

Managers' Perception towards Dividends and Dividend Policy—Evidence from Bangladesh

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Abstract

Dividend policy has been one of the most important research topics in modern corporate finance. From the practitioners' viewpoint, dividend policy of a firm has implications for investors, managers, lenders and other stakeholders. The current study aims to examine critically the managers' perception towards dividends and Dividend Policy of companies listed on Dhaka Stock Exchange (DSE) of Bangladesh. The study employed a practical survey on the perception of managers' of twenty four companies to test the behavior of Bangladeshi listed firms towards dividend payout policy. Investigation of different dividend theories reveals that the bird-in-hand theory and the relevant value theory receive the highest support among the surveyed managers. It is also evident from the analysis that external factors related to the current financial market crises together with the state of the capital market and restrictions imposed by debt providers are all important factors in formulating dividend policy. The current study extends limited previous research based on questionnaire and survey related dividend policy. It thus provides new evidence from an emerging and fast growing economy like Bangladesh.

Keywords

Managers' Perception, Dividends, Dividend Policy, Bangladesh

1. Introduction

Dividend is commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership (Baker et al., 2007). Dividend is a way for companies to reward shareholders for their investment and risk bearing. Besides, dividend also gives shareholders extra returns

in addition to capital gains. Normally, dividend is distributed in three ways such as cash dividend—paid in the form of cash; stock dividend—an issue of additional shares to shareholders; and share repurchase—paid at the time of liquidation of the firm (Moyer et al., 1995). Dividend is decided upon and declared by a company after considering various decisive factors like type and desires of shareholders, need for future expansion, nature and type of business, age of a company, current profitability, liquidity position etc. However, the extent of the influence of these factors varies from company to company. Hence, a company is required to study these factors while framing the suitable dividend policy. From the practitioners' viewpoint, dividend policy of a firm has implications for investors, managers, lenders and other stakeholders. For investors, dividends whether declared today or accumulated and provided at a later date are not only a means of regular income, but also an important input in valuation of a firm. Similarly, managers' flexibility to invest in projects is also dependent on the amount of dividend that they can offer to shareholders as more dividends may mean fewer funds available for investment. Lenders may also have interest in the amount of dividend a firm declares, as more the dividend paid less may be the amount available for servicing and redemption of their claims (Reddy, 2002). Similarly, on the side of shareholders, always there is a liking for regular income in the form of dividends as the present value of money is considered to be more than its future value, that is, supporters of Bird-in-hand Theory. The dividend policy must be explained by the judgment of the economic man as they are on the management's and the investors' side of the dividend decision. A large volume of empirical work shows the impact of dividend on firm's value but the researchers and academicians have failed to show this impact with due consideration to any of the economic prudence. The basic logic is that without understanding the motivation for paying dividend and the shareholder's want of dividend, one can never understand the phenomenon in real terms. Perception is the initial step to know about motivation in terms of the meaning of dividends for financial decision makers, and ultimately, to the shareholders. In his classic work, Black (1976) could find no convincing explanation of why companies pay cash dividends to their shareholders and thus, referred it as "dividend puzzle". Researchers have followed two major paths in trying to explain why firms pay dividend. The first and most traveled path is to develop and test various theories to explain the dividend puzzle. The second path is to survey managers about their views toward possible reasons underlying dividend decisions.

The main purpose of the study is to critically examine the managements' perception towards dividends and dividend policy practiced in Bangladesh. This study tries to explore the views of corporate managers' of the companies listed on Dhaka Stock Exchange (DSE) of Bangladesh towards dividends and dividend policy with the help of a questionnaire survey. Literature in this area is scanty in numbers and partial in content. Although a significant number of surveys explored managers' perception of dividend policy in the developed economies but no significant research has been undertaken regarding the views of corporate managers' towards dividend policy in emerging economies in general and Bangladesh perspective in particular. It is necessary to conduct a study to examine the managements' perception towards dividends and dividends policy in Bangladesh.

2. Literature Review: Dividends and Dividend Policy Perception

Several studies discuss dividend theories and individual preferences, about dividend. Baker & Phillips (1993) surveyed managements' views on stock dividends. The major findings of the survey were that managers strongly agree stock dividends have a positive psychological impact, managers believe stock dividends enable them to express their confidence in the enterprise's future prospects, and the dominant motive for paying stock dividends is to maintain the enterprise's historical practice. DeBonds & Thaler (1995) point that some firms prefer to pay cash dividends, however, some prefer to pay stock dividends. Due to the advantage of lower transaction cost, stock dividends can prove more beneficial. Baker & Powell (2000) investigated the views of corporate managers of major US enterprises about the factors influencing dividend policy. They concluded that the most important determinants of an enterprise's dividend policy were the level of current and expected future earnings and the pattern or continuity of past dividends.

Manandhar (2002) surveyed the views of corporate executives on dividend policy and practice of corporate enterprises in Nepal. The major findings of the survey were that dividend decision was considered as discretionary decision, and lack of timely disclosure of relevant financial information and low rate of dividend payment are the major causes to the declining investors' confidence in the stock market. Pradhan & Adhikari (2003) surveyed the views of financial executives of 50 large Nepalese enterprises. The survey findings, among others, revealed that major motive for paying cash dividends is to convey information to shareholders about favorable

prospects of the enterprise and dividend decision is not a residual decision. [Brav et al. \(2005\)](#) surveyed 384 chief financial officers and treasurers to determine key factors that drive dividend and repurchase policy. The survey unveiled that, except under extraordinary circumstances, managers have a strong desire not to cut dividends. As a result, for enterprises that pay dividends tend to be smoothed from year to year and linked to sustainable long-run changes in profitability. [Basnet \(2007\)](#) surveyed the views of managers on dividend policy of Nepalese enterprises listed at Nepal Stock Exchange Ltd. The survey revealed that level of current and expected future earnings, liquidity constraints, projection about future state of the economy are the important factors in setting the enterprise's dividend policy in Nepal.

[Mizuno \(2007\)](#) surveyed the views of corporate managers on payout policy of Japanese enterprises listed in Tokyo Stock Exchange. The analysis of the responses obtained from 69 enterprises revealed that on payout policy enterprises put higher emphasis on dividends than on share repurchases, enterprises attach more importance to stable dividends than to performance linked dividends, and corporate managers recognize the relationship between dividends and an enterprise's value. [Shah \(2009\)](#) surveyed the views of 60 financial executives on practices of dividend policy in Nepal. The results revealed, among others, stability of earnings, level of current earnings, and pattern of past dividends are the three important factors in order of their importance determining dividend policy of corporate sector. [Khan et al. \(2011\)](#) surveyed the opinions of finance directors of some foreign companies listed in Karachi stock exchange in order to visualize their view about the dividend decision. The survey result indicates that the firms give importance to the dividend as it was in past and the growth is considered at time of declaration of dividend; the dividend decision is influenced by the competitor policy and the fear of signaling of shortage of profitable investment; and the results demonstrate that foreign listed companies are more concerned with dividend policy.

[Alshammari \(2012\)](#) surveyed the corporate managers of 123 Kuwaiti firms listed in the Kuwait Stock Exchange (KSE) in order to look into what affects dividend policies in Kuwait. The major findings of the survey were that future earnings was a paramount factor that affects the level of current dividends and the level of current liquidity is another important factor affecting dividends in Kuwaiti listed firms. [Baker & Powell \(2012\)](#) surveyed managers of dividend-paying firms listed on the Indonesian Stock Exchange (IDX) to learn their views about the factors influencing dividend policy, dividend issues, and explanations for paying dividends. The evidence showed that managers view the most important determinants of dividends is the stability of earnings and the level of current and expected future earnings. The evidence also showed that managers of Indonesian firms perceive that dividend policy affects firm value.

[John \(2013\)](#) surveyed the opinions of managers on factors influencing dividends decision in Nigerian listed firms. The survey revealed, among others, that pattern of past dividends, the level of current earnings, current degree of financial leverage, availability of alternative source of capital, liquidity constraints such as availability of cash, growth and investment opportunities have a significant influence on dividend decision in Nigerian firms. [Naser et al. \(2013\)](#) surveyed the managers of the companies listed on Abu Dhabi Securities Exchange. The survey reveals, among others, that external factors related to the economic conditions together with the state of the capital market and lending conditions are all important factors in formulating dividend policy, and restrictions imposed on them by debt providers together with current financial market crises are the most important factors that affect their dividend policy.

3. Rationale of the Study

Given the diversity in corporate objectives and environments, it is conceivable to have divergent dividend policies that are specific to firms, industries, markets or regions. Through the research an attempt has been made to suggest how dividend policy can be set at micro level. Finance managers would be able to examine how the various market frictions such as asymmetric information, agency costs, taxes, and transaction costs affect their firms, as well as their current claimholders, to arrive at reasonable dividend policies. Previous research studies have focused on dividend payout pattern and policies of developed markets, which may not be applicable for emerging markets like Bangladesh having different cultural values, traits, norms, beliefs, religion, life style etc. However, it is still not apparent what the dividend payment pattern of firms in Bangladesh is. Very few studies have analyzed the dividend behavior of corporate firms in the context of Bangladesh.

The main objective of this study is to empirically examine the dividend payout scenario in Bangladesh with respect to internally practiced dividend models. This study wants to see whether dividend policy of the sample

enterprises can reflect their performance or not. The study, therefore, examines if there is a correlation between dividend policy and market performance of the sample companies and what type of correlation exists and how strong it is. In such a context an attempt has been made to undertake an in-depth study on corporate dividend decision in Bangladeshi firms.

The study seems to carry an enormous academic value since no extensive study has been undertaken on this aspect of the problem. Further, for the dividend policy makers of the Bangladeshi industry, the study may prove to be useful for re-sketching their dividend policy keeping in view the analysis, results and discussions that have been presented. Through this research one can have better understanding of the factors that should systematically affect firms' payout decisions. This study will contribute to the growing body of survey research on dividend policy and will also be helpful to the corporate managers, the government, the researchers and the national policy makers, who have been making serious endeavor to develop the Bangladesh economy for sustainability.

4. Data Collection and Methodology of the Study

The study has been conducted mainly based on the primary data but secondary data has also been used in the study. In order to collect primary data a set of questionnaires has been developed in the light of the objectives of the study. The set of questionnaires, containing 25 questions, has been used for interviewing the 124 Chief Financial Officers (CFOs) of the sample enterprises that are listed with DSE to extract managements' views on dividend payments and its effect on firm value. The questionnaire consists of different aspects of dividend payout policy of a firm like statements about the importance of various functions that each of the firm used in determining its dividend policy, and statements about theoretical issues involving corporate dividend payout policy, economic performance, including items as the firm's dividends and earnings per share. Before preparing the final questionnaire, a pilot survey has also been conducted in order to test the validity and relevance of the questions.

A total of 124 companies have been identified as the samples for the study. The samples have been taken from the sixteen largest sectors in Bangladesh, namely, Bank, Cement, Ceramic, Engineering, Financial Institutions and Investment, Food and Allied, Fuel and Power, Insurance, Information Technology, Jute and Textile, Paper and Printing, Pharmaceuticals and Chemicals, Service and Real Estate, Tannery and Footwear Industries, Textile and Miscellaneous industries. In this study the researcher has excluded the firms which have no time series data from the year 2001 to 2012, and those with negative or missing financial information. Companies with negative equity have also been removed from the study sample, in line with research of [Fama & French \(2001\)](#), and [Denis & Osobov \(2008\)](#). Finally, the researcher has retained those firms which have non-negative payout ratio because of difficulty in interpreting a negative value. Secondary data and information relevant to this study have been collected from available publications including journals, and related articles have been consulted for the theoretical development of the study.

The data and information thus collected have been processed manually as well as through personal computer. Statistical tools, namely, mean, percentage, 5-point Likert-type-scale, etc. have been used in the study. The data and results of the study have been analyzed critically in order to make the study more informative, useful and acceptable to the readers, academicians, capital market analysts, policymakers, and those people who are devoted to the development of business industry in Bangladesh.

5. Result and Descriptions

This study aims to provide an overview of general findings based on the questionnaire as well as to discuss the results that have been achieved during this study. The study has been conducted to explore the ideas of management regarding type of dividend, importance of dividend, preference of dividend, reasons for preferences, dividend impact on tax and other purposes. Descriptive Statistics have been used to carry out the data analysis. However, the major findings of the study and their analyses about the perception of managers' regarding dividend are presented below.

5.1. Managers' Preference towards Dividend Policy Fixation Authority

The study has made an attempt to identify the right authority of dividend decision. Cent percent (100%) respondents confirm that the board of directors is the main authority to make dividend decision in the sample compa-

nies of Bangladesh. The observation is presented in **Table 1**.

Table 1. Managers' preference towards dividend policy fixation authority.

Policy Maker	Percentage
Financial manager	0%
Chief Accountant	0%
Finance Director	0%
Board of Directors	100%

Source: Field investigation.

5.2. Managers' Preference towards the Types of Dividend Paid to the Investors

The study has made an attempt to explore the managements' preference towards the types of dividend paid to the shareholders. The dividend policy should be designed considering the convenience of corporation as well as the requirements of shareholders. The study has identified the managers' preference that is listed in **Table 2**.

Table 2. Managers' preference towards dividend types.

Dividend Types	No of Respondents (in percent)
Cash dividend	48%
Stock dividend	16%
Stock & Cash dividend	36%

Source: Field investigation.

Table 2 reveals that 48 percent of corporate management respondents prefer cash dividend, 16 percent of respondents report that they prefer stock dividend and 36 percent of respondents opine that they prefer both stock and cash dividends.

5.3. Reason for Selecting Various Types of Dividends by Management

The study investigates the reason of dividend type used by the management of the corporation. The study result has presented in **Table 3**.

Table 3. Reason for selecting dividend types by management.

Dividend Types	No of Respondents (in percent)
Requirement of shareholders	56%
More flexible	16%
Others	28%

Source: Field investigation.

Table 3 shows that 56 percent corporate respondents make dividend decision considering the requirements of shareholders, 16 percent of respondents declare dividend due to more flexible of earnings and 28 percent of respondents opine that the corporation declare dividend due to other reasons that are not included in the closed question.

5.4. Basis of Selecting the Dividend Policy by Management

The study has been conducted to know how management identifies the shareholders' preference on dividends. 56 percent respondents of the study reveal that the preferences of shareholders on dividend are determined by the study and the remaining 44 percent of respondents do not conduct any study on preferences of dividends to shareholders. The 52 percent of respondents also report that dividend has impact on firm's tax policy and 48 percent of respondents opine that dividend has no impact on firm's dividend policy. The study results have been presented in **Table 4**.

Table 4. Basis of selecting dividend policy.

Statement	Response	
	Yes	No
Studying shareholders' preference on dividend	56%	44%
Dividend impact on firm's tax policy	52%	48%

Source: Field investigation.

5.5. Managers' Perceptions on Various Statements of Dividend

Dividend theories are relevance and irrelevance. Miller and Franco Modigliani (MM) argued that the firm's value is determined only its basic earning power and its business risk and the dividend policy has no effect on either the price of share and cost of capital. The dividend policy is irrelevant. As Gordon (1962) developed a dividend relevance model that states the market value is related to dividend policy there is direct relationship between dividend policy and market value of share. An attempt has been made to show the management's perception of sample companies regarding dividend theories. The study results are shown in the following tables.

5.5.1. Managers' Perceptions on Various Statements of Dividend Theories

Managers of the listed companies in DSE were asked to express their level of agreement with various theories of dividend. A summary of the analysis of their answers is presented in Table 5. It is clear from Table 5 that the

Table 5. Managers' perceptions on various statements of dividend theories.

Statement	1	2	3	4	5	Total	Mean	Rank
Dividend policy is relevant to market price	15	0	57	200	200	471	3.81	8
Dividends affect the common stock price	10	10	45	236	175	476	3.84	7
Dividends provide signal to investors about company's performance	0	0	60	160	320	540	4.35	1
Investors are indifferent between returns from dividends and capital gains	0	20	60	140	295	515	4.15	2
A firm should formulate its dividend policy to produce maximum value for its shareholders.	5	20	45	156	275	501	4.04	3
Increasing dividends will reduce shareholders' control over management	0	78	48	176	125	427	3.44	16
A firm's investment, financing and dividend decisions are interrelated	0	40	75	196	150	461	3.72	11.5
A company develops its dividend policy based on the dividend tax effect on shareholders	0	20	87	260	100	467	3.77	9.5
A firm's dividend policy generally affects its cost of capital	10	48	45	160	175	438	3.53	15
Paying dividends forces a firm to seek more external financing	0	28	75	240	125	468	3.77	9.5
The company takes a dividend decision, despite being under the control of external financiers	0	80	75	180	70	405	3.27	17
Dividends encourage a firm's manager to act in the interest of the firm's outside shareholders	0	60	42	220	125	447	3.60	14
Investors generally prefer cash dividends today due to uncertain future price appreciation	0	10	75	256	150	491	3.96	4.5
A firm should review cash dividend as a residual after funding desired investments from earnings because dividend policy is less important than investment policy	0	50	57	180	175	462	3.72	11.5
A firm's expenditures on new capital investments generally affect its dividend policy	0	40	27	200	225	492	3.96	4.5
Cash dividends are considered as fixed cost of equity	0	40	30	200	220	490	3.95	6
Cash dividends weaken the company's financial flexibility and liquidity	0	20	105	240	95	460	3.71	13

Source: Field investigation.

surveyed managers support almost all dividend policy theories as reflected by the mean of the population. The surveyed managers, however, showed a highest agreement with the proposal that investors “generally prefer dividends today due to uncertain future price appreciation”. This is a clear support to the bird-in-hand theory. It should be noted here that surveyed managers ranked this theory as being first. The surveyed managers also expressed high support to the proposal that dividend policy affects corporate cost of capital and corporate value. On the other hand, proposals such as dividend policy should strike a balance between current dividend and future growth than maximizing share prices and the firm should review cash dividend as a residual after funding desired investment from earning received the lowest agreement among the surveyed managers. The outcome of the analysis is not totally consistent with the results achieved by Baker et al. (2007) which showed that the Canadian managers do not support the bird-in-hand theory. The moderate support to the residual theory reported in the current study seems to be consistent with that reported by Baker et al. (2007).

The study investigates the management’s perception of sample companies on dividend theories. The most of respondents reported that dividends provide signal to investors about company’s performance which has been ranked as number 01 by investors. A good significant number of respondents opined that investors are indifferent between returns from dividends and capital gains which have been identified as number 02. A considerable number of respondents also reported that a firm should formulate its dividend policy to produce maximum value for its shareholders. This has been marked as number 03 in the study. A good number of respondents revealed that Investors generally prefer cash dividend today due to uncertain future price appreciation. The respondents also opined that a firm’s expenditures on new capital investments generally affect its dividend policy. These have been ranked as number 4.5. A very significant number of respondents felt that cash dividends are considered as fixed cost of equity which has been ranked as number 06. A significant number of respondents discoursed that dividends affect the common stock price which has been ranked as 07. A large number of respondents also opined that Dividend policy is relevant to market price which has been ranked as 08. A satisfactory number of respondents proponent that a company develops its dividend policy based on the dividend tax effect on shareholders they want dividends and also said that Paying dividends forces a firm to seek more external financing which have been traced out as 9.5 in rank. A good number of respondents opined that a firm’s investment, financing and dividend decisions are interrelated and a firm should review cash dividend as a residual after funding desired investments from earnings because dividend policy is less important than investment policy. These have been ranked in number of 11.5. A good number of respondents mentioned that cash dividends weaken the company’s financial flexibility and liquidity which have been identified as number 13. A significant number of respondents felt that dividends encourage a firm’s manager to act in the interest of the firm’s outside shareholders which has been ranked in 14. An average number of respondents recommended that a firm’s dividend policy generally affects its cost of capital which has been ranked in number 15. The respondents also opined that increasing dividends will reduce shareholders’ control over management and companies take dividend decision, despite being under the control of external financier. These have been shown in ranking of 16 and 17 respectively.

5.5.2. Managers’ Perception on Factors Affecting Corporate Dividend Policy

Various factors advanced in the literature to explain dividend policy have been given to respondents and their answers is summarized in Table 6. It is evident from Table 6 that there is high a degree of consensus among the surveyed managers on the importance that they assign to the factors that influence their decision about dividend policy. This result has been reflected by the resulted ranks of the means and χ^2 . The participants attach high level of importance to all factors included in the questionnaire.

This can be clearly observed by the reported mean of the population since none of the reported means was lower than 4.0. In other words, the surveyed managers attach a certain level of importance to these factors. However, the surveyed managers attach high level of importance to factors such as contractual constraints as dividend restriction on debt contracts, financing considerations as the cost of raising external funds (debt and equity), projection about the future state of the economy; desire to conform to the industry’s dividend payout ratio and concern about the effect on share price. Yet, the participants in the survey attach less importance to factors such as stockholders characteristics like the marginal tax rates of the firm’s current shareholders, expected rate of return on the firm’s assets, signaling incentives such as using dividend changes to convey information to the financial market, desire to avoid giving a false signal to investors by changing the dividend, needs of current shareholders such as desire for current income and preference to pay dividend instead of undertaking risky in

Table 6. Managers' perceptions on factors affecting corporate dividend policy.

Statement	1	2	3	4	5	Total	Mean	Rank
Stability of earnings affects corporate dividend policy	5	30	60	236	125	456	3.68	18
Patterns of past earnings affects corporate dividend policy	0	20	42	320	100	482	3.88	12.5
Level of current earnings affects corporate dividend policy	0	10	30	256	225	521	4.20	1
Level of expected future earnings affects corporate dividend policy	30	50	162	60	0	302	2.43	19
Current degree of financial leverage affects corporate dividend policy	0	10	15	300	195	520	4.19	2
Availability of alternative sources of capital affects corporate dividend policy	4	10	57	240	175	486	3.92	10
Expected rate of return on the firm's assets affects corporate dividend policy	0	8	75	280	125	488	3.94	9
Inflation affects corporate dividend policy	0	30	57	220	175	482	3.88	12.5
Tax policy of the firm affects corporate dividend policy	5	18	30	280	150	483	3.90	11
Dividend reinvestment plan affects corporate dividend policy	0	28	15	300	150	493	3.97	6.5
Preference of investors affects corporate dividend policy	0	20	72	260	125	477	3.85	14
Capital market consideration affects corporate dividend policy	0	10	42	240	220	512	4.13	3
Considering the current income of the shareholders affects corporate dividend policy	0	38	75	180	175	468	3.77	17
Constraint of debt contracts on dividend affects corporate dividend policy	0	18	60	180	250	508	4.10	4
Preference to pay dividend instead of undertaking risky investment affects corporate dividend policy	10	20	72	200	170	472	3.81	15
Legal rules and constraints affects corporate dividend policy	0	20	42	280	150	492	3.97	6.5
Financing considerations such as the cost of external capital affects corporate dividend policy	0	50	30	216	175	471	3.80	16
Investment considerations such as the availability of profitable investment opportunities affects corporate dividend policy	0	10	45	336	100	491	3.96	8
Personal tax of the shareholders affects corporate dividend policy	4	30	45	120	300	499	4.02	5

Source: Field investigation.

vestment. The result of the analysis showed that external factors are more likely to influence managers, of companies listed on Abu Dhabi Securities Exchange, decision about dividend policy. The outcome of the analysis reflects the effect of the international financial crisis that struck the world at the end of 2008 and early 2009. Since that time, lending institutions became more conservative and imposed strict lending rules. It is not, however, surprising to see a factor such as the marginal tax rate of the shareholder as being the least important one since tax is not paid on dividend or capital gains in Abu Dhabi. In addition, the surveyed managers clearly indicated that they do not use tax policy to signal information about their capabilities. Part of the result of the analysis is not consistent with Baker et al. (2007) who reported that Canadian managers use dividend payout as a signaling mechanism.

The study was conducted to examine the dividend model practices in sample companies. There is a part in the questionnaire to identify the factors that affect corporate dividend policy. A very significant amount of respondents reported that current level of earnings affects corporate dividend policy which has been ranked as number 01 by investors. A good significant number of respondents opined that the current degree of financial leverage in the capital structure affects corporate dividend policy which has been identified as number 02. A good numbers of respondents recommended that Capital market consideration affects corporate dividend policy which has been ranked in number 03. A considerable number of respondents also reported that an influential number of respon-

dents also reported that constraint of debt contracts on dividend affects corporate dividend policy. This has been marked as number 04 in the study. The respondents also opined that personal tax of the shareholders affects corporate dividend policy. The companies design dividend policy considering the personal tax effect on shareholders' income. This has been found in number 05. A good number of respondents revealed that Dividend reinvestment plan and Legal rules and constraints affect corporate dividend policy which has been ranked in number 6.5. A significant number of respondents discoursed that Investment consideration such as the availability of profitable investment opportunities affects corporate dividend policy which has been ranked as 08. A large number of respondents opined that Expected rate of return on the firm's assets affects corporate dividend policy which have identified as number 09. The respondents also recommended that Availability of alternative sources of capital affects corporate dividend policy. This has been sequentially marked as 10. A good number of respondents also revealed that Tax policy of the firm affects corporate dividend policy which has been traced out as 11 in rank. A number of respondents opined that patterns of past earnings and also inflation affect corporate dividend policy which has taken 12.5 positions in rank. A number of respondents made comment that preference of investors affects corporate dividend policy. This has been ranked in number of 14. A number of respondents felt that Preference to pay dividend instead of undertaking risky investment affects corporate dividend policy dividends which has been ranked in 15. The respondents also opined that financing considerations such as the cost of external capital affects corporate dividend policy which has been taken 16th in the ranking. Considerable respondents also felt that considering the current income of the shareholders affects corporate dividend policy which has been identified as number of 17. A number of respondents also opined that Stability of earnings affects corporate dividend policy. This has been ranking in 18th position. A few number of respondents said that level of expected future earnings affects corporate dividend policy which been shown in ranking 19.

5.5.3. Managers' Perception on Patterns of Dividend and Dividend Lifecycle

Baker et al. (2002) indicated that you cannot understand the dividend payout puzzle unless you know the pattern of dividends payout decisions. This can be mainly achieved by directly asking the managers. It was, therefore, important to ask the managers of companies listed on DSE about the pattern that they follow when they formulate their dividend policy. Analysis of their answers is summarized in Table 7. It is clear from Table 7 that there is a consensus among the surveyed managers across all sectors of the economy that a significant and positive relationship exists between earnings and dividend policy. They indicated that changes in dividend payout generally lag behind earnings and dividend payout follows smoother path than earnings. This result is similar to that reported by Baker et al. (2007).

The pattern of dividends is correlated with corporate life cycle. At initial stage, the corporation pays no dividends because it needs all profits for reinvestment. In the growth stage (stage-ii), stock dividends may be instituted or low dividend may be started. In the expansion stage (stage-iii), stock dividends and cash dividends may be considered for investors. In the maturity stage (stage-iv), the corporation may pay from 35 percent to 40 percent of earnings. At the declining stage, the corporation should pay 100 percent of earnings. The relationship between patterns of dividends and corporate life cycle has been investigated from management's perception of sample companies. The study would be an endeavour to examine the practices of dividend life cycle in the sample companies. A significant number of respondents reported that Dividend changes generally lag behind earnings changes which have been ranked as number 01. A good number of respondents also opined that the pattern of cash dividends generally changes over a firm's lifecycle. This has been ranked as number 02. A number of respondents reported that Dividends generally follow smoother path than earnings which has been marked as number 03.

Table 7. Managers' perception on patterns of dividend lifecycle.

Statement	1	2	3	4	5	Total	Mean	Rank
Dividend changes generally lag behind earnings changes	0	30	75	256	100	461	3.72	1
Dividends generally follow smoother path than earnings	10	50	87	180	75	402	3.24	3
The pattern of cash dividends generally changes over a firm's lifecycle	9	20	75	240	100	444	3.58	2

Source: Field investigation.

5.5.4. Managers' Perception on Dividend Setting Process

Another puzzle in dividend policy is how to set its process. Some companies may periodically adjust their dividend payout to meet a target. Other companies may need to adjust their dividend payout to reflect changes in earnings. Expectations about future dividends should be taken into account when setting the current dividend payout. Companies should also insure a stable record of dividend payout. There is a strong belief that the market places greater value to dividend rather than to dividend payout ratios. All these mechanisms used to explain dividend setting process were put for the managers of companies listed on DSE and they were asked to show the level of agreement with each of them. Analysis of their answers appears in **Table 8**.

The study is conducted to explore the management's perception on how they set the dividend policy. In a company, the optimal dividend payout ratio is a function of four factors: Investor's preferences for dividends and capital gain, the firm's investment opportunities, the firm's target capital structure, and the availability and cost of external capital. A corporation establishes the dividend policy considering these four factors. The study was an attempt to investigate the practices current dividend policy in the sample companies in Bangladesh. A very significant number of respondents reported that a firm sets its dividend decision considering long term financing availability of the firm which has been ranked as number 01. A significant number of respondents opined that a firm sets its dividend decision considering regulatory requirements which has been ranked as 02. A good number of respondents recommended that a firm should change dividends based on sustainable earnings volatility. This has been ranked as number 03. A significant number of respondents recommended that a firm's dividend policy generally affects its cost of capital which has been ranked in number 03. A considerable number of respondents also reported that the market places greater value on stable dividend than stable payout ratio. This has been marked as ranking of 04 in the study. A number of respondents revealed that Dividends can mitigate a low earnings overinvestment problem which has been ranked in number 05. The respondents also opined that a firm should set its dividend decision considering the reduction of tax impact which has been found in the ranking of 06. The respondents also made comment that a company should develop its dividend policy in the light of shareholders' needs in order to maximize company's market value preference of investors' affects corporate dividend policy. This has been ranked in number of 07. A number of respondents felt that a firm's new capital investments generally affect its dividend policy which has been ranked in 08. The respondents also opined that a firm should set a target dividend payout ratio and periodically adjust its current payout toward the target which has been taken 9th position in the ranking.

It is clear from **Table 8** that the surveyed managers agreed that they had used all processes listed in the questionnaire. The surveyed managers, however, indicated that the market places greater value on stable dividend than stable payout ratio, change in dividend is based on sustainable shift in earnings. The surveyed managers have also indicated that they take into account expenditures on new capital investment before setting their divi-

Table 8. Managers' perception on dividend setting process.

Statement	1	2	3	4	5	Total	Mean	Rank
A firm should set a target dividend payout ratio and periodically adjust its current payout toward the target	10	28	105	220	50	413	3.33	9
A company should develop its dividend policy in the light of shareholders' needs in order to maximize company's market value	5	40	72	240	75	432	3.48	7
A firm should change dividends based on sustainable shifts in earnings	0	20	60	336	50	466	3.76	3
The market places greater value on stable dividend than stable payout ratio	0	30	75	280	70	455	3.67	4
A firm's new capital investments generally affect its dividend policy	10	28	60	320	0	418	3.37	8
Dividends can mitigate a low earnings overinvestment problem	0	30	87	300	25	442	3.56	5
A firm sets its dividend decision considering regulatory requirements	0	18	45	360	50	473	3.81	2
A firm sets its dividend decision considering long term financing	0	30	42	180	250	502	4.05	1
A firm should set its dividend decision considering the reduction of tax impact	4	30	75	280	50	439	3.54	6

Source: Field investigation.

dividend policy. This is a clear indication that they support the residual theory. This result seems to emphasize results reported in that earnings play a significant role in determining dividend policy of the companies listed on DSE.

6. Conclusion, Recommendations and Future Research Scope

6.1. Conclusion

The main objective of this research is to provide empirical evidence from Bangladesh about different aspects of corporate dividend policy. To achieve this objective, a survey has been conducted to know the perception of managers' towards dividend policy models.

The result of the analysis indicates that companies' managers who participated in the survey take into consideration different relevance theories used in the literature to explain dividend policy. The theories include: residual, agency, corporate value, signaling and the bird-in-hand. However, the Bird-in-hand Theory and the relevant value theory receive the highest support among the surveyed managers. It is also evident from the analysis that external factors related to the economic conditions together with the state of the capital market and lending conditions are all important factors in formulating dividend policy of managers of companies listed with DSE. Restrictions imposed on them by debt providers together with current financial market crises are the most important factors that affect their dividend policy. The analysis also pointed out to the pattern, stability and expected earnings as being important in setting the dividend policy process. Moreover, the surveyed managers believe that the market pays more attention to the stable dividend payout rather than stable payout ratio. They also made the point that the change in dividend payout should be based on sustainable shift in earnings and the firm should strive to maintain an uninterrupted record of dividend payout.

6.2. Recommendations and Future Research Scope

Managers of corporations conduct the operations aiming at the protection of shareholders' interest. Management is often in dilemma; whether to pay dividends or to retain them for future investments with implications on share value (Mokaya et al., 2013). The designing of dividend policy is a critical task for financial managers because a number of factors such as earning capacity, availability of cash, investment opportunity, alternative source of finance and shareholders' requirement etc. have to be incorporated in building the dividend policy. From the major opinions of respondents, the study would provide some concrete recommendations for the policy making and dividend decision of listed companies on DSE in Bangladesh:

- Dividend is the part of current and past income of the corporation, the dividend policy should be guided based on the earning capacity and availability of cash in the firm;
- Dividend policy should be focused on the requirements of shareholders as well as maximizing the market value of the firm;
- The dividend distributions should be viewed as a residual income after meeting the financing requirement of new investment avenues or expansion of existing firm.

Though this study has considered the companies from all major sectors in Bangladesh, the sector wise dividend policy could be explained in future research. Dividend policy in Islamic organization verses Non-Islamic organization may be undertaken for further study. Also, further research may be undertaken to examine the relationship between dividend policy and other corporate governance mechanism like characteristics of board of directors, auditors, internal control and so on which might have influence on dividend payout decision.

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Appendix

Questionnaire: (For Financial Managers)

Section-A: Personal Information of the Respondent

1. Name of the Respondent:
2. Name of the Respondent's Company:
3. Position of the Respondent at the Company:
4. Gender of the Respondent: Male Female
5. Age:
(a) Below 35 (b) 35 – 45 (c) 46 – 55 (d) 56 – 65 (e) More than 65
6. Marital Status of the Respondent: Single Married
7. Educational qualification of the Respondent:
(a) Graduate (b) Postgraduate (c) CA (d) CMA (e) FCMA (f) Others
8. Job Experience (years):
(a) Below 5 (b) 5 – 10 (c) 11 – 15 (d) 16 – 20 (e) More than 20

Section-B: Specific Information

1. Who are entrusted with the fixation of dividend policy?
(a) Finance Manager (b) Chief Accountant (c) Finance Director (d) Board of Directors
2. Which type of dividend do you think is most important to shareholders?
(a) Cash dividend (b) Stock dividend (c) Both cash & stock dividend (d) None
3. Why do you use the above dividend type?
(a) Easy to implement (b) More flexible (c) Avoid changing previous method
(d) Requirement of shareholders (e) Others
4. Do you conduct any study about your shareholders' dividend preferences?
(a) Yes (b) No
5. Has dividend any impact on firm's tax policy?
(a) Yes (b) No

If your answer is yes, how?

6. Management's belief and Perception on the following statement (Please tick appropriately)

(1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree)

SL	Statement	Rank				
		1	2	3	4	5
6.1. Management's Perceptions on Various Statements of Dividend Theories						
6.1.1	Dividend policy is relevant to market price					

- 6.1.2 Dividends affect the common stock price
- 6.1.3 Dividends provide signal to investors about company's performance
- 6.1.4 Investors are indifferent between returns from dividends and capital gains
- 6.1.5 A firm should formulate its dividend policy to produce maximum value for its shareholders.
- 6.1.6 Increasing dividends will reduce shareholders' control over management
- 6.1.7 A firm's investment, financing and dividend decisions are interrelated
- 6.1.8 A company develops its dividend policy based on the dividend tax effect on shareholders
- 6.1.9 A firm's dividend policy generally affects its cost of capital
- 6.1.10 Paying dividends forces a firm to seek more external financing
- 6.1.11 The company takes a dividend decision, despite being under the control of external financiers
- 6.1.12 Dividends encourage a firm's manager to act in the interest of the firm's outside shareholders
- 6.1.13 Investors generally prefer cash dividends today due to uncertain future price appreciation
- 6.1.14 A firm should review cash dividend as a residual after funding desired investments from earnings because dividend policy is less important than investment policy
- 6.1.15 A firm's expenditures on new capital investments generally affect its dividend policy
- 6.1.16 Cash dividends are considered as fixed cost of equity
- 6.1.17 Cash dividends weaken the company's financial flexibility and liquidity

6.2. Management's Perceptions on Factors Affecting Corporate Dividend Policy

- 6.2.1 Stability of earnings affects corporate dividend policy
- 6.2.2 Patterns of past earnings affects corporate dividend policy
- 6.2.3 Level of current earnings affects corporate dividend policy
- 6.2.4 Level of expected future earnings affects corporate dividend policy
- 6.2.5 Current degree of financial leverage affects corporate dividend policy
- 6.2.6 Availability of alternative sources of capital affects corporate dividend policy
- 6.2.7 Expected rate of return on the firm's assets affects corporate dividend policy
- 6.2.8 Inflation affects corporate dividend policy
- 6.2.9 Tax policy of the firm affects corporate dividend policy
- 6.2.10 Dividend reinvestment plan affects corporate dividend policy
- 6.2.11 Preference of investors affects corporate dividend policy
- 6.2.12 Capital market consideration affects corporate dividend policy
- 6.2.13 Considering the current income of the shareholders affects corporate dividend policy
- 6.2.14 Constraint of debt contracts on dividend affects corporate dividend policy
- 6.2.15 Preference to pay dividend instead of undertaking risky investment affects corporate dividend policy
- 6.2.16 Legal rules and constraints affects corporate dividend policy
- 6.2.17 Financing considerations such as the cost of external capital affects corporate dividend policy
- 6.2.18 Investment considerations such as the availability of profitable investment opportunities affects corporate dividend policy
- 6.2.19 Personal tax of the shareholders affects corporate dividend policy

6.3. Management's Perception on Patterns of Dividend and Dividend Lifecycle

- 6.3.1 Dividend changes generally lag behind earnings changes
- 6.3.2 Dividends generally follow smoother path than earnings
- 6.3.3 The pattern of cash dividends generally changes over a firm's lifecycle

6.4. Management's Perception on Dividend Setting Process

- 6.4.1 A firm should set a target dividend payout ratio and periodically adjust its current payout toward the target
 - 6.4.2 A company should develop its dividend policy in the light of shareholders' needs in order to maximize company's market value
 - 6.4.3 A firm should change dividends based on sustainable shifts in earnings
 - 6.4.4 The market places greater value on stable dividend than stable payout ratio
 - 6.4.5 A firm's new capital investments generally affect its dividend policy
 - 6.4.6 Dividends can mitigate a low earnings overinvestment problem
 - 6.4.7 A firm sets its dividend decision considering regulatory requirements
 - 6.4.8 A firm sets its dividend decision considering long term financing
 - 6.4.9 A firm should set its dividend decision considering the reduction of tax impact
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