6. Retained Earnings

The retained earnings had been used to finance the growth opportunities through the internal and cheaper source of financing. It was the dividend omission determinant of dividend policy (Mehar, 2002). The computation and usage of these variables had a through compliance with the existing of literature. A few of these variables were calculated on the way that was followed by different state authorities like The State Bank of Pakistan and Economic Survey of Pakistan.

B. Procedure

With the view to drive some conducive a results number of items were polled. The sequence of variables was like the dividend yield ratio, the earning per share, the total assets, the retained earnings, the market-to-book value ratio and the market capitalization. The variables were sequentially compared with each other to project the dividend policy of the each non-financial sector. The standard methods of calculation followed had been derived from the existing studies. The dependent variable dividend yield ratio had been computed by the dividing dividend per share on current market prices of the share. Formally, the dividend yield ratio of each sector was calculated than weighted average, of all had driven the representation of the sector. The descriptive statistics were the major tests of this study. These were the simpler forms of the mathematical tests commonly used in the financial studies. A sequence of variables' comparison had been used in this study to comment on the postulate, of the study.

IV: RESULTS

According to the industrial distribution of the Economic Survey of Pakistan the study covers 11 economic non-financial sectors of the Karachi Stock Exchange have been covered the major results are following.

A. Engineering Sector

Engineering is an important sector of the KSE. The number of listed scripts is 13 out of which 7 are the regular dividend payers. The Market capitalization has been on the increase throughout the period while the trend of the dividend payments is otherwise. Both of the variables are moving in opposite direction a negative relationship between the dividends and market capitalization has been observed (SEE TABLE I).The sector is profitable and an upward shift in the earnings has been there during from 2002-2007. During that period the dividend policies of the companies were wobbly in nature; from 2002 to 2004 the dividends were curtailing while the profitability is climbed up, except 2006, when there was the downward trend in the dividends in spite of companies had been handsomely earnings. It indicates funds being pocked; a smooth upward trend of the retained earnings was evident. The investment policy is being preferred to the dividend disbursement as the companies have healthy opportunities to invest their funds and glittering figures of the market-to-book value ratio demanding for it. As the upshot of the dividends suspensions over investments; a massive growth is observed in the companies' size and their market equities. The upward flapping of the size and the market capitalization figures justify the decision of the dividend omissions over capitalizing the investments opportunities. In engineering sector funds are retained instead of giving as dividend. It can be the objective of the management that long term healthy return will be distributed among shareholders *tomorrow having* invested it *today.*

B. Cement Sector

The dividend payments are neglecting in cement sector. It is not the big sector of the KSE the total number of listed companies in this sector is 21 out which 5 are regular dividend payers. The aggressive negative connection between the dividend policy and the market capitalization is being observed. During the entire period the dividends have been decreasing and the market capitalizations remain surging. It meant that the market capitalization was responding negatively to the dividend policy (SEE TABLE II). The nature of the profitability in this sector was quite shaky and even taped the ground in 2003, but the profitability started to rise again and remained positive till the end. The dividend policies of the companies are unsteady in nature; from 2002 to 2004, the dividends were curtailing while the profitability is climbing up, except for 2005 there was the down ward trend of the in dividends and the earnings. So, a mix up of trend was being observed in dividend policies and the profitability. Dividends remained under pressure throughout the period irrespective of the earnings. The earnings of the companies were in nominal but the dividends are decreased from 2004-2007. Although, the retained earnings multiplied its size during the same period. It was being observed that whenever the companies had sufficient earnings they preferred to invest in the growth opportunities via retained earnings. The dividends remain overlooking throughout the period. In the Cement sector; the growth opportunities were not very attractive but in spite of that they were preferred. An immense surge in the market capitalization and size numbers prove that investment decision was good for the time being.

C. Sugar and Allied Sector

The Sugar and Allied is a the costal sector of the KSE. The number of listed companies in it was 37 while 11 of them were the regular dividend payers. A blend of relationship between the dividend policy and the market capitalization was noted. In the early span of time the dividends and the market capitalization were contradicting the pace of each other but afterwards they start to move in same the direction(SEE TABLE III). There was the negative relationship between the dividend yield ratio and the market capitalization in the Sugar and Allied sector. The dividend payments stream was down ward slide 2002 to 2007 but paced up again in 2008. The sentiment of the profitability in this sector was quite volatile and even entered the negative slot couple of times. In spite of unstable earnings; the companies are distributing regularly returns, but the lick of it came down with the passage of time. The major cutbacks in dividends were there from 2003 to 2007; when the companies are having positively the inclined earnings. The management however kept the money stored to capitalize the growth opportunities. The dividend omission decision bestowed the handsome dividends and growth to the stakeholders in 2008 though companies suffered loss in 2007. The payments of the dividends were neglected in this sector despite the losses, but in the phase of greenback form 2004 to 2007 the managements started to curb the dividend and stored the money to grasp the swiftness of the growth opportunities. It had been observed that the companies preferred to give the dividend at the nominal rate but when they had earnings they retained them to finance the growth opportunities. To some extent; the balance dividend paying practices are following in this sector, investors are regularly entertaining with interim dividends along with future perspectives of growth.

D. Paper and Board Sector

The Paper and Board is a moderately capitalized sector of the KSE. It is enclosing 10 listed companies out of which 4 are the regularly paying dividends. A constant surge in the market capitalization and the decline in the rate of dividends were marked from 2002-2008. The market capitalization and the dividends remained opposing to each other till the end of the period (SEE TABLE IV). The tempo of the dividends payments was quiet good in the beginning years but after wards it continuously pushed down till the end. Even though, the companies were earnings handsomely during 2002-2007 but in the same period the dividends were squeezing. The soar in the figures of the retained earnings was due to the profit instead of paying the dividends. Normally, the earnings are retained to finance the growth opportunities at the cost of the dividends, but the downhill figures of the growth opportunities in this sector were not much charming due to the dividend cuts. The expansion in the size and the market capitalization was justifying the dividend *omission* decision such that even the growth opportunities were low but they had been properly capitalized and in future they may bring more. In the Paper and Board sector earnings were retained *preferably* even at the cost of dividends. The growth opportunities were tried to finance through the internal source of financing. The companies may perceive that the investment was better than distribution and that is deemed fit for future the prospects.

E. Textile Sector

It is the most important sector of the KSE and of the economy. This sector has three sub-sectors namely; The Textile Spinning, The Textile Waving and The Textile Composite. The listing of this sector is 208 scripts while just 37 of them are the dividend distributors. A mix-up of relationship the between dividend policy and the market capitalization has been observed. In the beginning the dividends and the market capitalization were moving in the opposite directions but during the last couple of years both of them have coincided (SEE TABLE V). In this sector the dividends are not very consistent and there was a downward drift in it during 2002-2008. The earning pace of this sector was *nominal* and *volatile* in nature. There was the upward trend in earnings during 2002-2005 but afterward it started to dusk. During the period of the amplifying profitability the dividends were omitting continuously. The retained earnings were massively figured during 2002-2006 while in the same period the earnings were increasing and the dividend decreased as well. However, afterward retained the earnings again accumulated well but the profitability and the dividend remained decreasing. The glittering numbers of the size and the market capitalization were roaring that the investments had brought back handsome returns. Even, in the textile sector the growth opportunities were *creeping* but the companies had grasped them firmly and channelized the funds properly. In the textile sector the funds were retained instead of giving them away as the dividend. The management might deem it fit to finance the investment opportunities via the internal source of financing. The long-term sufficient returns might be distributed among the shareholders in future

F. Chemical and Pharmaceuticals Sector

This is the highly capitalized sector of the KSE. Most of the scripts in it are the dividend payers as out of the 32 the 20 companies are the dividend payers. The massive surge in market capitalization and the downhill in rate of the dividends were from 2002-2005. During last few years; the constant trigger up in the market capitalization numbers was observed while the dividends remained dwindling. Despite of all this, the variables are moving oppositely(SEE TABLE VI). The rate of the dividend in the Chemical and Pharmaceutical sector was *good* and consistent but it remained contradictory towards the stream of the profitability. The earnings of the companies were gaining momentum while the size of the dividends was squeezing form 2002 to 2005. Again, from 2006 to 2008 the dividends remained slid down but the earnings were inclined positively. The trend of profitability was up throughout the period and it touched its peak during 2007. The unswerving surge in the retained earnings claimed is so storing. The pace, of increase in the retained earnings was completely compliance with the profitability during the period. Strong numbers of the market-to-book value ratio were indicating that there was the bunch of investment potential in this sector. The investment opportunities were capitalized properly and the result extraordinary surged in the size of the companies and the market capitalizations were recorded from 2002 to 2006. So, in the chemical and pharmaceutical sector the earnings potential had remained charming throughout the period and the management of the companies had distributed some portion of the earnings to the shareholders as the dividend however they, kept the major portion of it to invest the sum in the growth opportunities.

G. Transportation and Communication Sector

It is not a big sector of the KSE in capitalization and listing of companies. It just encloses only 14 companies out of which 4 are the dividend distributors. A mix of the relationship between the dividend yield ratio and the market capitalization was there in the beginning time both variables were negating the moves while during last few years both of them were in same direction mates(SEE TABLE VII). The dividend payment sentiment in this sector was not very encouraging. The rate of the dividend was decreasing continuously during 2002-2008. It was because of the clutching earnings, as the graph of the profitability was negatively sloped dividends also were opting for the same way. During 2008 when the earnings had touched the ground the dividends were also at low level. The opportunities to grow remained quite aggressive throughout the period. The companies decided to keep aside the earnings instead of distributing them. A prominent surge in the retained earnings was alike from 2002 to 2006. The companies also were maintaining the nominal rate of dividends along with the collection of retained earnings, but in last two years when the earnings were in danger the managements had used the pocketed funds to distribute same as the dividends. This sector had the trend of balanced dividends. Along with the accumulation of funds to finance the aggressive growth opportunities certain companies also had maintained pace with the dividends. In Transportation and Communication sector the investors were enjoying regular dividends and prospects of the future goals.

H. Fuel and Energy Sector

It is an important and gigantic sector of the KSE as most of the blue chip scripts are from it. The fuel and energy sector is a blend of four sub- sectors like the Refinery, the Oil and Gas marketing, the Oil and Gas exploration and Power Generation. There was total 17 dividend paying companies whereas the 10 non dividend payee. The market capitalization and the dividend policy are playing in as the mingled ones. From 2002 to 2005 handsome summation in the market capitalization and the sufficient subtraction in the dividends were there while the both constant variables were moving in the same direction for the remaining time period(SEE TABLE VIII).The rate of the dividend payments in this sector was fine and wobbly in nature. The stream of the dividends was behaving the curve like in the beginning but afterwards it moved up. However, the earnings outlook remained positive at the end. The rising trend the in the profitability and retained earnings was observed that the dividends however dropped down just to keep pace with the growth opportunities. Later on from 2005 to 2008 when the earnings were on the same move the chances to grow trickled down the funds were guided again towards the dividends. The market capitalization and the size numbers was the result of an effective utilization of the surplus funds in growth opportunities with goods results throughout the period. In the Fuel and energy sector the dividends were the priority with the chances to grow. The companies are maintaining a nominal pace of the dividends throughout the period but they always remain investment seekers.

I. Auto and Allied Sector

The listing figure in the auto and allied sector is 25 while 11 of them are the dividend payer. It does not fall in the rating of big sectors of the KSE regarding capitalization and listing. Clearly, the dividends and the market capitalization had been moving in opposite direction during 2002 to 2008. A negative relationship between both of these variables was there (SEE TABLE IX). In the auto and allied sector retune distribution sentiment was behaving curl like in beginning few years it slid down but afterwards it restarted moving up. However, the earnings the outlook remained contradicting the dividend sentiment, during 2002-2005 at the time when the earnings were increasing the dividend started to decline but, afterwards when the earnings followed the falling path the dividend begin to climb. The rising trend in the profitability and the retained earning held that the dividends were being dropped down just to keep pace with the growth opportunities during 2002 -2006. The companies made a shift for the dividend payments later on when the earnings were falling. It was because the rate of the growth opportunities was hindered after 2006. The companies in the Auto and Allied sectors were exclusively eager to put their funds in investments. As a result, certain companies started to upload the funds, but as the pace of growth opportunities slowed down the companies changed the direction of their funds towards the dividends. In the Auto and Allied sector the dividends were not in priority. The managements often seek for the investment first than dividends second. They might have believed that the long-term returns would be given to the shareholders in future after withholding the dividends today.

J. Cables and Electronic Goods Sector

It is a tiny sector of the KSE as regards with its listing and the market capitalization. The number of listing companies was 9 while 4 of them were dividend distributers. The dividend paying behavior of the sector remained unpredictable during the entire period while the market capitalization remained positive always. A blend of relationship the between the dividend payments and the market capitalization was envisaged(SEE TABLE X).The earning propensity of this sector was much higher than. The behavior of earnings remained sparking upward till the end and it touched the historical land mark in 2007. The trend of the dividend payments in this sector was not in compliance with the earnings. It remained downward even in the days of the booming earnings. It meant that the earnings were not for distribution but for the retained earnings. The cable and electron goods sector was equipped amply with the growth opportunities and the rate of it remained exceptionally well from 2002 to 2006. The astonishing high growth was also in the market capitalization while companies were expanding steadily. It meant that the investors were responding well to the investment behavior of this sector and made purchasing in it while having an eye on the growth potential of this sector. The pace of the growth opportunities and the positive market sentiment was enforcing the companies to make dividend cuts and use the high tempo of earnings to cater the pace of growth opportunities. It could be the sign of the perspective future expansion of this sector.

K. Miscellaneous Sector

It is a gigantic sector of the KSE with respect to its listing and numerous sub-sectors. It is comprises five sub-sectors namely; the Jute, the Vanaspati & Allied, the Glass & Ceramics, the Food & Personal Care and the others sectors. The total number of listing is 85 while 37 of them are the dividend payers. A mix-up of the relationship between the dividend policy and the market capitalization was there. In early four years the dividends and the market capitalization were contradicting the pace of each other but afterwards they started to move in the same direction (SEE TABLE XI).The sector was a bit profitable as compared to the others and the earnings remained in surge from 2002 to 2007. The dividend policies of the companies were shaky in nature. From 2002 to 2005 the dividends were curtailing while the profitability climbed up. The earning potential of the companies remained positive throughout the tenure but the dividends linger under the pressure. The companies had earned handsomely but the dazzling growth potential, particularly in the beginning few years put the management into fuss that the funds should be directed towards the investment. The investment policy was preferred to the dividend disbursement as the companies had sound opportunities to invest the funds and the glittering market-to-book value ratio was demanded it. As a result of the dividend suspension over investment; a massive growth was observed in the companies' size and their market equities particularly from 2005 to 2008. During these years; the size and the market capitalization had doubled its numbers. The companies had increased the rate of the dividend in 2008 having achieved certain level of the growth. So, it meant that in the miscellaneous sector investors would have entertained a lot with supernormal returns in future. The companies preferred to distribute dividends, but when have achieved certain level of the growth.

V. CONCLUSION

The study is intended to portrait the dividend paying behavior in the non-financial sectors of the KSE. Undoubtedly, the study has been designed to throw some light on the dividend paying behavior of the companies; as also to how the companies make choices among the dividends and the investments decisions. The dividends paying behavior of the companies is examined on the sectoral basis. All the sectors of the KSE are reluctant to pay the dividends Most of the sectors are inconsistent in the dividends payments particularly; the cement and the textile sectors. The average rate of the dividend most of these sectors are offering to the shareholders ranges from 1.5 to 5% only which is a very pathetic.

The profitability is the major determinant of the dividends; normally it is considered as the more you earn the more you distribute. The cable & electronic goods and the paper & board sectors are at top of the list in terms of profitability, as to what at they are distributing equal to but, in the Cement sector a highly unprofitable sector of the KSE. Should the profitable sectors not pay the dividends the other prospects become strong such that the earnings are being used for other purposes. Infect the funds are made use of pace with of the growth opportunities. All the sectors are doing so whatever are the chances to grow. In the high growth potential sectors like the; Engineering and the Sugar & Allied ones the size of the dividends start to squeeze with the increasing rate of the growth options and in the low potential to growth sectors the dividends compel to climb with the decreasing pace of the growth opportunities. Hence, the in shaky growth potential sectors the dividends are omitted and the growth potential captured. The sectors which are the continuously growing ones like the Transportation & Communication and the Fuel & Energy ones are maintaining a nominal rate of dividends along with the investments sentiment. It means that they are the mature ones and it has attained growth in the past and knows they are diverging toward the balanced dividend moves. The growth opportunities are opted to be financed at the cost of the dividends. The ultimate objective of this move is to pocket the enhancement in the companies' assets to distribute more in the future for shareholders. It has been noted that the sectors; Engineering and Miscellaneous which have achieving enough boost in assets. They also have a fascinating ratio of the profitability as well. However, the Cement and the Technology and Communications sectors have the sound potential to grow but due to a scare level of earnings they could not grasp those opportunities.

The dividend policy responds positively to the market capitalization with more dividends to pay provided they have high capitalization. In the KSE, different relationship between the dividends and the market capitalization has been experienced. The market capitalization acted as a remained contradictory one towards the dividends. In most of the sectors the dividends are linked negatively with the market capitalization. In the Miscellaneous and Fuel & Energy sectors for that being the highly capitalized ones of the KSE a massive surge in capitalization is observed there in. A mix up of relationship between the dividends and the market capitalization also is covered. In the low capitalized sectors like the Engineering, the Paper and Board and the Sugar sectors, dividends however remain aggressively down and the market capitalization keep peaking up through all the time. However, in the sectors like the Cement, the Transportation & the Communication and the Chemical ones where the market capitalization is pacing up steadily, the dividends are opposing also to same way throughout the period. A new horizon of the dividend paying behavior has been explored in this heavy investigation such that all the sectors following a particular trend in dividend payments. In most of the sectors the rate of the dividend is persistently decreasing in beginning, middle and of the tenure but in the last couple of years particularly in 2008 a handsome surge in the rate of dividends was explored.

It is the unique study that not only measures the dividend paying tendency of different sectors but also portrait the disparities in the dividend paying behaviors of the sectors listed in KSE. The scope of this study could be extended to the Lahore and the Islamabad stock exchanges with the extended sample size and variables.

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APPENDIX

Years	DY Ratio	Profitability In Rupees	Size In Millions	Retained earnings In Millions	Market to book value	Market Capitalization In Billions
TABLE I DESCRIPTIVE STATISTICS WITH RESPECT TO ENGINEERING SECTOR						
2008	3.66	8.9	25850	61684	6.87	17.46
2007	3.04	13	20048	54799	8.58	15.01
2006	3.4	16.2	17092	41639	1.64	11.32
2005	6.46	12.8	14777	31248	1.24	9.34
2004	4.04	11.2	12648	23260	1.23	6.75
2003	4.92	11.4	6989	14760	1.26	4.3
2002	6.24	10.4	3492	12587	1.2	2.06
TABLE II DESCRIPTIVE STATISTICS WITH RESPECT TO CEMENT SECTOR						
2008	0.49	0.9	264150	64329	0.72	144.58
2007	1.94	1	205378	61220	0.71	129.93
2006	1.1	4.6	172242	39386	1.08	133.12
2005	2.17	3	112676	20652	1.63	68.39
2004	1.31	1.5	84323	8024	2.22	64.11
2003	2.45	-0.05	82112	5519	1.8	33.54
2002	3.45	0.4	76837	4924	0.5	15.76
TABLE III DESCRIPTIVE STATISTICS WITH RESPECT TO SUGAR & ALLIED SECTOR						
2008	4.45	0.4	85156	10554	3.37	18.74
2007	2.28	-1.3	69175	9057	7.49	17.05
2006	2.6	1.8	62220	9513	2.84	17.3
2005	2.87	3.3	54820	7137	3.57	12.81
2004	3.09	0.8	37709	3974	6.4	11.08
2003	4.36	-1.1	34209	1782	16.04	7.22
2002	6.65	0.7	31293	1287	3.92	4.45
TABLE IV DESCRIPTIVE STATISTICS WITH RESPECT TO PAPER & BOARD SECTOR						
2008	5.36	0.5	41366	20788	0.59	27.34
2007	1.81	31.6	38427	22645	0.5	24.03
2006	2.49	36.9	31840	17821	0.57	21.78
2005	4.86	10.5	20097	11343	0.73	16.64
2004	4.7	11.8	13270	7565	0.92	16.42
2003	5.76	13.7	12531	5692	1.13	12
2002	7.79	4.5	10720	4458	1.25	6.54
TABLE V DESCRIPTIVE STATISTICS WITH RESPECT TO TEXTILE SECTOR						
2008	2.7	2.2	418931	98892	0.55	105.32
2007	1.75	2.4	389247	103273	0.54	103.32
2006	2.12	2.3	336181	82835	0.64	98.72
2005	1.98	4.4	282592	68875	0.84	102.87
2004	2.6	3	224785	46553	1	88.78
2003	4.44	3.1	185891	37219	0.9	65.68
2002	8.27	2.9	154871	31245	0.6	41.09
TABLE VI DESCRIPTIVE STATISTICS WITH RESPECT TO CHEMICALS & PHARMACEUTICALS SECTOR						
2008	5	8.3	255733	68470	2.09	258.39
2007	5.51	10.1	211217	58925	2.24	241.41
2006	6.14	7.6	166685	41442	2.44	221.9
2005	5.18	8.1	149175	36331	2.94	171.5
2004	3.8	7.4	143112	31887	2	158.74
2003	5.01	2.3	130348	18507	1.9	108.2
2002	7.57	2.9	123451	14640	1.3	50.75

Years	DY Ratio	Profitability In Rupees	Size In Millions	Retained earnings In Millions	Market to book value	Market Capitalization In Billions
TABLE VII DESCRIPTIVE STATISTICS WITH RESPECT TO TRANSPORTATION & COMMUNICATION SECTOR						
2008	5.36	-4.3	375449	7807	1.9	255.8
2007	6.4	1.7	318160	33185	1.51	244.89
2006	6.3	2.5	300646	51480	1.65	209.49
2005	5.53	4.9	247524	56969	1.78	285.41
2004	7.11	6.3	250664	44666	1.12	193.62
2003	8.82	6.2	198746	38578	1.2	123.29
2002	11.99	7.6	164581	30157	0.7	70
TABLE VIII DESCRIPTIVE STATISTICS WITH RESPECT TO FUEL & ENERGY SECTOR						
2008	9.45	7.9	444884	182848	1.13	1134.7
2007	5.65	5.4	277918	159524	1.45	1098.18
2006	4.15	6.5	182954	169210	1.47	1081.48
2005	3.03	4.9	114089	161779	1.74	890.84
2004	3.5	4.3	108973	97082	2.13	485.75
2003	8.06	2.1	94725	58359	1.9	191.54
2002	9.15	1.9	89745	49875	1.1	104.48
TABLE IX: DESCRIPTIVE STATISTICS WITH RESPECT TO AUTO & ALLIED SECTOR						
2008	6.6	7.8	86130	42158	1.53	104.3
2007	2.91	10	94339	44512	1.63	92.02
2006	3.89	14	96950	39874	1.83	70.58
2005	4.14	10.34	83648	38879	2.17	40.24
2004	4.65	8.7	61845	33487	2.38	38.72
2003	4.76	8.14	45600	23245	2.67	30.55
2002	9.22	8.6	32923	16540	2.8	10.19
TABLE X DESCRIPTIVE STATISTICS WITH RESPECT TO CABLES & ELECTRONIC GOODS SECTOR						
2008	8.29	29.33	48173	11192	1.43	24.57
2007	1.93	47.96	35378	8595	1.62	19.96
2006	2.9	18.29	27605	5092	2.8	18.93
2005	4.02	17.58	20180	4887	3.09	9.05
2004	2.88	19.07	14334	4382	3.42	7.2
2003	3.82	12.78	11987	3794	3.65	4.45
2002	6.55	8.77	11161	3369	3.54	2.36
TABLE XI DESCRIPTIVE STATISTICS WITH RESPECT TO MISCELLANEOUS SECTOR						
2008	4.08	13.23	124523	44644	2.61	254.2
2007	2.39	20.5	100128	36865	2.46	241
2006	3.72	11.6	74883	29505	2.92	167.29
2005	3.57	7.73	68554	25387	3.17	111.4
2004	4.18	8.8	54225	19001	3.87	98.2
2003	5.49	6.4	45589	14926	8.3	65.99
2002	5.94	5.67	44699	13330	5.3	44.69