# MANAGEMENT'S PERCEPTION OF STOCK DIVIDEND DISTRIBUTION IN AN EMERGING CAPITAL MARKET: THE CASE OF KUWAIT

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## ABSTRACT

The purpose of this study is to investigate perceptions of top managers of Kuwaiti companies regarding factors the affect their companies' decision to distribute stock dividend ( SD ). A questionnaire listing 32 reasons that could explain companies' decisions to declare SDs was distributed to a sample of 120 randomly selected top managers from 100 Kuwaiti companies and 73 responses were received (representing a 61% response rate ). Participants were classified according to: ( 1 )business sector ( investment, real estate, banking, service, and industrial ) and ( 2 ) size of SDs ( small ( less than 25% ) and large ( 25% or more )). Nonparametric statistical tests were employed to analyze the data.

The findings for the entire sample indicated that participants agree to the importance of 21 reasons in explaining their companies' choice to distribute SDs. The statement that SDs enable the company to conserve cash received the highest mean ranking of 4.14. The results of the Kruskal-Wallis test indicated that participants from all group of firms were in complete agreement regarding the degree of importance of 25 ( 78 percent ) of the 32 listed reasons.

In addition, the findings showed no significant differences in 28 (87.5 percent ) of the 32 reasons between participants of firms that declared small SDs and those of firms that declared large SDs. Of these 28 reasons, 2 reasons ( SDs enable the company to conserve cash and SDs increase trading liquidity of the stock ) received two of the highest three ratings by the two groups.

**Keywords:** Stock Dividends, Importance Ratings, Trading Liquidity, Institutional Investors

## INTRODUCTION

Why do corporations distribute stock dividends? There is no general agreement among theory and empirical evidence in finance and accounting literature as to why managements issue them. Early studies of firms distributing stock dividends reported that they do so in order to attract investors by keeping the stock's price in an optimal range, to enhance trading liquidity, to increase the number of shareholders, to conserve cash, and to provide management with a relatively low-cost way of signaling management's confidence in the future (e.g., Fama, Fisher , Jensen, and Roll (1969); Eisemann and Moses (1978); Lakonishok and Lev (1987); Elgers and Murray (1985); Murray (1985)..

The literature in accounting and financial theory and practice is voluminous on the subject of corporate decision to issue Stock Dividend and Stock Split. Several approaches to investigate the issue were followed to test hypotheses and provide empirical evidence based on capital market data regarding market reaction to Stock Dividend announcement and information content and signaling (e.g., Peterson and Peterson (1992); Banker, Das, and Datar (1993);Peterson, Miller and Rimpbey (1996) ).

Fewer studies attempted to investigate the rationale for stock dividends (and also stock split) through surveying the opinions of corporate managers, using questionnaire method (e.g., Baker and Gallagher (1986); Baker and Philips (1993); Frankfurter and Lane (1998)). No body of evidence exists as to the views of corporate management in emerging capital markets on this issue.

The purpose of this study is to investigate perceptions of top managers of Kuwaiti companies regarding factors that affect their companies' decision to distribute stock dividends ( SD ). Distribution of SD by Kuwaiti corporations is a popular method of dividend distribution and is being followed by the majority of these corporations (more than 80% of the test sample in the current study). One more reason for its popularity in Kuwaiti market is that –in virtually all cases – corporations are unable to issue "true' stock split as the par value of their par value shares is at its minimum as stipulated by the Kuwaiti corporation act.

SD distributions by Kuwaiti corporations (Large or small) are being accounted for by reclassification to capital share account of retained earnings (and/or paid – in capital in excess of par value) equal to the par value of the additional shares distributed. This study seeks to provide some evidence on the similarity and dissimilarity of management's views on SD among different capital market settings (developed and emerging), which may exhibit varying degrees of market efficiency.

## REVIEW OF PRIOR LITERATUR

Eisemann and Moses (1978) represents one of the earliest studies which surveyed managements regarding their views concerning stock dividends. The results of the study indicated that the reasons behind management decision to distribute stock dividends were primarily related to a desire to conserve cash, to express confidence in the firm and to increase the number of shareholders.

Baker and Philips (1993) surveyed financial executives to identify managements' views of and motives for stock dividends. A questionnaire relied on the existing academic literature were designed to seek opinions of a sample of financial executives. The results indicated that 78% of the respondents agreed that stock dividends convey favorable information, while only 26% of them agreed that stock dividends trigger reassessments of the firm's future cash flows. In addition, the study reported that 70% of the respondents agreed with the statement that stock dividends are cosmetic changes, while only 23% identified that stock dividends signal optimistic managerial expectations.

Frankfurter and Lane (1998) surveyed financial managers of publicly traded firms that declared a stock dividend during 1986-1993 using a questionnaire consisting of 37 statements related to their perception of the benefits or shortcomings derived from stock dividends. The results indicated that respondents tend to agree that increasing the trading frequency of the stock and obtaining a wide distribution of the stock are important objectives. Stock dividends were perceived to keep the price in the optimal range and signal that the firm is doing well as

evidenced by an increase in stock price when a stock dividend is announced. A high degree of disagreement was reported among respondents regarding their believes that their shareholders are interested in stock dividends, and that a rising stock price is not an obligation for the firm to distribute stock dividends. The study also reported on the results of surveying opinions a control sample consisting of firms that did not pay a stock dividends in the same period as the primary sample. The results generally indicated a high degree of agreement among the two samples, particularly regarding that shareholders expect cash dividends and prefer them to stock dividends, and that stock dividends save cash now, but result in larger cash payout later. In contrast, those who pay stock dividends found to believe that in doing so increases the value of the firm; the majority of the control sample sees no such effect.

Although the accounting treatment of stock dividends and splits differs, the argument could be made that managers' views of stock dividends and split should be similar. A closely related literature on survey of management's view of stock splits reported results which may be germane to the case of stock dividends as well. Baker and Gallagher (1980), and Baker and Powell (1993) represented evidence which suggests that the main motive for stock splits is moving the stock price into a better trading range, improving trading liquidity, and signaling optimistic managerial expectations about the future.

## RESEARCH METHODOLOGY

Through a questionnaire survey, we identified corporate managers perceptions on the relative importance of a variety of reasons that justify or support the decision of Kuwaiti corporations to distribute stock dividends. Then, we investigated the differences between different types of business sectors on one hand and different distribution sizes on the other hand.

We sent our questionnaire to a sample of 120 randomly selected top managers in 100 Kuwaiti corporations. The questionnaire lists 32 statements that could be used to justify the firm's decision to distribute stock dividends (SD). These statements were compiled by both reviewing the annual reports issued by 100 Kuwaiti corporations during the period 2002-2007 and reviewing the various factors affecting the corporate decision to distribute stock dividends as discussed in relevant academic and professional literature in accounting and finance. The initial question asked was:

> " What is your feeling about the importance of the reason or the statement that explains the firm's decision to distribute SD?".

Respondents were asked to rank the importance of each of the thirty two statements using a five-point Likert scale, where one on the scale indicated that the statement was not important and five implied critically important. The questionnaire incorporated a description of the ratings and contained demographic questions to identify respondents by position and business sector ( type of industry). Also the questionnaires contained questions to identify the size ( small or large ) of stock distribution ( if any ) and to rank the importance of each of five assumed reasons for preferring the elected size. The respondents were encouraged to solicit there views regarding the reasons for the declaration of stock dividends and to add any pertinent comment.

# RESULTS

***Respondents Profile***

A total of 73 responses were received from the 120 corporate managers representing a 61% response rate. The general demographic characteristics of the respondents are presented in Table1.

**Table 1**

**Profile of Respondents**

| **Description** | **Frequency** | **Percentage** |
|---|---|---|
| Position | | |
| President | 52 | 71.2% |
| Member of the board of directors | 21 | 28.8% |
| Business Sector | | |
| Investment | 28 | 38.4% |
| Real Estate | 12 | 16.4% |
| Banking | 12 | 16.4% |
| Service | 11 | 15.1% |
| Industrial | 10 | 13.7% |
| Declaration of SD (2002-2007) | | |
| Declared | 63 | 86% |
| Did not declare | 10 | 14% |
| Size of SD declared | | |
| Small | 52 | 82.5% |
| Large | 11 | 17.5% |

As shown in Table 1, the majority of the respondents were presidents of their companies and as such their opinion regarding the reason for their companies declaration of SDs would be more reliable.

With respect to the business sector, the results indicate that 38 percent of the respondents work in the investment sector, 16 percent in the real estate sector, 16 percent in the banking field, 15 percent in the service sector, and the remaining 14 percent work in industrial firms.

Regarding whether a SD was declared by the respondent firm during the period 2002-2007, Table 1 shows that 86 percent of firms declared SD. This implies that responses reflect the actual reasons and justifications that explain their firms' decision to declare SD.
Finally, Table 1 indicates that 82.5 percent of the respondents' firms declared small SD ( less than 25% ) and the remaining 17.5 percent declared large SD ( 25% or more).

***Importance Ratings of Reasons behind Declaring SD***

The means of the 73 managers, relative importance ratings of the 32 statements that explain the firm decision to declare SD are displayed in Table 2. The statements were ranked from one to thirty two based on the relative mean importance rating for the sample. The relative importance rankings are shown next to the mean importance rating for each statement in Table 2. The closer the mean to five, the greater the perceived importance of the statement and, consequently, the higher is the ranking.

**Table 2**

**Importance Ratings of Reasons (The Entire Sample)**

| No | Statement | Mean | Rank |
|---|---|---|---|
| **1.** | Stock dividends keep a firm's stock price in an optimal price range | 3.37 | 14 |
| **2.** | Stock dividends make it easier for small stockholders to purchase round lots (more shares, lower price) | 3.84 | 5 |
| **3.** | Stock dividends increase trading liquidity (frequency of trading) of the stock | 4.03 | 2 |
| **4.** | Stock prices will not fully adjust to occasional stock dividends thereby increase the market value of the stock | 2.66 | 29 |
| **5.** | Stock dividends occur after an upward trend in the firm's stock price | 3.03 | 21 |
| **6.** | Stock dividends occur after an upward trend in a firm's earning per share | 3.22 | 16 |
| **7.** | Stock dividends make shares more attractive to investors by lowering the stock price and increasing the number of shares outstanding | 3.77 | 6 |
| **8.** | Cash dividends provide better signals to the market than stock dividends | 4.00 | 3 |
| **9.** | Stock dividends increase the total market value of the firm's stock | 3.03 | 20 |
| **10.** | By reducing earnings per share, Stock dividends reduces governments demand for lower profit, and reduces demand for higher wages by employees | 2.37 | 31 |
| **11.** | Stock dividends enable management to express its confidence in the firm to the shareholders | 3.44 | 11 |
| **12.** | Stock dividends enable the firm to conserve cash | 4.14 | 1 |
| **13.** | The costs of issuing stock dividends (e.g. administrative) have great impact on stock dividends decision | 2.26 | 32 |

| | | | |
|---|---|---|---|
| **14.** | Stock dividends strengthen a firm's equity base by enhancing the marketability of its shares | 3.60 | 8 |
| **15.** | Stock dividends increase the number of firm's shareholders | 3.10 | 18 |
| **16.** | Stock dividends are more attractive to shareholders because they can later sell the shares for cash | 3.38 | 13 |
| **17.** | Stock dividends are declared because they are fashionable | 2.95 | 23 |
| **18.** | Stock dividends and reduction in cash dividends, provide a cheaper way to raise capital for expansion | 3.51 | 9 |
| **19.** | Stock dividends is a substitute for cash dividends | 2.77 | 26 |
| **20.** | By increasing the number of shareholders, stock dividends will facilitate the sale of new equity capital | 2.99 | 22 |
| **21.** | Your firm issues stock dividends due to concerns that a change in dividend ratio or termination of stock dividends after along term of stock dividend policy may provide a negative signal to investors | 2.84 | 25 |
| **22.** | Stock dividends send a positive signal to investors about the firm's future prospects, which leads to a favorable market reaction on a firm's stock price | 3.44 | 10 |
| **23.** | By increasing the number of shareholders, stock dividends increase the sales volume of company's products to shareholders | 2.53 | 30 |
| **24.** | Your firm issues stock dividends due to liquidity constraints (e.g. in availability of cash) because it conserves cash | 3.41 | 12 |
| **25.** | Your firm issues stock dividends due to investment considerations (e.g. keeping cash for profitable investments) | 3.75 | 7 |
| **26.** | Stock dividends are often issued because of shareholders' pressure on the company | 3.05 | 19 |
| **27.** | Some stockholders prefer a stock dividend instead of a cash dividend | 3.22 | 15 |
| **28.** | A stock dividend gives the company free publicity in the financial press | 2.86 | 24 |
| **29.** | Individual investors understand exactly what a stock dividend accomplish | 2.74 | 27 |
| **30.** | Institutional investors understand exactly what a stock dividend accomplish | 3.95 | 4 |
| **31.** | Stock dividends are purely cosmetic (don't affect the firm's cash flows and shareholders retain their proportionate share) | 3.12 | 17 |
| **32.** | Substituting stock dividends for cash dividends is a sign that the company is doing poorly | 2.68 | 28 |

The information presented in Table 2 indicates that respondents were strongly in favor of considering 21 of the 32 reasons listed in the questionnaire to be the most important factors that could explain their companies' choice to distribute SDs. The mean rankings for all these 21 reasons exceed 3.03, while a mean of 3 represented an average importance. The statements which earned the highest five ranks include: SDs enable the company to conserve cash ( 4.14 ), SDs increase trading liquidity of the stock ( 4.03 ), investors understand exactly what SDs accomplish (3.95 ), SDs make it easier for small investors to purchase round lots (3.84 ), and SDs make shares more attractive to investors (3.77 ).

The statement that cash dividends provide better signal to the market than SDs ( 4.00 ) received a high rating (third of the highest five ). This was expected since it is noticeable that prices and trading volumes of many of the stock listed in the Kuwait Stock Exchange market are positively affected by the declaration of cash dividends.
On the other hand, the statements that SD is purely cosmetic (2.68 ), increases the sales volume of the firm's products to shareholders (2.53 ), reduces demand for lower profit by governments and for higher wages by employees, by reducing earnings per share (2.37), and the statement that the SD decision is affected by the cost of issuing SD (2.26 ) achieved four of the lowest seven ratings.

The values in Table 2 indicate only the relative importance of the responses. Low rankings do not necessary mean that the statement is absolutely unimportant. In fact, the means of the lowest ten rankings are closed to three, which is the mean of the "average" importance.

In addition, respondents were asked to indicate why did their companies elect a small or large SD by ranking five given reasons according to their importance, with the most important reason starting from 1 to the least important reason ending with 5. The results are shown in Table 3.

**Table 3**
**Rating of Reasons behind Choosing a Specific Size of SD**

| Reason: | Mean | Rank |
|---|---|---|
| The size of annual earnings | 2.22 | 1 |
| The amount of cash dividends distribution | 2.79 | 2 |
| The size of retained earnings | 3.02 | 3 |
| The market price per share | 3.25 | 4 |
| The size of previous SD distribution | 3.29 | 5 |

The size of annual earnings (2.22) and the amount of cash dividends distribution (2.79) have means closer to one ( the rank given to the most important reason ),and as a result, they are considered the most important factors that affect the decision about the size of SD to be declared by Kuwaiti companies.On the other hand, the market price per share (3.25 ) and the size of previous SD distribution (3.29 ) have means close to five ( the rank of the least important reason ) and as such, they have a minimum impact on the company's decision to distribute a small or a large SD.

***Importance Ratings of Reasons by Business Sector***

The 73 responses were categorized by business sector in five group (investment, real estate, banking, service, and industrial ) and the 32 reasons (statements ) were ranked based on the respondents' mean importance ratings for the five sectors. The mean importance ratings and the relative important rankings for each reason by business sector are presented in Table 4.

**Table 4**
**Importance Rating of Reasons of SD Declaration by Business Sector**

| No | Statement | Investment N = 28 | | Real Estate N = 12 | | Banking N = 12 | | Service N = 11 | | Industrial N = 10 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Rank | Mean | Rank | Mean | Rank | Mean | Rank | Mean | Rank |
| 1. | Stock dividends keep a firm's stock price in an optimal price range | 3.36 | 12 | 3.42 | 16 | 3.50 | 14 | 3.55 | 11 | 3.00 | 23 |
| 2. | Stock dividends make it easier for small stockholders to purchase round lots (more shares, lower price) | 3.64 | 6 | 3.83 | 5 | 3.92 | 5 | 3.91 | 6 | 4.20 | 4 |
| 3. | Stock dividends increase trading liquidity (frequency of trading) of the stock | 3.96 | 3 | 4.00 | 3 | 3.83 | 6 | 4.09 | 3 | 4.40 | 1 |
| 4. | Stock prices will not fully adjust to occasional stock dividends thereby increase the market value of the stock | 2.68 | 26 | 2.33 | 31 | 2.92 | 20 | 2.91 | 20 | 2.40 | 31 |
| 5. | Stock dividends occur after an upward trend in the firm's stock price | 3.21 | 15 | 3.25 | 22 | 2.92 | 21 | 2.45 | 25 | 3.00 | 24 |
| 6. | Stock dividends occur after an upward trend in a firm's earning per share | 3.21 | 16 | 3.50 | 12 | 3.00 | 19 | 3.00 | 17 | 3.40 | 16 |
| 7. | Stock dividends make shares more attractive to investors by lowering the stock price and increasing the number of shares outstanding | 3.61 | 7* | 3.33 | 17 | 4.21 | 1 | 3.64 | 8 | 4.30 | 2 |
| 8. | Cash dividends provide better signals to the market than stock dividends | 4.00 | 2 | 4.08 | 2 | 4.00 | 4 | 4.09 | 4 | 3.80 | 9 |
| 9. | Stock dividends increase the total market value of the firm's stock | 2.86 | 21 | 3.08 | 26 | 3.33 | 17 | 3.00 | 18 | 3.10 | 22 |
| 10. | By reducing earnings per share, Stock dividends reduces governments demand for lower profit, and reduces demand for higher wages by employees | 2.39 | 32 | 2.42 | 30 | 2.42 | 31 | 1.91 | 31 | 2.70 | 26 |
| 11. | Stock dividends enable | 3.46 | 10 | 3.08 | 27 | 3.67 | 9 | 3.27 | 13 | 3.70 | 10 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | management to express its confidence in the firm to the shareholders | | | | | | | | | | |
| **12.** | Stock dividends enable the firm to conserve cash | 4.00 | 1 | 4.50 | 1 | 4.00 | 3 | 4.27 | 2 | 4.10 | 5 |
| **13.** | The costs of issuing stock dividends (e.g. administrative) have great impact on stock dividends decision | 2.43 | 31 | 1.92 | 32 | 2.50 | 27 | 1.82 | 32 | 2.40 | 32 |
| **14.** | Stock dividends strengthen a firm's equity base by enhancing the marketability of its shares | 3.50 | 9* | 3.08 | 25 | 4.08 | 2 | 3.82 | 7 | 3.70 | 11 |
| **15.** | Stock dividends increase the number of firm's shareholders | 2.89 | 20* | 3.50 | 15 | 3.42 | 15 | 1.91 | 30 | 4.10 | 6 |
| **16.** | Stock dividends are more attractive to shareholders because they can later sell the shares for cash | 3.07 | 17 | 3.67 | 9 | 3.50 | 13 | 3.11 | 14 | 4.00 | 7 |
| **17.** | Stock dividends are declared because they are fashionable | 2.71 | 24* | 3.58 | 11 | 2.92 | 22 | 2.45 | 26 | 3.40 | 17 |
| **18.** | Stock dividends and reduction in cash dividends, provide a cheaper way to raise capital for expansion | 3.54 | 8 | 3.33 | 18 | 3.83 | 7 | 3.64 | 9 | 3.10 | 21 |
| **19.** | Stock dividends is a substitute for cash dividends | 2.54 | 28 | 3.25 | 21 | 2.75 | 25 | 2.91 | 19 | 2.70 | 27 |
| **20.** | By increasing the number of shareholders, stock dividends will facilitate the sale of new equity capital | 2.46 | 18* | 3.17 | 24 | 2.92 | 23 | 2.27 | 28 | 3.70 | 12 |
| **21.** | Your firm issues stock dividends due to concerns that a change in dividend ratio or termination of stock dividends after along term of stock dividend policy may provide a negative signal to investors | 2.68 | 25 | 3.33 | 19 | 2.83 | 24 | 2.36 | 27 | 3.20 | 20 |
| **22.** | Stock dividends send a positive signal to investors about the firm's future prospects, which leads to a favorable market reaction on a firm's stock price | 3.46 | 11 | 3.42 | 15 | 3.33 | 16 | 3.64 | 10 | 3.30 | 18 |
| **23.** | By increasing the number of shareholders, stock dividends increase the sales volume of company's products to shareholders | 2.54 | 29 | 2.83 | 28 | 2.58 | 28 | 2.19 | 29 | 2.50 | 30 |
| **24.** | Your firm issues stock dividends due to liquidity constraints (e.g. in availability of cash) because it conserves cash | 3.25 | 13 | 3.67 | 8 | 3.50 | 12 | 3.09 | 15 | 3.80 | 8 |
| **25.** | Your firm issues stock dividends due to investment considerations (e.g. keeping cash for profitable investments) | 3.89 | 4 | 3.58 | 10 | 3.67 | 8 | 4.09 | 5 | 3.30 | 19 |
| **26.** | Stock dividends are often issued because of shareholders' pressure on the company | 2.82 | 22* | 3.67 | 7 | 3.33 | 18 | 2.73 | 22 | 3.00 | 25 |
| **27.** | Some stockholders prefer a stock dividend instead of a cash dividend | 2.93 | 19 | 3.50 | 14 | 3.58 | 10 | 3.09 | 16 | 3.40 | 14 |
| **28.** | A stock dividend gives the company free publicity in the financial press | 2.75 | 23 | 3.17 | 23 | 2.58 | 27 | 2.64 | 24 | 3.40 | 15 |
| **29.** | Individual investors understand exactly what a stock dividend accomplish | 2.50 | 30 | 2.83 | 29 | 2.42 | 30 | 2.91 | 21 | 3.50 | 13 |
| **30.** | Institutional investors understand exactly what a stock dividend accomplish | 3.82 | 5* | 3.83 | 4 | 3.58 | 11 | 4.55 | 1 | 4.30 | 3 |
| **31.** | Stock dividends are purely cosmetic (don't affect the firm's | 3.21 | 14 | 3.76 | 6 | 2.50 | 29 | 3.36 | 12 | 2.60 | 28 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | cash flows and shareholders retain their proportionate share) | | | | | | | | | | |
| **32.** | Substituting stock dividends for cash dividends is a sign that the company is doing poorly | 2.61 | 27 | 2.33 | 20 | 2.73 | 32 | 2.73 | 23 | 2.50 | 29 |

*** Significant at the 0.10 level**

The data in Table 4 indicates that the statements that SDs enable the firm to conserve cash, that cash dividends provide better signals than SDs, and that SDs increase trading liquidity (frequency of trading ) of the stock receive the highest three rankings. On the other hand, the statements that the costs of issuing SD have a great impact on SDs decisions and that SDs reduce both government demand for lower profit and employees demand for higher wages receive the lowest rankings. Both respondents in investment and real estate sectors gave the highest ranking to the statement that SDs enable the firm to conserve cash. In banking sector, the statement that SDs make shares more attractive to investors was given the highest ranking (4.21), while in the service sector the highest ranking was given to the statement that the institutional investor understand exactly what SDs accomplish. The statement that SDs increase trading liquidity of the stock earned the highest ranking (4.40 ) by industrial firms. Except for the investment sectors, the other four sectors gave the lowest ranking to the statement that costs of issuing SDs have a great impact on SDs decision.

In addition, we investigated whether perceptions of respondents with respect to the relative importance of reasons of declaring SDs by Kuwaiti companies are significantly different between the five business sectors. The following null hypothesis was developed:

*H1: The importance placed on various reasons for the declaration of SD does not differ between the five business sectors.*

To test H1, we performed the nonparametric Kruskal-Wallis statistical test which detects any significant differences between the perceptions of respondents in the five sectors. Asterisks in Table 4 denote those reasons whose relative importance ratings are statistically different between the five respondent groups at the .01 level. The results in Table 4 indicate that the five groups are in complete agreement with respect to the degree of importance of 25 ( 78 percent ) of the 32 reasons. Of these 25 reasons, SD enables the company to conserve cash, SDs do not provide good signal to the market as cash dividends do, and SDs increase trading liquidity of the stock received high important ratings by all five groups. In addition, the statements that SD reduces both government demand for lower profit and employees demand for higher wages, that the costs of issuing SD have great impact on the SD decision, and that SDs , by increasing the number of shareholders, increase the sales volume of company's products to shareholders are perceived to be of very little relevance for the decision to distribute SDs by all five groups.

On the other hand, Table 4 indicates that the five groups differ significantly on the degree of importance of 7 ( 22 percent ) of the 32 reasons. Of the 7 reasons, two received high importance ratings by all five groups: institutional investors understand exactly what a SD accomplishes and SDs make shares more attractive to investors by lowering the stock price and increasing the number of shares outstanding. Finally, low importance ratings were given by all groups to the statements that SDs are declared because they are fashionable and that SD will facilitate the sale of new equity capital. These findings suggest that the null hypothesis that the importance placed on various reasons for the declaration of SD does not differ between the five business sectors is accepted at the 0.10 significant level.

***Importance Ratings of Reasons of SD Declaration by Size of SD***

To investigate the effect of size of SD on importance ratings of reasons, we classified the sample according to the size of SD declared into two groups ( less than 25% and 25% or more ) and the reasons were ranked based on the relative mean importance ratings for the two groups. In addition, we investigated whether the perceptions of respondents are significantly different between the two groups.. The following null hypothesis was tested:

> *H2: The importance placed on various reasons for the declaration of SD does not differ between companies that declare small SD and that of companies that declare large SD.*

The Kruskal-Wallis statistical test was conducted to test H2. Table 5 displays the mean importance ratings and the relative important rankings for all reasons in the questionnaire by size of SD distributed. Asterisks in Table 5 denote those reasons whose relative importance ratings are significantly different between the two groups at the .01 level.

**Table 5**
**Importance Rating by Size of SD Distribution**

| NO | Statement | Small N = 52 | | Large N = 11 | |
|---|---|---|---|---|---|
| | | Mean | Rank | | Mean |
| 1. | Stock dividends keep a firm's stock price in an optimal price range | 3.42 | 10 | 3.36 | 17 |
| 2. | Stock dividends make it easier for small stockholders to purchase round lots (more shares, lower price) | 3.83 | 6 | 3.82 | 7 |
| 3. | Stock dividends increase trading liquidity (frequency of trading) of the stock | 4.02 | 2 | 4.27 | 3 |
| 4. | Stock prices will not fully adjust to occasional stock dividends thereby increase the market value of the stock | 2.48 | 29* | 3.09 | 19 |
| 5. | Stock dividends occur after an upward trend in the firm's stock price | 2.88 | 24* | 3.73 | 8 |
| 6. | Stock dividends occur after an upward trend in a firm's earning per share | 3.13 | 17 | 3.55 | 12 |
| 7. | Stock dividends make shares more attractive to investors by lowering the stock price and increasing the number of shares outstanding | 3.85 | 5* | 3.18 | 18 |
| 8. | Cash dividends provide better signals to the market than stock dividends | 3.90 | 4 | 4.09 | 4 |
| 9. | Stock dividends increase the total market value of the firm's stock | 2.94 | 21 | 3.55 | 11 |
| 10. | By reducing earnings per share, Stock dividends reduces governments demand for lower profit, and reduces demand for higher wages by employees | 2.35 | 31 | 2.45 | 31 |
| 11. | Stock dividends enable management to express its confidence in the firm to the shareholders | 3.35 | 14 | 3.64 | 10 |
| 12. | Stock dividends enable the firm to conserve cash | 4.15 | 1 | 4.27 | 2 |
| 13. | The costs of issuing stock dividends (e.g. administrative) have great impact on stock dividends decision | 2.25 | 32 | 2.00 | 32 |
| 14. | Stock dividends strengthen a firm's equity base by enhancing the marketability of its shares | 3.63 | 8 | 3.55 | 13 |
| 15. | Stock dividends increase the number of firm's shareholders | 3.27 | 15 | 2.73 | 26 |

| | | | | | |
|---|---|---|---|---|---|
| **16.** | Stock dividends are more attractive to shareholders because they can later sell the shares for cash | 3.38 | 12 | 3.45 | 14 |
| **17.** | Stock dividends are declared because they are fashionable | 2.88 | 23 | 2.64 | 30 |
| **18.** | Stock dividends and reduction in cash dividends, provide a cheaper way to raise capital for expansion | 3.46 | 9 | 3.64 | 9 |
| **19.** | Stock dividends is a substitute for cash dividends | 2.79 | 25 | 2.64 | 29 |
| **20.** | By increasing the number of shareholders, stock dividends will facilitate the sale of new equity capital | 3.04 | 19 | 2.73 | 25 |
| **21.** | Your firm issues stock dividends due to concerns that a change in dividend ratio or termination of stock dividends after along term of stock dividend policy may provide a negative signal to investors | 2.88 | 22 | 2.64 | 28 |
| **22.** | Stock dividends send a positive signal to investors about the firm's future prospects, which leads to a favorable market reaction on a firm's stock price | 3.37 | 13 | 3.82 | 6 |
| **23.** | By increasing the number of shareholders, stock dividends increase the sales volume of company's products to shareholders | 2.42 | 30 | 2.73 | 24 |
| **24.** | Your firm issues stock dividends due to liquidity constraints (e.g. in availability of cash) because it conserves cash | 3.40 | 11 | 3.36 | 16 |
| **25.** | Your firm issues stock dividends due to investment considerations (e.g. keeping cash for profitable investments) | 3.67 | 7* | 4.45 | 1 |
| **26.** | Stock dividends are often issued because of shareholders' pressure on the company | 2.98 | 20 | 3.00 | 21 |
| **27.** | Some stockholders prefer a stock dividend instead of a cash dividend | 3.15 | 16 | 3.45 | 15 |
| **28.** | A stock dividend gives the company free publicity in the financial press | 2.73 | 27 | 2.82 | 23 |
| **29** | Individual investors understand exactly what a stock dividend accomplish | 2.75 | 26 | 2.91 | 22 |
| **30** | Institutional investors understand exactly what a stock dividend accomplish | 3.98 | 3 | 4.00 | 5 |
| **31** | Stock dividends are purely cosmetic (don't affect the firm's cash flows and shareholders retain their proportionate share) | 3.13 | 18 | 3.09 | 20 |
| **32** | Substituting stock dividends for cash dividends is a sign that the company is doing poorly | 2.56 | 28 | 2.64 | 27 |

*** Significant at the 0.10 level**

The data in Table 5 shows that respondents whose firms declared small SDs gave the highest ranking ( 4.15 ) to the statement that SDs enable the company to conserve cash. On the other hand, respondents whose firms declared large SDs gave the highest ranking (4.45 ) to the statement that SDs are issued due to investment consideration ( e.g. keeping cash for profitable investment ). The two respondent groups, however, gave the lowest rating to the statement that costs of issuing SDs have great impact on SDs decisions.

The results of Kruskal-Wallis test indicated that respondents of the two groups did not differ significantly regarding the degree of importance of 28 ( 87.5 percent ) of the 32 statements. Of theses 28 statements, SDs enable the company to conserve cash, SDs increase trading liquidity of the stock, institutional investors understand exactly what a SD accomplishes, and cash dividends provide better signals to the market than SDs. Received four of the highest five ratings by the two groups. In addition, the statements that the costs of issuing SDs have great impact on SDs decisions, SDs reduce demand both by government for lower profits and by employees for higher wages, and that SD is a sign that a company is doing poorly earned three of the lowest five ratings by the two respondent groups.

On the other hand, the test dictated significant differences between the two groups on the degree of importance of 4 (12.5 percent ) of the statements. Three of these four statements have lower average ratings by respondents of companies that declared small SDs than that by those of companies that declared large SDs, e.g. stock prices will not fully adjust to occasional SDs, thereby increase the market value of the stock, SDs occur after an upward trend in the firm's stock price, and SDs are issued due to investment considerations. This result is expected, as the distribution of small SDs believed to have a lesser impact on stock prices. In general, the findings suggest that H2 is accepted at the 0.10 significant level.

***Limitations***

In addition to the typical limitations that exist in a survey study, our survey is subject to several others. First, the sample size is small; the study investigates managers views regarding the decision to declare SDs by corporation in Kuwait, which is a small country that have a relatively small number of firms. Second, the number of respondents from real estate, banking, service, and industrial firms was relatively low. As a result, we caution the readers in drawing conclusions from the findings of these sectors. Finally, the list of reasons or statements included in the questionnaire is not as comprehensive as it could have been; the study focuses on reasons believed to e the most relevant to Kuwait.

# Conclusions

This study investigated perceptions of top managers of Kuwaiti companies regarding factors that affect their companies' decisions to distribute SDs. We distributed a questionnaire listing 32 statements that explain reasons for the distribution of SDs to a sample of 120 randomly selected top managers and 73 responses were returned ( representing a 61% response rate ). Participants were classified according to ( 1 ) business sector ( investment, real estate, banking, service, and industrial ), and (2 ) size of SD ( small ( less than 25% ) and large ( 25% or more )). Nonparametric statistical tests were conducted to analyze the data. The results of the entire sample indicated that respondents agree to the importance of 21 of the 32 reasons in explaining their companies' choice to distribute SDs. The justification that SDs enables the company to conserve cash received the highest mean ranking of 4.14. On the other hand, respondents did not perceive the costs of issuing SDs to have a great impact on SDs decisions. This factor received the lowest mean ranking of 2.26.

In addition, the results of the Kruskal-Wallis test showed that participants from all group of firms were in complete agreement with respect to the degree of importance of 25 ( 78 percent )of the 32 reasons. Of theses 25 reasons, 4 received high importance ratings by all groups: SDs enable the company to conserve cash, cash dividends provide better signals to the market than SDs, and SDs increase trading liquidity of stock. Also, the findings indicated no significant differences in 28 ( 87.5 percent ) of the 32 reasons between participants of companies that declared small SDs and those of companies that declared large SDs. Of these 28 reasons, 2 received two of the highest three rating by the two groups: SDs enable the firm to conserve cash and SDs increase trading liquidity of the stock.

The findings of this study are important to investors, creditors, and financial analysts in Kuwait. Understanding the factors that affect Kuwaiti companies' SDs decisions would help in better predicting the timing, impact, and the size of SDs to be declared.

Further research could cover companies in the other Gulf countries in order to increase the sample size on one hand, and to detect any differences in the factors that influence the decision to declare SD between different countries in the region. This research may further investigate the effect of firm size on the SD choice, and seek to survey opinions of different classes of constituencies of financial reporting environment.

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