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The Dividend Policy in Manufacturing Sector of Pakistan: The Perception of Corporate Managers¹Fazli Haleem*, ²Ijaz-Ur-Rehman, ³Attiya Y. Javid¹Shaheed Benazir Bhutto University Sheringal District Dir (Upper) Kyber Pakhtoonkhwa Pakistan²Shaheed Zulfikar Ali Bhutto Institute of Science and Technology, Islamabad, Pakistan³Pakistan Institute of Development Economics, Islamabad

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Abstract: Using a survey approach, this paper examines the perceptions of managers of dividend-paying firms listed on Karachi Stock Exchange (KSE) on factors influencing dividend policy, issues relating dividend policy and the corporate governance practices. The survey shows that the most important factors that affect dividend policy are; the level of current earnings, the projection about the future state of the economy, the stockholders characteristics, concerns about the stock prices, need of current stockholders. From a practical perspective, there is little discrimination among the top ranked factors. All the surveyed firms formulate their dividend policies according the theoretical model of Lintner (1956). The survey also shows that there is no difference in responses about these factors with respect to various titles of the respondents such as chief financial officer or Chief Executive Officer. The survey also finds strong support for the life cycling theory followed by agency theory, signaling theory and the catering theory respectively. The survey also shows the presence of corporate governance practices in the surveyed firms.

Keywords: *Dividend Policy, Factors affecting dividend policy, Issues relating dividend Policy, Corporate governance.*

1. Introduction

The behavior of corporations paying cash dividends to their shareholders is a matter of considerable interest to financial economists. Dividend policy has been a controversial topic in the literature of finance. Brealey and Myers (2002) list dividends as one of the ten unresolved issues in finance. The dividend policy is the payout policy that managers follow in deciding the size and pattern of cash distribution to shareholders over time. Payment of dividends has been described as just like a puzzle (Black, 1976). Over the past three decades, a substantial amount of attention has been directed toward the identification of the determinants of dividend policy. Researchers follow a divergent path in identifying factors which affect the dividend policy. Some take a normative approach and developed various theories how firms should make their dividends policy decisions. Most of these models are economic and don't take into consideration the emotions and perceptions of managers. Others follow the behavioral approach in which they went to managers and asked them how they designed their dividend policies. Comparing the responses from various surveys to theoretical models provided a way whether managers make dividend decisions consistent with the theoretical models. According to Allen and Michaely (1995), more theoretical and empirical work is required before a consensus can be reached. The present study aims to know about the perceptions and of managers and their effects on dividend payment in companies which are listed in Karachi Stock Exchange (KSE). The motivation comes from the fact that only 35 percent of the firms are paying dividend in Pakistani listed firms. In developing markets cash dividends are preferable by small shareholders because they rely on dividends for their consumption purposes. The firms are unable to attract funds from the shareholders unless they pay dividend. Securities and Exchange Commission (SECP) is in the process of revising the Corporate Governance Code, it is good idea to investigate the perception of managers who are the main decision makers regarding dividend policy.

The present study contributes to the existing literature because it updates and expands the previous surveyed based studies for an emerging market. This is first study based on primary data for investigating the dividend policy from the firm's perspective for Pakistan. A little work has been done on the divided policy based on the secondary data and focus is to test whether theoretical model holds for Pakistani case (Ahmad & Javid, 2009). The study provides new evidences from managers of Pakistani firms on dividend policy

including the parameters of corporate governance especially the board effectiveness. The study inquires managers their perceptions about several issues regarding dividend policy which are not explicitly addressed in various studies in this context.

The main focus is to identify the most important factors effecting dividend decisions by Pakistani companies that are traded on Karachi Stock Exchange (KSE). The study attempts to know about the manager's views on residual dividend policy, dividend policy and firm's value, dividend process and patterns. The study examines whether there are differences among the manager's views on various factors and issues involving dividend policy and how they are linked with different theories on this issue. It is investigated that the firm's dividend policy is influenced by corporate governance practices. The remainder of the paper is organized as follows. The second section provides review of theoretical and empirical literature on the dividend policy. Section three describes the data and variables used in the analysis, model of dividends and estimation method. The results are discussed in section five and section six offers conclusions.

2. Literature Review

Over the past three decades, a substantial amount of attention has been directed towards the identification of the determinants of corporate dividend policy. Since the publication of Miller and Modigliani (1961) papers showing that in perfect and complete markets, financial managers cannot alter the value of their firms by changing their dividend policy. In the real world, however, markets are less than perfect. So, dividend policy has been a controversial topic in the literature of finance. As a result, researchers have proposed different theories about the factors which influence the dividend decisions of the firms. The empirical research into dividend policy can be broadly categorized into two types: studies that have examined the relevance of the specific dividend based hypotheses and studies that have sought to identify corporate characteristics that influence dividend policy and the associated hypotheses. The first type is further classified into capital markets based research and survey analyses to examine dividend relevance.

Researchers have proposed many different theories about the factors that influence a firm's dividend policy. Although numerous theories, models, and explanations exist, most broad and commonly used theories includes: Bird-in-the-hand theory given by Gordon (1963) and Walter (1963) argues that investors prefer cash in the hand rather than a future promise of capital gains due to lower risk. Dividends mitigate information asymmetry between management and shareholders by conveying private information about a firm's future prospects called signaling explanation of dividends (Bhattacharya, 1979, John & Williams, 1985). Tax preference and clientele effects theory that explains differentials in tax rates between dividends and capital gains lead to different clienteles (Elton & Gruber, 1970; Miller & Scholes, 1978). Agency theory argues that dividends help to reduce the agency costs associated with the separation of ownership and control (Jensen & Meckling, 1976; Rozeff, 1982; Easterbrook, 1984). Life-cycle theory postulates dividend policy tends to follow a firm's life-cycle and reflects management's assessment of the importance of market imperfections including taxes to equity-holders, agency costs, asymmetric information, flotation costs, and transactions costs (Lease *et al.* 2000, Fama & French, 2001), and Catering theory argues that managers give investors what they currently want, that is, they cater to investor demand by paying dividends when investors put a stock price premium on payers, and by not paying when investors prefer non payers (Baker & Wurgler, 2004a,b).

Studies looking into corporate characteristics that influence dividend policy primarily use the capital markets based approach and the empirical results are mixed. The mixed evidence suggests that individual companies adopt specific dividend strategies to suit their specific circumstances. A number of factors have been identified in empirical studies the influence of the dividend policy decisions of the firm. To, enumerate a few, profitability, risk, cash flows, agency cost, growth, taxes, price earnings ratio etc. are most important. Pruitt and Gitman (1991) find that risk (year to year variability of earnings) also determine the firms' dividend policy. A firm that has relatively stable earnings is often more likely to pay a higher percentage of its earnings than firm with fluctuating earnings. In other studies, Rozeff (1982), Lloyd *et al.* (1985) and Collins *et al.* (1996) suggests that firms having higher level of market risk will payout dividends at lower rate. D'Souza (1999) also finds statistically significant and negative relationship between beta and dividend payout. The liquidity or cash flows position is also an important determinant of dividend payouts. A poor liquidity

position means less generous dividends due to shortage of cash. Alli *et al.* (1993) reveal that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily influenced by accounting practices. They claim current earnings don't really reflect the firm's ability to pay dividends. Green *et al.* (1993) show that dividend decision is taken along with investment and financing decisions. The results however do not support the views of Miller and Modigliani (1961). Partington (1983) finds that firms use target payout ratios. Firms' motives for paying dividends and extent to which dividends are determined are independent of investment policy. Higgins (1981) indicates a direct link between growth and financing needs: rapidly growing firms have external financing needs because working capital needs normally exceed the incremental cash flows from new sales. Higgins (1972) shows that payout ratios are negatively related to firms' need to fund finance growth opportunities. Rozeff (1982); Lloyd *et al.* (1985); Collins *et al.* (1996) documented significantly negative relationship between historical sales growth and dividend payout.

Survey analysis is an alternative method to examine dividend relevance. Lintner (1956) conduct a classic study on how U.S. managers make dividend decisions by developing a compact mathematical model based on survey of 28 U.S. firms. The results indicate that dividend payment pattern of a firm is influenced by the current year earnings and previous year dividends. Baker, Farrelly and Edelman (1985) survey 318 New York stock exchange firms and conclude that the major determinants of dividend payments are anticipated level of future earnings and pattern of past dividends. The results show that dividend policy has implications for the market value of firms. Managers are concerned primarily with the signaling implications of dividends, though they also recognize the role of a residual policy for future investment opportunities. Baker and Powell (1999) and Baker *et al.* (2002) used data of firms quoted on the NYSE and NASDAQ, respectively. They confirm the signaling and residual role of dividends and suggest that respondents appear to be uncertain about the bird in hand theory and while they acknowledge the implications of the different tax statuses of investors, they are unsure of how to respond. There are few differences in the opinions of managers, based on the stock exchange listing of the firms. Adjaoud (1986) finds that Canadian dividend-paying firms try to maintain stable dividends per share. Firms are reluctant to decrease the payout level, and smoothly adjust the level of payout based on level of expected future earnings. Jog and Srivastava (1994) find that dividend decisions by Canadian firms depend heavily on the current and future predictability of dividends, the past pattern of dividends, and the availability of cash while Jong *et al.* (2003) find that payout ratios of Canadian firms are determined by free cash flow.

The dividend issue is not seriously investigated in Pakistan. The study by Ahmad and Javid (2009) investigates various theoretical models based on 320 manufactured companies applying the panel data for the period 2000 to 2006: Lintner (1956) partial adjustment model is supported implying that firms prefer smooth dividend policy. Overall, a large body of research into the influence of corporate variables on dividend policy is dominated by the markets based approach. The results are mix, the number of variables examined is also relatively limited, and focus is on one specific hypothesis viz. dividend hypothesis. A survey based analysis provides results from a different perspective and also looks into the holistic effect of the corporate characteristics on dividend policy. It might be interesting to find out what factors determine the dividend decision from firms perspective in Pakistani manufacturing sector.

3. Methodology and Data

Data: The data is collected through a survey of 40 manufacturing firms from Karachi in 2010. The questionnaire designed by Baker and Powel (2000) and Baker *et al.* (2001) is adopted for this purpose. This questionnaire is modified according to our corporate environment and extended by including some variables that denote corporate governance. The questions are added regarding corporate governance practices especially the board effectiveness where dividend decisions are made. The board size, CEO duality, independent managers on the board and independent audit committee are corporate governance variables included in the study.¹The questionnaires are filled from those respondents who are knowledgeable

¹ Board composition captures board autonomy, structure and effectiveness variables. The separation of role of CEO and chair dilutes the power of CEO and increases board's ability to properly execute the oversight judgment. It also critically evaluates executive directors and the presence of non-executive member on board and reduces the

individuals, actively involved in the formulation of the dividend policies of their firms and almost all survey respondents hold senior managerial positions, which, in turn, lends credibility to the results of the study. All manufacturing firms which are listed on Karachi Stock Exchange (100) are included in the population. We circulated 130 questionnaires out of which we received response from 40 questionnaires. This is a response rate of 32%. The sample is confined to the number of companies which are accessible and who are agreed to provide the data. Therefore, the completed 40 questionnaires from 40 various manufacturing firms is compiled. The questionnaires to different firms are sent through mail but all of them did not respond back.

The questionnaire used in this research consists of three parts. The first part includes some 22 factors as determinants of dividend policy. Here a four point scale has been used, where 0 = no importance, 1 = low importance, 2 = moderate importance and 3 = high importance. The second part of the questionnaire contains some information about the demographics and corporate governance practice adopted by these firms. The last part of the questionnaire consists of 27 statements (which is referred as A1 to A27). Five points scale has been where -2= strongly disagree, -1= disagree, 0= no opinion, 1= agree, 2= strongly agree.

Analytical Framework: The mean scores are calculated for each factor and statement and then arranged them from top to bottom. The t-test is used for the null hypothesis that the mean responses for each 22 factors influencing dividend policy are equal to zero. The analysis is also done by ANOVA to know whether there is difference in responses of people with respect to their managerial positions.

4. Results and Discussion

This section reports the survey results in four sub-sections. First, the responses to several questions about the respondents and their firm's dividend policy are examined. The factors influencing dividend policy for Pakistani firms are discussed next. Third, the responses to statements about management preferences, dividend setting process, dividend policy and value are explored. Finally, the study investigates whether there are differences in responses to various factors depending upon the respondents's title.

Descriptive Statistics: The survey also contains several background questions about the firm's existing dividend policy. Table 1 displays the responses to three questions about the administration of dividend policy. As regards whom is the most influential person in developing the firm's dividend policy, the results reported in Table 1 show that 78% of the respondents selected the CEO, 10 % selected CFO while 13.5% answered about the combined effects of both CEO and CFO². In response to question how often does your firm formally reexamine its dividend policy. Out of the respondents 82% responded that they annually form their dividend policies, 2.5% from 1-2 years, 12.5% from 1-3 years and 2.5% form their dividend policy from 1-4 years. In response to the question, the firm has an explicit target payout ratio; 20% of respondents answered in yes about the presence of target payout ratio, 37.5% answered no and while 42.5% don't know about their target payout ratio. The responding firms represent various industries of which the most common industry type is manufacturing, 92% responded from manufacturing, 5% from trading and 2.5% from other organizations. Of all the respondents, their positions are as follows: company secretary (10%), CEO (2.5%), CFO (17.5%), financial analysts (5%) and Managers (65%).

As regards the governance practices adopted by these firms in all of the firms surveyed have independent directors on their boards, the role of CEO is different from CFO, and the remuneration of the CEO is salary based. Of these respondents 97% tell that independent audit is conducted while 2.5% answered in no. All these firms on average have 8 directors on their boards.

influence of management on the board. Moreover a higher proportion of outside directors and independent audit committee increase monitoring and increase the performance of the firms (Shaw, 1981). The CEO may find a smaller board more easily dominated and more manageable due to the potential for social cohesion. On the other hand if the board is large, its independence is increased in the sense that the CEO's ability to influence is diluted and it is more difficult for the CEO to dominate the board. Therefore board size should be reasonable enough to manage. This study has firms with board size more than eight.

²The CFO is most influential for Norwegian firms (Baker, Muhkarjee & Paskelian, 2005), but the CEO occupies this role for U.S. firms. (Baker & Powell, 2000; Baker, Veit, & Powell, 2001).

Table 1: Background Information

| A. Who is most influential in developing the dividend policy ultimately approved by board of directors | | |
|---|------------------|-------|
| Chief Financial Officer (CFO) | 78% | |
| Chief Executive Office (CEO) | 10% | |
| Both CEO and CFO | 13.5% | |
| B. How often does your firm formally reexamine its dividend policy? | | |
| 1 year | 82% | |
| 1-2 years | 2.5% | |
| 1-3 years | 12.5% | |
| 1-4 years | 2.5% | |
| C. Does your firm have an explicit target payout ratio? | | |
| | Yes | No |
| Presence of target payout Ratio | 20% | 37.5% |
| D. Corporate Governance | | |
| | Yes | No |
| CEO CFO Split | 100% | |
| Independent Directors | 100% | |
| Independent Audit Committee | 97% | 2.5% |
| Board Size | 8 or More than 8 | |

Factors that Affect Dividend Policies: This study addresses the question about what are the most important factors influencing the dividend policies from the view of policymakers. Table 2 provides the result of the most important factors that affect the dividend policies of dividend paying firms listed on Karachi Stock Exchange (KSE). The Table reports the results of 22 factors that are ranked based on their mean scores. The study focuses on the top five and the lowest five factors (based on their highest and lowest mean scores). As it is clear from the Table 2, the most important factors affecting the dividend policies of the dividend paying firms listed on Karachi Stock Exchange are: the level of current earnings, the projection about the future state of the economy, the stockholders characteristics, concerns about the stock prices, need of current stockholders. All these top five ranked factors are highly significant at the 0.01 level. The managers rank the level of current earnings at the top³. Current earnings give rise to cash flows which are used to pay dividends. Uncertainty and previous impacts of depression give high rank to the projection about the future state of the economy. From a practical perspective, there is little discrimination among the top ranked factors (from 2.55 to 2.37). While the five factors which are ranked lowest are: current degree of financial leverage, desire to maintain in the long run a given fraction of earnings, contractual constraints, preferences to pay dividends instead of taking risky investments, desire to avoid giving a false signal by changing the dividend policy. All these lowest ranked factors are significant at the 0.01 level. The rationale behind low rank given to current degree of financial leverage is major chunk of debt has been uphold by the government and very little is left over to the corporate sector. The interest rates are very high which limits these companies to obtain loans on large scales. In short, the only apparent differences appear at the extremes and these are not very large because more than 85% of the respondents, even for the factors with the lowest means, given them of moderate to high importance. In general, it is concluded that few differences appear in the importance among the various factors.

Issues Related Dividend Policy: This section discusses the view about corporate dividend policy by providing the respondents' opinion about statement relating to dividend policy in general. Table 3 shows the results of the surveyed KSE listed firms on dividend issues such as residual dividend policy, dividend policy and firm value, dividend process and patterns etc. In most of the cases, the results are discussed as the percentage of responses that express agreement (both strongly agree and agree) because this is more appealing way to interpret the results rather than the mean scores. Panel A of Table 3 shows the managers

³ Previous studies also confirm this association (Pruit & Gitman, 1991, Baker *et al.* 2001, Baker, Sade & Gandhi, 2007, Mullah, 2009). Ahamad & Javid, 2009 also confirm this for Pakistan.

views on the life cycle theory of dividends. Out of the total respondents 97.5 % agree that the dividends payments of a firm changes over its life cycle of a business.

Table 2: Level of Importance Attached to Factors Influencing Dividend Policy by Managers of KSE-Listed Firms

| Factor | N | Level of Importance % | | | | Mean |
|---|----|-----------------------|----------|----------|-----------|------|
| | | None 0 | Low 1 | Mod 2 | High 3 | |
| Level of current earnings | 40 | 0 | 0 | 45 | 55 | 2.55 |
| Projection about the future state of the economy | 40 | 0 | 2.5 | 45 | 52 | 2.50 |
| Stockholders characteristics | 40 | 0 | 2.5 | 50 | 47.5 | 2.45 |
| Concern about the stock price | 40 | 0 | 0 | 55 | 45 | 2.45 |
| Need of current stockholders | 40 | 0 | 5 | 47.5 | 47.5 | 2.42 |
| Legal rules about dividends | 40 | 0 | 7.5 | 47.5 | 40 | 2.37 |
| Signaling incentives | 40 | 0 | 7.5 | 50 | 42.5 | 2.35 |
| Stability of earnings | 40 | 0 | 5 | 57.5 | 37.5 | 2.33 |
| Desire to maintain target capital structure | 40 | 0 | 7.5 | 52.5 | 40 | 2.32 |
| Desire to confirm to industry payout ratio | 40 | 0 | 12.5 | 45 | 42.5 | 2.30 |
| Desire to confirm to industry payout ratio | 40 | 0 | 12.5 | 45 | 42.5 | 2.30 |
| Availability of alternative source of capital | 40 | 0 | 15 | 42.5 | 42.5 | 2.27 |
| Investment considerations | 40 | 0 | 7.5 | 57.5 | 35 | 2.27 |
| Liquidity constraints | 40 | 0 | 15 | 45 | 40 | 2.25 |
| Financing considerations such as external source of capital | 40 | 0 | 12.5 | 50 | 37.5 | 2.25 |
| Pattern of past dividends | 40 | 0 | 0 | 77.5 | 22.5 | 2.22 |
| Level of expected future earnings | 40 | 0 | 0 | 77.5 | 22.5 | 2.22 |
| Current degree of financial leverages | 40 | 0 | 2.5 | 72.5 | 25.0 | 2.22 |
| Desire to maintain in the long run a given fraction of earnings | 40 | 0 | 10 | 57.5 | 32.5 | 2.22 |
| Contractual constraints | 40 | 2.5 | 5 | 60 | 32.5 | 2.22 |
| Preferences to pay dividend instead of taking risky investments | 40 | 2.5 | 7.5 | 57.5 | 32.5 | 2.20 |
| Desire to avoid giving a false signal by changing the dividend policy | 40 | 0 | 12.5 | 57.5 | 30 | 2.17 |
| Expected rate of return on the firm assets | 40 | 0 | 15 | 55 | 30 | 2.15 |

The level of agreement is significantly different from zero at 1% level. It is clear that these firms make changes in their dividend policies at various levels of their business cycles. These results are in line with the findings of Baker *et al.* (2001), Coulten & Ruddock (2009). Panel B of Table 3 shows the agreement of managers on four statements on dividend policy and firm's value. Almost 100% of the respondents agree on the statement, dividends affect the cost of capital, 97.5% respondents agree on the statement, changes in dividend policy affect the firm value, 89% respondents agree on the statement, dividend policy should increase the shareholder value while 92.5% respondents agree on the statement, firms should maintain balance between future growth needs and current dividend payments. All these four statements are significant at 1% level. Unlike Miller & Modigliani (1963) claim that dividend policy has no effect on firm value in perfect markets, the market in the study is imperfect and hence the dividend policy is relevant.

Panel C of Table 3 shows agreements about two statements on residual dividend policy, 92.5% of the respondents agree on the statement, expenditures on new plants and equipment's affect the dividend policy, while 95% respondents agree on the statement, dividend is seen as residual. These two statements are significant at 1% level. It means that the study support the residual explanation of dividend policy. Panel I of Table 4 contains one statement about the Catering Theory of dividends payments, 65% of the respondents

agree on the statement, firm's responsiveness to the preferences of its shareholders and the mean score is statistically significant at 1% level. These results indicate that while formulating their dividend policies these companies take into considerations the preferences of their shareholders. These findings support the results of Neves and Torre (2003). Panel H of Table 4 shows two statements about agency theory, 92.5% of the respondents agree on the statement, payment of dividends encourages a manager to work in the best interest of company, 90% respondents agree on the statement, payment of dividend forces a firm to external financing. The mean scores are statistically different from zero at 1 % level. It reveals that managers perceive dividends payments as an instrument to reduce the agency cost problems on one hand reduce transaction costs on the other hand. These findings are consistent with the findings of Rozeff (1982), Easterbrook (1984).

Panel J of Table 4 shows the agreement on two statements about the dividend pattern. Almost 100% respondents agree on the statement, dividend follow a smoother path than the earnings, while 95% respondents agree on the statement, dividend changes generally lag changes in earnings. The means of both the statements is significantly different from zero at 1% level. This result is in conformity with earlier findings for Pakistan (Ahmad & Javid, 2009) and with the evidence for other markets (Lintner, 1956; Baker, Saadi & Gandhi, 2007). Panel k of Table 5 shows agreements on four statements about the signaling theory of dividend policy. 97.5% of the respondents agree on the statement, a stock price falls with unexpected increase in dividends, 92.5% respondents agree on the statement, dividends changes is considered as a signal about the future prospects, 80 % respondents agree on the statement, adequate disclosure of reasons about the changes in dividends, while 87.5% agree on the statement, stock value decreases when dividends is unexpectedly increased. These findings are in line with the findings of Dhanani (2005).

Panel M of Table 5 presents the agreement on five statements about the dividend process based on Lintner (1956) model. Almost 82% respondents agree on the statement, a firm should not increase dividends if it reverses in a year or so, 95% respondents agree on the statement, a firm should keep up uninterrupted records of dividends payments, 92% respondents agree on the statement, market places greater value on the stocks of stable dividend paying firms, 95% respondents agree on the statement, target payout ratio and adjustment to this ratio, 95% respondents agree on the statement, dividend changes lag behind changes in earnings. All these statements are significant at 1 % level. The results indicate that managers of KSE listed firms formulate their dividend policies consistent with the Lintner model (1956). Our results support the findings of Lintner (1956), Pruitt & Gitman (1991), Baker, Veit & Powel (2001), Baker, Saadi & Gandhi (2007) and Mollah (2009).

Table 3: Level of Agreement by Manager of KSE-listed Firms on Explanation for Dividends

| S# | Statement | N | Level of agreement (%) | | | | | t-stat | Mean |
|--|---|----|------------------------|----------|------------|-------|----------------|----------|------|
| | | | Strongly Disagree | Disagree | No Opinion | Agree | Strongly Agree | | |
| | | | -2 | -1 | 0 | +1 | +2 | | |
| Panel A. Life cycle theory | | | | | | | | | |
| L1 | Changes in dividend over life cycle | 40 | 0 | 0 | 0 | 25 | 72.5 | 24.615** | 1.74 |
| Panel B. Dividend Policy and Firm value | | | | | | | | | |
| V1 | Dividends affect the cost of capital | 40 | 0 | 0 | 0 | 42.5 | 57.5 | 19.897** | 1.57 |
| V2 | Changes in dividend policy affect firm value | 40 | 0 | 0 | 2.5 | 40 | 57.5 | 17.747** | 1.55 |
| V3 | Dividend policy should increase shareholders value | 40 | 0 | 7.5 | 10 | 37.5 | 52.5 | 13.350** | 1.42 |
| V4 | Balance between future growth needs and current payment | 40 | 0 | 2.5 | 5 | 50 | 42.5 | 12.078** | 1.32 |
| Panel C. Residual Dividend Policy | | | | | | | | | |
| R1 | Expenditures on new plants affect the dividend pattern | 40 | 0 | 2.5 | 5 | 42.5 | 50 | 12.490** | 1.40 |
| R2 | Dividends is seen as a residual | 40 | 0 | 0 | 5 | 62.5 | 32.5 | 14.552** | 1.27 |
| R1 | Expenditures on new plants affect the dividend pattern | 40 | 0 | 2.5 | 5 | 42.5 | 50 | 12.490** | 1.40 |
| R2 | Dividends is seen as a residual | 40 | 0 | 0 | 5 | 62.5 | 32.5 | 14.552** | 1.27 |
| Panel D. Dividend Process | | | | | | | | | |
| D1 | Dividends generally follow a smoother path than earnings. | 40 | 0 | 0 | 0 | 70 | 30 | 17.716** | 1.30 |
| D2 | Dividend changes generally lag earnings changes. | 40 | 0 | 2.5 | 2.5 | 72.5 | 22.5 | 9.348** | 1.10 |

Table 4: Level of Agreement by Manager of KSE-listed Firms on Explanation for Dividends

| S# | Statement | N | Level of agreement (%) | | | | | t-stat | Mean |
|----------------------------------|--|--------|------------------------|----------|------------|-------|----------------|----------|------|
| | | | Strongly Disagree | Disagree | No Opinion | Agree | Strongly Agree | | |
| | | | -2 | -1 | 0 | +1 | +2 | | |
| Panel H. Agency Theory | | | | | | | | | |
| A1 | Payment of dividends encourages a manager to act in the best interest of the company | 4 0 | 0 | 2.5 | 5 | 32.5 | 60 | 13.248** | 1.50 |
| A2 | Payment of dividend forces a firm to external financing | 4 0 | 0 | 5 | 5 | 60 | 30 | 9.888** | 1.15 |
| Panel I. Catering Theory | | | | | | | | | |
| C1 | Firm responsiveness to the preference of its shareholders | 4 0 | 0 | 0 | 15 | 50 | 35 | 11.049** | 1.20 |
| Panel J. Dividend Pattern | | | | | | | | | |
| D1 | Dividends generally follow a smoother path than earnings. | 4 0 | 0 | 0 | 0 | 70 | 30 | 17.716** | 1.30 |
| D2 | Dividend changes generally lag earnings changes. | 4 0 | 0 | 2.5 | 2.5 | 72.5 | 22.5 | 9.348** | 1.10 |

*,** Significant at the 0.05 and 0.01 levels, respectively

Table 5: Level of Agreement by Manager of KSE-listed Firms on Explanation for Dividends

| S# | Statement | N | Level of agreement (%) | | | | | t-stat | Mean |
|---|---|----|-------------------------|----------------|-----------------|-------------|----------------------|----------|------|
| | | | Strongly Disagree -2 | Disagree -1 | No Opinion 0 | Agree +1 | Strongly Agree +2 | | |
| Panel K. Signaling Theory | | | | | | | | | |
| S1 | A stock price falls with unexpected increase in dividends | 40 | 0 | 7.5 | 2.5 | 45 | 52.5 | 17.103** | 1.50 |
| S2 | Dividend changes is considered as a signal about future prospects | 40 | 0 | 7.5 | 7.5 | 35 | 57.5 | 14.811** | 1.50 |
| S3 | Adequate disclosure of reason about changes in dividends | 40 | 0 | 7.5 | 12.5 | 37.5 | 42.5 | 7.895** | 1.15 |
| S4 | Stock value increases when dividends are unexpectedly increased. | 40 | 0 | 2.5 | 10 | 62.5 | 25 | 10.356** | 1.10 |
| Panel L. A Bird in the hand Theory | | | | | | | | | |
| | Preference to pay dividends instead of risky investments. | 40 | 0 | 0 | 2.5 | 7.5 | 57.5 | 20.257** | 2.20 |
| Panel M. Dividend Process | | | | | | | | | |
| D p1 | A firm should not increase regular dividends if it reverses it in a year or so. | 40 | 0 | 0 | 12.5 | 32.5 | 50 | 11.973** | 1.39 |

*,** Significant at the 0.05 and 0.01 levels, respectively

Differences in Responses with Respect to Respondent's Title: In order to see whether there are differences in responses to various factors with respondent with different titles, one way ANOVA is calculated. The result reported in Table 7 shows that the F statistic value is 0.890 which is highly insignificant at 5 percent level. This reveals that there are no significant differences in responses to the dividend affecting factors with respect to various positions.

Table 6: Differences with regard to Factors affecting Dividend policy with Respect to various positions

| Current position | ANOVA | | | | |
|------------------|----------------|----|--------------|-------|-------|
| | Sum of squares | Df | Mean Squares | F | Sig. |
| Between Groups | 15.254 | 9 | 1.695 | 0.890 | 0.545 |
| Within Groups | 57.121 | 30 | 1.904 | | |
| Total | 72.375 | 39 | | | |

5. Summary and Conclusion

This study shows the perceptions of managers of dividends paying Pakistani firms listed on Karachi Stock Exchange (KSE) about factors influencing dividend policy, issues relating dividend policy and corporate governance practices. According to the perceptions of these managers, the most important factors which affect dividend policy are as under: the level of current earnings, the projection about the future state of the economy, the stockholders characteristics, concerns about the stock prices, need of current stockholders. There is no difference in responses to the factors affecting dividend policy with respect to respondent title. From the practical perspective, the findings conclude that few differences appear in the importance among the various factors. The perceptions of the managers show that all of them formulate their dividend policies consistent with the theoretical model of Lintner (1956). The study suggests that managers of KSE listed firms in general show greatest support for the life cycle theory followed by agency theory, catering theory, signaling theory and residual theory respectively. The study also suggests that all the surveyed firms follow the corporate governance practices.

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