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## **Do Individual Investors in Pakistan Prefer Dividends?**

Ahmad, Baseer and Ali, Syed Babar

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# **Do Individual Investors in Pakistan Prefer Dividends?**

Baseer Ahmed and Syed Babar Ali

## **Abstract**

The question of why individual investors want dividends is investigated by submitting a structured questionnaire. The respondents indicate that they want dividends partly because the cost of cashing in dividends is lower than the cost of selling shares. Their answers provide strong confirmation for signaling and free cash flow theories. The behavioral finance theory related to stock dividend and cash dividend are also showing positive result. Finally our result indicates that individual investor use dividend as a large part of their consumption and they will not likely sell their stock just because the company fails to pay dividend on some occasion.

The dissertation contains six chapters and each chapter is a continuation to the next chapter. Chapter 1 - Introduction gives a brief overview as to what the research is about. Chapter 2 - literature Review gives an extensive amount of background information collected through secondary data. Chapter 3 - Methodology explains what type of study this is and what method was used to collect data and how was it analyzed; what was the population and sample size. Chapter 4 - Analysis and Interpretation explains with the help of tables the data collected in this research and interprets the results as well. Chapter 5 – Frequency tables are provided for viewing the responses of the respondents. Finally Chapter 6 - Conclusions and Recommendations explain the results in more detail and sums up the entire dissertation.

## **CHAPTER 1- INTRODUCTION**

### **1.1. RESEARCH OBJECTIVES**

- The objective of this study is to find out whether the individual investors in Pakistan prefer dividends over capital gain.

## **1.2. PURPOSE OF THE STUDY**

The purpose of this research is to find out the variables which are taken into account by the individual investor when they prefer cash dividend paying stocks.

## **1.3. SCOPE & LIMITATION OF THE RESEARCH**

The scope of this research is based only on the questionnaire that respondents have filled out. Due to the limited sources of data information, the analysis can be focused only on the results of the questionnaires which will lead to a very generalized and structured result. The research was only conducted in Karachi.

The respondents for this research are only individual investors who take part in the stock exchange and investment funds. The companies will be able to view the behavior of the individual investor when they are presented with certain factors related to dividends. This will help in building their dividend policy more friendly towards the individual investors and bring certainty to their common stocks.

## **1.4. JUSTIFICATION**

The reasons of conducting the research on this particular issue are:

- This research will show that what variables individuals are keeping in view in deciding the purchasing of stocks related to dividend.
- This research will also show what variables individual investors are keeping in view in preference for cash dividend over stock dividends.

## **1.5. RESEARCH QUESTION**

The question which I want to answer through this study is:

- What is the relationship between the preference of the dividend and the various variables that affect individual investors' decision?

## **CHAPTER 2 – LITERATURE REVIEW**

### **2.1. INTRODUCTION**

One of the issues that is widely debated in the corporate finance literature is the behavior of dividend policy which keeps a prominent position in developed as well as emerging markets such as Pakistan. Behavior of individual investor is the key factor in the dividend policy. Profits that are generated by the business and distributed among shareholders is called as dividend. It is a kind of reward for investors in the business. Dividends are not only a source of income for investors but also signal of company performance.

These research papers are here to determine what Pakistani individual investors believe about dividend policy. If an individual investors prefer cash dividends than what are the reasons behind his preference are not clear. Dividend policy causes consumers to behave in a particular way, and develop particular attitudes towards receiving dividends. To find out the preference we summarize the various hypotheses about investor beliefs and behavior regarding corporate dividend policy.

Individual investors when asked whether they want dividends they scored an average 4.03 on the question on a scale that ranges from 1(=Strongly Disagree) to 5(=Strongly Agree) with 3 being the Neutral score. This shows that the dividend is becoming increasingly important aspect on which the shares are being purchased by the individual investors.

Transaction cost mostly the broker commission is one of the reasons for individual to like dividends. Individual investors are heavily dependent on dividends for consumption purposes.

Investor view on the dividend paying stocks can be used by the companies to further enhance the confidence between them and their investors.

One of the findings states individual investors has strong liking for stock dividend when the company is unable to pay cash dividend that because the individual investor understand that the stock dividends are like cash dividends instead of small stock split.

## **2.2. BACKGROUND INFORMATION**

The report is focused on asking why Pakistani individual investors prefer dividends. The reasons behind the individual investors' decision are not simple because there are many variables that are accountable by the individual during his purchase of dividend paying stocks. They have the choice of directly investing in the stock exchange or they can invest indirectly by mutual fund companies. If dividends are of high priority for the individual investor then he tries to minimize the risk on the investment and also wants the steady stream of revenues to meet his consumption purposes. Mutual funds are in general bought by the individuals who want reliability in their dividends.

Besides cash dividend there is stock dividend which are also preferred by the investor for several reasons. Stock dividend reduces the cost of reinvesting. Stock dividends are like stock split but on the contrary many individual investors believe that stock dividends are like cash dividends.

It is said that individual investor could undo the dividend policy set by the management in a capital market. According to the irrelevance theory it is stated that the dividend received in present are equal to the expected stock return on shares that do not pay dividends.

In the uncertain stock market of Pakistan dividends are receiving attention because the stock market prices go up and down sharply but the amount of dividends remain fairly uniform in comparison. But at the same time dividends follow a double taxation rule which is a big hurdle in promoting dividend policy among investors.

There are many economic modeling approaches which are being taken into account for developing hypothesis and empirical investigation in dividend policy.

To find out effects of various variables related to dividend policy is to ask the ordinary families who will answer the reasons for their dividend preference more clearly than institutional investors. Institutional investor will reason their preference based on their client mood rather than their own choice.

Therefore the aim for conducting this research is to find out what Pakistani individual investors understand about dividends policy.

### **2.3. BACKGROUND OF CORPORATE DIVIDEND POLICY**

In the early sixteenth century, Holland and Great Britain sailing ships started selling financial claims to investors. This is generally regarded as the start of corporate dividends. These claims were act of authorization for investors' share in the voyage proceedings. Capital and profits earned from the voyage were then distributed among the investors thus effectively closing the life of the venture.

The success of these ventures brought credibility for investors and they became confident in managing their risk. Investors were paid in generous dividends.

The business gradually shaped itself from the ownership structure of shipping firms to joint company form of business. Following the suit British East India Company in 1613 issued their first joint stock shares at nominal value.

The importance of high and stable dividends payments was realized in very early stages of corporate history. Corporate managers quickly realized that for boosting their preferred stocks offerings they need to make mechanism where they are treated just like bonds because investors had an understanding that bonds pay regularly and they have stable interest payments. "Paying consistent dividends remained of paramount importance to managers during the first half of the 19<sup>th</sup> century" (Wood, 1997)

Dividend stability had been given very great importance in the nineteenth century by the investors. Assessments made by the investors about their corporations in the unreliable environment when their lack of available financial data caused them to analyze the trend of dividend payments instead of reported earnings. This also meant management's views about future performance are also judged by dividend policy because of inaccurate information in the market.

To summarize, dividend payments development for shareholders are tied with corporate form development. Managers of the corporate world need to realize dividend payments importance for shareholders satisfaction. Managers should go for dividends as a form of signaling device in the market rather than easing them causing increase in risk of share price which may turn out in very unfavorable for the investors.

## 2.4. DIVIDEND POLICY THEORIES

Dividend policy emergence and its continuous evolution is the result, highly driven by the financial markets. Since it was very early established in corporate dividend history that investments made in shares is kind of alternative to bonds therefore the dividends regularity was often given significant importance. Dividends importance increased even more during the irregularity of financial reporting and investors for a while preferred dividends over retained earnings. Investors disregarded reinvestments made by the company and called them as a bad indicator in corporate performance. Developments in the financial markets made them more efficient and dividend policy became increasingly irrelevant for investors. Still to this day dividend policy remains is regarded as controversial.

The three main contradictory theories of dividends can be identified.

1. Increasing dividend payments increases a firm's value
2. High dividend payouts have the opposite effect on a firm's value that is it reduces firm value
3. Dividends should be irrelevant and all effort spent on the dividend decision is wasted.

All of the arguments mentioned above referred as **'Bird-in-the-hand' argument, tax-preference argument and dividend irrelevance hypothesis.**

There are other theories contradictory theories as well which further creates problems in analyzing the dividend policy. These include information content of dividends (signaling), clientele effects, and agency cost.



### **2.4.1. Dividend Irrelevance Hypothesis**

Before the publication of Dividend Irrelevance theory, there was a general belief shares that high dividends have the right to sell their shares at high prices (Birds-in-the-hand argument). But in 1961 Miller and Modigliani's presented a theory which said that dividend policy will become irrelevant when perfect capital market is assumed.

On the basis of these papers dividend decisions affect indifferently on shareholders wealth either he chooses dividends or capital gains. In a perfect capital market it is assumed that income generated by the firm should be the reason for indifference rather than distribution of income among shareholders. Basic earning power and investment decisions determine the value rather than the way firm distributes its income. This meant that the company's dividend payout policy choices rather have no affect on the current price of its shares as well as on her total returns to shareholders.

In critics, Miller and Modigliani's assumptions are based on the assumptions that the perfect capital market exists and all of the investors are rational.

Ideal assumptions are necessary for dividend irrelevancy theory hypothesis which are as follows:

- I. Indifference of taxes on dividends and capital gains.
- II. No Incurrence of transaction and flotation costs during security trading.
- III. Market participants should have free and equal access to data in the market.
- IV. No conflict of interest between manages and share holders( no agency issue).
- V. Market participants are price takers.

Inclusion of imperfections in the market may contradict with dividend decision irrelevancy. Firm's decision about the investment and financing may interact if the dividend policy is relevant. Thus there is a whole range of reasons why dividend policy may matter after all.

#### **2.4.2. High Dividends Increase Stock Value (Birds-In-The-Hand Hypothesis)**

Valuation of retained earnings hugely differ from the valuation of dividends in the world of uncertainty and imperfect information. Preferences of investors may be based on the theory of “bird in the hand” of cash dividend instead of “two in the bush” of earnings in future. This meant payments made in terms of high dividends may help in reducing uncertainty in future earnings. This theory further says that it will help in reducing the overall structure of cost in capital because of high payout ratio and therefore will increase the share value. This theory was presented by Graham and Dodd. According to their theory they explained that retain earnings has an impact of four times by the dividends. This theory was supported by the studies of Gordon and Shapiro (1956) Gordon (1959, 1963), Lintner (1962) and Walter (1963).

In critics, the Bhattacharya (1979) called the reasoning behind this theory as fallacious. Following are the reasoning against this theory.

1. The riskiness of firm’s cash flow defines the level of dividend not the other way around.
2. Firms facing uncertainty in the future earnings should lower their payout ratios (Puckett, 1964)
3. Firm riskiness has a negative relation with the dividends. (Rozeff, 1982)
4. Payment of dividend will have impact from the firm’s risky operations. (Jensen S. a., 1992)

#### **2.4.3. Low Dividend Increases Stock Value (Tax-Effect Hypothesis)**

In perfect capital market taxes does not have an effect on earnings of the investors. In the real world taxes exist and play an important part in choice of investor in selecting either dividends or capital gains. Tax might affect their demand and supply of dividends. The managers considering the tax effect may prefer on maximizing the firm’s value thereby increasing retention ratio.

In this theory the preference is given to low payout of dividends to increase the price of stocks and in process lowering the capital cost. Dividends face higher rates of taxation than capital gains. They are subject to double taxation. Taxation occurs immediately when the dividends are paid out unlike the capital gains which incur tax on their selling. This form of advantage can cause investors to think otherwise and go for capital gains against dividends. This will led the investors to choose companies which opt for retaining decision and investors may even pay premium to make the companies consider the retention decision.

In theory stock price will increase when the equity cost is lessened by lowering the dividend ratio. This theory completely contradicts Birds-in-Hand Theory.

#### **2.4.4. Clientele Effects of Dividends Hypothesis**

This Hypothesis may sound general but at the same time it is one of the most important theories as well. As we all live in the imperfect capital market therefore the investors preferences will also be influence by these circumstances and he will ultimately end up selecting a mix of products in relate with dealing cost of transaction and other tax evasions.

M&M define that there cannot be perfect capital market until the imperfections are reduced that are cause by the investors in choosing securities because they want to reduce the cost (transaction cost and taxes). Every client is practically different from one another and based on their own situation they may opt for dividend policies that are in favor of their situations. For example companies that operate in areas of high return and have a low dividend payout ratio may be preferred by those individuals who prefer price appreciation to dividends. Similarly individual investors who want to meet their routine consumption may choose higher dividend paying shares.

#### **Tax Induced Clientele-Effects**

Individual investors are interested in after tax return and they will try to find out how dividends are being treated by the taxes compare to capital gains.

#### **Transaction Cost-Induced Clientele**

Individual investors compare the transaction cost associated with selling stocks between high retention stocks and dividend paying stocks when he want dividend income on regular basis.

This theory may sound very ambiguous because at one point transaction cost and taxes are influencing demands for dividends but on the same point the existence of transaction cost and taxes is not on its own a rationale for a general theoretical explanation of the determination of dividend policy.

#### **2.4.5. Agency and Free Cash Flow Hypothesis of Dividend Policy**

One assumption of a perfect capital market is that there should be no conflict of interest in the relation of managers and stakeholders. This theory may turn out to be very unlikely when the stakeholders of the company are distinct from its operations. Manager's interest may not be aligned with shareholders' interest and their course of actions might turn out to be costly for owners such as utilizing excessive prerequisites or increasing managerial rewards.

Shareholders and Bondholders face a potential conflict on the distribution of funds. Shareholders have limited liability and they have access to company's cash flow operations in comparison to bondholders. Excessive dividend payments to shareholders can be managed by issuing bonds (Meckling, 1976). The bondholders prefer a lower dividend payout ratio to get hold of their claims with fewer hurdles. The shareholders on the other hand may want higher dividend payout ratio (Ang J. , 1987)

To lower the hold of managers on excessive cash flow, dividends should be in higher ratio (Easterbrook, 1984). Easterbrook hypothesized that higher dividend payments will cause managers to enter the capital market for raising funds. This will continuously lead to them to deal with the market forces efficiently and let the bankers and financial analyst to monitor managers' behavior. This will also constantly keep management under scrutiny by outsiders and reduce any course of actions that may be taken for self-gain. However this theory has drawbacks as it will increase the leverage of the company causing managers to take unfavorable decision to reduce the firm's risks.

Excessive liquidity gives management high flexibility in funds utilization for their own benefits that may clash with shareholders' interest (Jensen, 1986). His theory said that the managers may try to increase the size of the firm which may not be required in current market demand scenario and thus their decision may be aligned with increasing their benefits as it is observed that bigger the company is the higher benefits it will provide to its management (Gaver, 1993). The manager may also undertake negative NPV projects if he has excessive liquidity. This problem can be avoided by reducing the excess funds in management hands. The solution is an increase in dividends which help in offsetting excessive liquidity thereby preventing management from pursuing negative NPV or bad projects. Other advantage is the reduction of agency cost between

managers and shareholders. The other way of reducing excessive liquidity is debt as it also lowers the cost of agency and performs same function which dividends do.

By contrasting M&M theory and Jensen theory we can see that latter believe the dividend policy is interrelated with the investment decision.

If we accept this theory then investors must also approve increase in their tax paying because of higher dividends.

#### **2.4.6. The Information Content of Dividends (Signaling) Hypothesis**

The argumentation on the flow of info between insiders (managers and directors) and outsiders (shareholders) is controversial. According to the free capital market theory all the stakeholders should have equal access to info related to company performance but usually managers may have more edge to company future performance that could be hidden from shareholder. Firm's intrinsic value is therefore unavailable to the market because of information gap between insiders and outsiders. Firm's value cannot be accurately measured by share price. Manager must share their info with shareholders for accurate understanding of firm value. Dividends play an important part in conveying the info to the shareholders because investor measure cash flow by equity as a way of firm valuation. This means that dividends announcing will affect the share price. This means that info regarding the company future prospects of earning will be determined by dividend payments. This method is called the signaling hypothesis.

According to signaling hypothesis dividend announcements tell about the firm's financial earnings by portraying stability. There are certain conditions for this hypothesis to be fulfilled:

1. About the firm's prospects managing director should possess private info and have necessary liquidity to send info to the market.
2. Signaling must be conducted in pure manner. Company having poor prospects should not declare dividends because by doing so it portrays wrong signals to the market. Signal should be differentiable among firms.

Critics say that if increase in dividend depicts good performance in future and reduction in dividends shows bad prospects then manager would show reluctance in reduction of dividends.

But Lintner (1956) argued that increase in dividends will only result after a permanent increase in earnings. This theory is referred to dividend smoothing hypothesis.

The most important issue with signaling hypothesis is that signals are very ambiguous. For example a company pays quarterly dividends but this time she did not pay because it wants to invest in a new project which will increase future earnings. But instead the shareholders thought the company is going through rough stage and thus the share price of the company started declining. Therefore it can be said signal prospects can come in handy only when the firm is of good quality. The major criticism against signaling is that why companies do not use cheap ways to portray for example repurchasing shares for future prospects. (Asquith, 1986)

## **CHAPTER 3 – METHODOLOGY**

### **3.1. METHODOLOGICAL ASSUMPTION**

Dividend policy is an important factor in influencing the purchase of common stocks on individual investors. So there will always be some variable which will become the basis of purchasing the stocks that pay regular dividends.

### **3.2. DATA COLLECTION TOOLS**

Primary data was collected in conducting this research. Primary data is the information that is collected specifically for the topic one is studying about. Here primary data was collected through questionnaire survey. The respondents were investors in stock exchange and investment funds.

### **3.3. VARIABLES**

General variables that are under study in this research are:

- Transaction Cost
- Taxes
- Free Cash Flow
- Signaling
- Shares Buy-Back
- Consumption Purposes

For each independent variable mapping of the relevant questions would be performed. The mean of the new variable would be then tested for significance at the level of 5%.

### **3.4. POPULATION**

The target population for this research was the individual investor in Pakistan that invest in shares and investment funds

### **3.5. SAMPLE SIZE AND SAMPLING TECHNIQUE**

The sample for this research is 150 respondents for questionnaire.

Convenience sampling was used in this research. Convenience sampling is when the researcher hasn't restricted his/her research to a specific age of group or profession and whichever respondent he/she finds convenient for the questionnaire is included in the survey collection.

### **3.6. TECHNIQUES OF ANALYSIS**

The study has many hypothesis or variables; data was analyzed on the basis of:

- T-test
- Frequency
- Cross Tabulation

### **3.7. SOFTWARE EMPLOYED**

- SPSS 16.0 Version
- Microsoft Excel



### **3.8. HYPOTHESIS**

H1: Individual investor prefer dividends based on transaction cost

H2: Individual investor prefer dividends based on tax treatment

H3: Individual investor prefer dividends based on Free Cash Flow theory

H4: Individual investor prefer dividends for consumption purposes

H5: Individual investor prefer dividends based on the theory of signaling

H6: Individual investor prefer dividends against shares buy-back

### 3.9. CONCEPTUAL FRAMEWORK

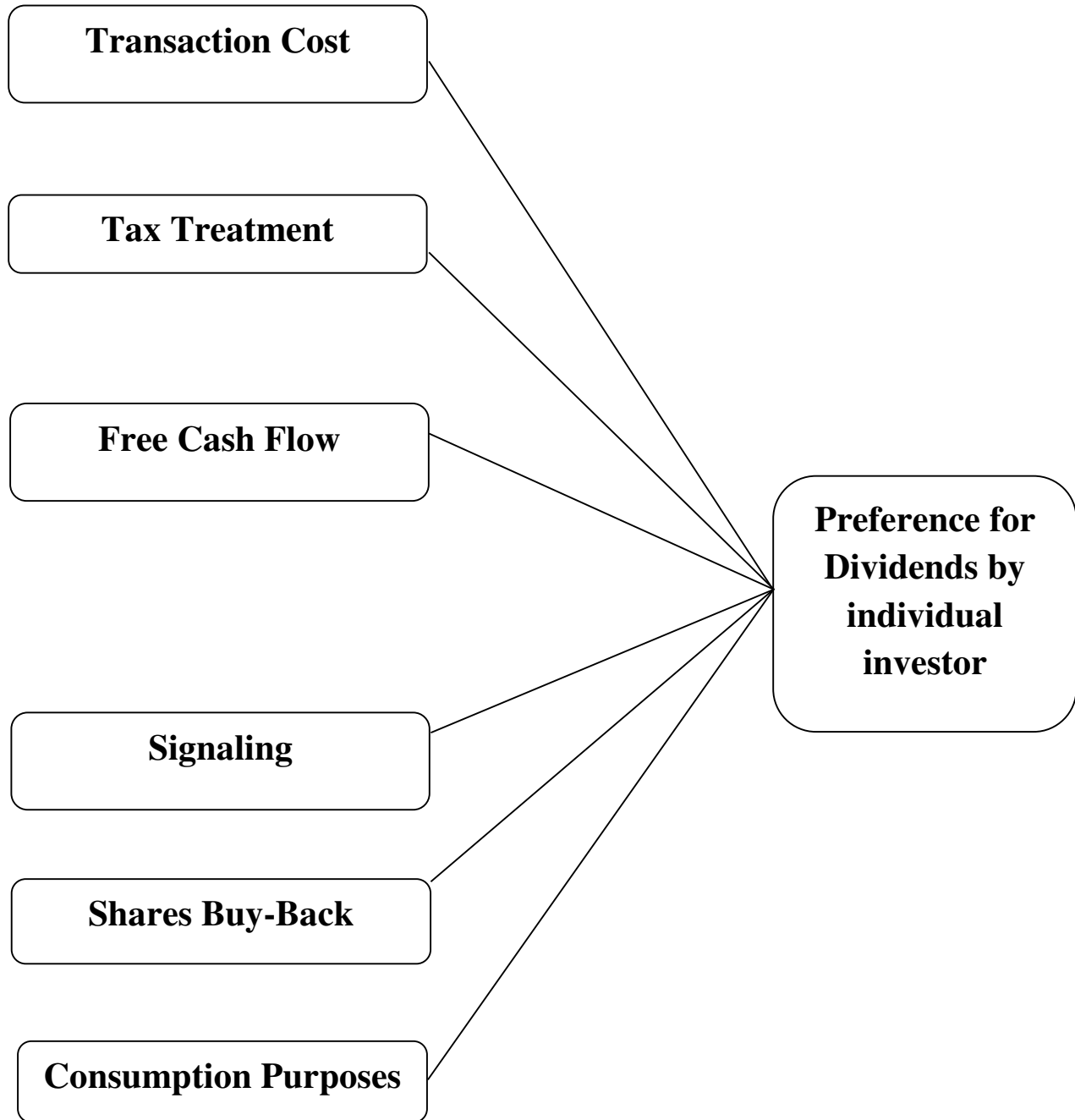
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**INDEPENDENT VARIABLES**

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**DEPENDENT VARIABLES**

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## CHAPTER 4 – ANALYSIS AND INTERPRETATION

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and Above
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### 2.5. Theory a. Dividend Irrelevance Theorem

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I like my stocks to pay dividends? (1= Strongly Disagree; 3= Neutral; 5= Strongly Agree)	Mean	4.03	4.75	3.67	3.99	4.17
	T-stat	7.389	37.35	5.3004	9.775	5.8829
	Median	4.00	5.00	3.00	4.00	5.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	1.03	1.75	0.67	0.99	1.17
	Standard Deviation	1.105	.437	1.219	1.114	1.071

According to the Miller and Modigliani's theory the dividend policy is irrelevant but according to this research this theory is rejected because individual investors prefer dividends with a mean of 4.03. Also when taken individually these stock exchange and investment fund investors we can see that there is strong mean showing support for dividend paying stocks. The T-test value also falls above the acceptance region of null hypothesis with the significance level of 0.000.

The research in relate to age of individual investor the respondents who fall below 50 feel strongly when they receive dividend and the respondents above the age of 50 show more preference for receiving dividends.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and Above
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2.6. Theory b. Transaction Cost

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I have a preference for receiving dividends because of transaction costs? (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.62	3.73	3.67	3.60	3.72
	T-stat	7.389	6.004	5.3004	6.51	3.528
	Median	3.00	4.00	3.00	3.00	3.00
	Binomial	0.000	0.000	0.001	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	1.03	0.73	0.67	0.60	.72
	Standard Deviation	1.028	1.134	1.219	1.013	1.099

The transaction cost of selling the stocks is higher than receiving the dividends and the survey shows that the transaction cost is one major reason why individual investors prefer dividends. The T-test value shows that the null hypothesis is rejected with the significance level of 0.000. It also means that individuals being a small investor want less costly method for receiving return.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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**2.7. Theory c. Taxes**

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I like my stocks to pay dividends or not for tax reasons? (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	2.62	2.73	2.67	2.26	2.80
	T-stat	2.034	2.2108	2.300	2.423	2.352
	Median	3.00	3.00	3.00	2.00	3.00
	Binomial	0.067	0.0915	0.1049	0.0786	0.0647
	N	150	87	93	121	29
	Mean Difference	0.38	0.27	0.33	0.74	0.20
	Standard Deviation	1.428	1.134	1.219	1.180	1.165

Individual has to pay taxes at the time when they receive dividends. Also dividends face double taxation which is not preferred by the investor. This point is proved in the research where the respondents believe there preference not to receive dividends because they would have to pay taxes. In comparison taxes on capital gains are only applicable when the investor sells the stocks. By treating separately the transaction cost and dividends we can say that investor preference for dividend is based very highly on the issue cost reduction. Low transaction cost is favored but the same time high tax are also taken into measure by the investor.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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## 2.8. Theory d. Uncertainty resolution (Bird-in-the-hand)

Comparing high dividend yield companies with low dividend yield companies, do you believe that the high dividend companies are: (1 = less risky; 3 = just as risky; 5 = more risky)	Mean	2.49	2.24	2.97	2.50	2.45
	T-stat	-7.389	-6.105	-3.56	-5.2783	-2.8074
	Median	2.00	2.00	3.00	2.00	2.00
	Binomial	0.000	0.000	0.001	0.000	0.005
	N	150	87	93	121	29
	Mean Difference	-.513	-0.76	0.03	-0.50	-0.55
	Standard Deviation	1.041	1.161	1.024	1.042	1.055

Shares that pay relatively higher dividends are less risky. (1 = strongly disagree; 3 = neutral; 5 = strongly agree)	Mean	3.11	3.37	2.87	3.05	3.38
	T-stat	1.082	2.3208	-1.1651	0.435	1.5192
	Median	3.00	4.00	2.00	3.00	3.00
	Binomial	.281	0.0853	0.126	0.374	0.234
	N	150	87	93	121	29
	Mean Difference	.113	0.37	-0.13	0.05	0.38
	Standard Deviation	1.282	1.487	1.076	1.264	1.347

According to the theory higher dividends reduces uncertainty about future cash flows and hence will increase the share value of the company. This theory does not show an obvious result in favor or in rejection because the respondents believe that higher dividend Yield Company is less risky but they don't think any other company who start paying high dividends on her shares is less risky. The mean is 2.49 which say that the high dividend yield companies are less risky. The T-test value of -7.389 with the significance level of 0.000 rejects the null hypothesis. But since the theory says that high payout ratio will increase the share value, it means that any other company who increase the dividend payout ratio will decrease the risk on its shares which is not accepted according to the latter question. The T-test value is 1.082 which lies in null hypothesis acceptance region also the significance level is too high.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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## 2.9. Theory e. Free Cash Flow

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In economic downturns, fewer good investment projects are available. I for this reason invest more in dividend paying stocks in economic downturns: (1= Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.62	3.69	3.67	3.64	3.52
	T-stat	7.742	6.1352	5.8899	7.364	2.5691
	Median	3.00	4.00	4.00	4.00	4.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.620	0.69	0.67	0.64	0.52
	Standard Deviation	.981	1.049	1.097	0.956	1.090

I wish to receive dividends because I believe the company will otherwise invest the money unprofitably. (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.33	3.22	3.37	3.32	3.38
	T-stat	3.547	1.858	2.7447	3.06	1.7371
	Median	3.00	3.00	3.00	4.00	4.00
	Binomial	0.001	0.637	0.002	0.000	0.0734
	N	150	87	93	121	29
	Mean Difference	0.333	0.22	0.37	0.32	0.38
	Standard Deviation	1.151	1.104	1.300	1.149	1.178

According to this theory Free Cash Flow in the hands of the managers could be reduced by increasing the dividend payout ratio during the downturn in the market or when there are fewer good investment projects available. The respondents seemed to be in support for this statement because they responded with the T-test value of 7.742 with the significance level of 0.000. Another point according to this theory that excess free cash flow would lead the manager in investing projects that is of negative NPV. When the individual investors asked whether they wish receive dividends because the money will then be invested inappropriately they replied with a mean of 3.33. The T-test value was 3.547 with significance level of 0.001. This means the theory lies outside the null hypothesis acceptance region.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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## 2.10. Theory f. Agency Costs

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I like to receive cash dividend if a company would have to issue new shares of common stocks to afford. (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	2.65	1.94	2.96	2.75	2.24
	T-stat	-3.388	-8.6349	-2.6734	-2.205	-3.3684
	Median	3.00	1.00	3.00	3.00	2.00
	Binomial	0.001	0.000	0.000	0.654	0.000
	N	150	87	93	121	29
	Mean Difference	-.347	-1.06	0.04	-0.25	-0.76
	Standard Deviation	1.253	1.145	1.112	1.247	1.215

I like to receive cash dividends if a company would have to borrow money to be able to afford (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.01	2.95	3.06	3.07	2.79
	T-stat	0.160	0.956	0.756	0.752	-1.116
	Median	3.00	3.00	3.00	3.00	3.00
	Binomial	0.873	0.1342	0.346	0.442	0.276
	N	150	87	93	121	29
	Mean Difference	0.01	0.32	0.09	0.07	-0.21
	Standard Deviation	1.023	1.174	1.148	1.023	1.013

Agency cost is based on the information gap that exists between the shareholder and managers. As discussed shareholder are in potential conflict with the bondholders. When asked by the respondents can their preference for cash dividend be fulfilled through issuing new shares of common stocks? They responded by strongly disagreeing because this will affect their stock standings in long term.

But when asked whether their preference for cash dividend can be fulfilled through the company's borrowing. The respondents replied with the mean of 3.01 showing their indifference to borrowing method. The significance level lies well above the 0.05 meaning the preference for cash dividend is there.



Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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## 2.11. Theory g. Signaling

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Do you think dividend increase tells you something about the company's future performance? (1 =Performance Deteriorate Strongly; 3 = Neutral; 5 = Performance Improve Strongly)	Mean	3.48	3.71	3.52	3.45	3.62
	T-stat	5.648	5.6602	5.7839	4.7596	3.1828
	Median	3.00	4.00	4.00	4.00	4.00
	Binomial	0.000	0.0456	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.480	0.71	0.52	0.45	0.62
	Standard Deviation	1.041	1.170	0.867	1.040	1.049

Do you think dividend decrease tells you something about the company's future performance? (1 =Performance Deteriorate Strongly; 3 = Neutral; 5 = Performance Improve Strongly)	Mean	2.66	2.39	2.73	2.69	2.52
	T-stat	-5.252	11.5879	-2.8241	4.1333	4.4077
	Median	3.00	2.00	3.00	3.00	3.00
	Binomial	0.000	0.000	0.002	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	-0.34	-0.61	-0.27	0.31	-0.48
	Standard Deviation	0.793	0.491	0.922	0.825	0.634

Signaling theory uses dividend payment as flow of information. The respondents believe that dividend increase tells future performance of the company will increase. The respondents also believe that dividend decrease tell future performance of the company will decrease. This means that there is a relationship between the future performance of the company and the dividend payments.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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2.12. Theory h. The choice between cash dividends and shares buy-backs

I value company's decision of not paying dividend and use that money to buy back its own stocks as: (1 =Extremely Negative; 3 = Neutral; 5 = Extremely Positive)	Mean	2.29	1.98	2.49	2.31	2.17
	T-stat	-8.688	-8.9259	-6.714	-7.5222	-4.4607
	Median	3.00	2.00	2.00	2.00	2.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	-0.713	-1.045	-0.51	-0.69	-0.83
	Standard Deviation	1.006	1.092	0.732	1.009	1.002

I think a stock repurchase is good because it is a signal that the stock is undervalued as: (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.17	2.83	3.17	3.20	3.16
	T-stat	2.944	-2.089	2.3386	3.0303	1.2307
	Median	3.00	3.00	3.00	3.00	3.00
	Binomial	0.004	0.056	0.0545	0.000	0.0734
	N	150	87	93	121	29
	Mean Difference	0.173	-0.17	0.17	0.20	0.16
	Standard Deviation	0.721	0.759	0.701	0.726	0.704

It is believed that instead of paying dividend which is a costly method, company should buy-back shares. But the question is how the individual investor values this decision. The response tells the investor thinks this move is very negative and the company should retain their dividend paying policy. The T-test value also shows negative value which lies outside the null hypothesis acceptance region with the significance level of 0.000.

This theory also state that the stock repurchase shows that the company stocks are undervalued. This means that when the company buy-back there is a chance of increase in share value price. The individual investors agree with this statement but not as strongly. This can be seen with the mean standing at 3.17. Nonetheless the statement is accepted.

This concludes that dividend policy must not be revised even if the buy-back has a chance of increase in value of stock price.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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### 2.13. Theory i. Stock Dividends as Small Stock Splits

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I think the stock dividends are like cash dividend or like (small) stock splits (1 =More Like Cash Dividend; 3 = Neutral; 5 = More Like Stock Split)	Mean	1.31	1.51	1.32	1.35	1.14
	T-stat	19.655	-10.3948	15.071	16.2634	-13.481
	Median	3.00	1.00	1.00	1.00	1.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	-1.693	-1.49	-1.68	-1.65	-1.86
	Standard Deviation	1.055	1.337	1.075	1.116	0.743

Stock dividends resemble more closely to the small stock splits rather than cash dividend in theory but investors believe otherwise. Their response shows strong belief that stock dividend is a close substitute to cash dividend.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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### 2.14. Theory j. Transaction Costs (Stock Dividends)

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Because of transaction cost I have preference of stock dividends over cash dividends. (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	2.60	2.39	2.80	2.63	2.48
	T-stat	-4.883	-5.3676	-2.7818	-3.9980	2.9507
	Median	3.00	2.00	3.00	2.00	2.00
	Binomial	0.000	0.000	0.000	0.000	0.002
	N	150	87	93	121	29
	Mean Difference	-.400	-0.61	-0.02	-0.37	-0.52
	Standard Deviation	1.003	1.060	0.884	1.018	0.949

The transaction cost of stock dividend is higher than cash dividend. The mean shows that individual disagree with the statement. T-test value also lies above the acceptance region of null hypothesis with the significance level of 0.000.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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**2.15. Theory k. Taxes (Stock Dividend)**

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Considering income taxes only, do you currently have preference for stock dividends over cash dividends? (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	2.71	2.70	2.63	2.70	2.72
	T-stat	-2.065	-1.56	-2.2887	-1.8729	-0.8239
	Median	3.00	3.00	3.00	3.00	3.00
	Binomial	0.081	0.156	0.0657	0.0875	0.245
	N	150	87	93	121	29
	Mean Difference	-0.293	-0.30	-0.37	-0.30	-0.28
	Standard Deviation	1.740	1.792	1.559	1.762	1.830

Individual investors feel indifferent about the income taxes variable in comparing of cash dividends with stock dividends. This shows that the theory that income may affect the choice for the form dividend is rejected. The T-value lies in the acceptance region of null hypothesis and the significance level is higher than 0.05.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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## 2.16. Theory I. Behavioral Finance

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Suppose a company does not have enough cash to pay a dividend. In such case I prefer to receive stock dividend: (1=Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.71	4.15	3.56	3.68	3.83
	T-stat	6.694	7.9869	5.1044	5.6753	3.7341
	Median	3.00	5.00	4.00	4.00	4.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.71	1.15	0.56	0.68	0.83
	Standard Deviation	1.293	1.343	1.058	1.318	1.197

Suppose a company does not have enough cash to pay a dividend. In such case I prefer not to receive at all: (1=Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.33	3.54	3.43	3.26	3.62
	T-stat	3.285	3.871	3.814	2.6404	2.8343
	Median	3.00	4.00	3.00	3.00	3.00
	Binomial	0.001	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.327	0.54	0.43	0.26	0.62
	Standard Deviation	1.218	1.301	1.087	1.222	1.178

The individual investors when provided the case that are asked in above tables' response by preferring stock dividend in case there is unavailability of cash dividend and strongly preferring dividend even if the company has not enough money to pay dividends at all.

Abbreviated Question Description	Statistics	All Investors	Owning Stocks Only	Owning Funds (and perhaps stocks)	Below 50	50 and above
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### Responses to General Dividends Questions

I hold some shares in investment funds in addition to holding shares in individual companies directly because investment funds pay more reliable dividends: (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.96	4.42	3.55	3.91	4.10
	T-stat	6.682	16.4737	3.3338	7.1963	4.7314
	Median	3.00	5.00	4.00	5.00	4.50
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.956	1.42	0.55	0.91	1.10
	Standard Deviation	1.357	0.804	1.591	1.391	1.252

I hold shares in investment funds only and no shares in individual companies because investment funds pay more reliable dividends: (1 =Strongly Disagree; 3 = Neutral; 5 = Strongly Agree)	Mean	3.77	3.86	3.87	3.74	3.90
	T-stat	10.258	9.426	9.0899	8.935	5.161
	Median	3.00	4.00	4.00	4.00	4.00
	Binomial	0.000	0.000	0.000	0.000	0.000
	N	150	87	93	121	29
	Mean Difference	0.767	0.86	0.87	0.74	0.90
	Standard Deviation	0.915	0.851	0.923	0.911	0.939

Holding shares in investment funds along with the holdings in stock exchange is believed by investors as a sign of reliability for dividend payments. Holding investment funds only for reliable

dividends is also believed very strongly by the respondents. Both of these statements has a very high T-test value and their significance level is below 0.000.

<b>Abbreviated Question Description</b>	<b>Statistics</b>	<b>All Investors</b>	<b>Owning Stocks Only</b>	<b>Owning Funds (and perhaps stocks)</b>	<b>Below 50</b>	<b>50 and above</b>
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How much of the total dividends that you receive do you use for consumption purposes: (1 =0-20%; 3 =40-60%; 5 =80-100%)	Mean	3.34	3.32	3.21	3.31	3.45
	Median	3.00	3.00	3.00	3.00	3.50
	N	119	87	93	121	29
	Mean Difference	0.34	0.32	0.21	0.31	0.45

I will sell part of my stock in a company for consumption purposes if the management decides not to pay dividend: (1 =Strongly Disagree; 3 = Neutral; 5 =Strongly Agree)	Mean	2.62	2.89	2.46	2.92	2.34
	T-stat	2.12	2.1984	0.9393	-0.666	1.8289
	Median	3.02	4.00	3.00	3.00	3.00
	Binomial	0.064	0.057	0.1456	0.255	0.087
	N	150	87	93	121	29
	Mean Difference	0.020	0.60	0.12	-0.08	0.45
	Standard Deviation	1.333	1.333	1.232	1.320	1.325

Individual investors meet 40-60% of their consumption through dividend. This means that respondents are heavily dependent on dividends. The other question that was asked from the investors was whether they will sell part of their stocks in a company if they do not pay dividends. They responded negatively because they are heavily depended on dividend payments.



## CHAPTER 5 – FREQUENCIES

### Reliability Statistics

CRONBACH's Alpha	N of Items
.754	26

### Respondent's Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-25	9	6.0	6.0	6.0
26-35	43	28.7	28.7	34.7
36-49	69	47.3	47.3	82.0
50 and above	29	18.0	18.0	100.0
Total	150	100.0	100.0	

Q.1

### Owning stocks in exchange listed companies

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	87	58.0	58.0	58.0
No	63	42.0	42.0	100.0
Total	150	100.0	100.0	

Q.2

**Owning stocks of investment funds**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	93	62.0	62.0	62.0
No	57	38.0	38.0	100.0
Total	150	100.0	100.0	

Q.3

**Holding shares in both for reliable dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	11	7.3	12.2	12.2
Neutral	18	12.0	20.0	32.2
Agree to some extent	14	9.3	15.6	47.8
Strongly Agree	47	31.3	52.2	100.0
Total	90	60.0	100.0	
Missing System	60	40.0		
Total	150	100.0		

Q.4

**Holding shares in investment funds only for reliable dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree to some extent	12	8.0	8.0	8.0
Neutral	48	32.0	32.0	40.0
Agree to some extent	53	35.3	35.3	75.3
Strongly Agree	37	24.7	24.7	100.0
Total	150	100.0	100.0	

Q.5

**I like my stocks to pay dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	8	5.3	5.3	5.3
Neutral	41	27.3	27.3	32.7
Agree to some extent	32	21.3	21.3	54.0
Strongly Agree	69	46.0	46.0	100.0
Total	150	100.0	100.0	

Q.6

**Prefer receiving dividends (difference of transaction cost between the sale of CS and the receipt of Dividends)**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree to some extent	19	12.7	12.7	12.7
Neutral	61	40.7	40.7	53.3
Agree to some extent	28	18.7	18.7	72.0
Strongly Agree	42	28.0	28.0	100.0
Total	150	100.0	100.0	

Q.7

**Comparing High Dividend yield Co. and Low dividend yield Co.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not Risky	31	20.7	20.7	20.7
Less Risky	46	30.7	30.7	51.3
Neutral	42	28.0	28.0	79.3
More Risky	31	20.7	20.7	100.0
Total	150	100.0	100.0	

Q.8

**Shares that pay relative relatively higher dividends are less risky**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	12	8.0	8.0	8.0
Disagree to some extent	49	32.7	32.7	40.7
Neutral	29	19.3	19.3	60.0
Agree to some extent	30	20.0	20.0	80.0
Strongly Agree	30	20.0	20.0	100.0
Total	150	100.0	100.0	

**Q.9**

**In economic downturns, fewer good investment projects are available. I for this reason invest more in dividend paying stocks in economic downturns**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	4	2.7	2.7	2.7
Disagree to some extent	16	10.7	10.7	13.3
Neutral	39	26.0	26.0	39.3
Agree to some extent	65	43.3	43.3	82.7
Strongly Agree	26	17.3	17.3	100.0
Total	150	100.0	100.0	

**Q.10**

**Dividends received are used for the consumption purposes**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0%-20%	1	.7	.8	.8
20%-40%	26	17.3	21.8	22.7
40%-60%	43	28.7	36.1	58.8
60%-80%	30	20.0	25.2	84.0
80%-100%	19	12.7	16.0	100.0
Total	119	79.3	100.0	
Missing System	31	20.7		
Total	150	100.0		

**Q.11**

**Sell my stocks for consumption purposes if management decides not to pay dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	24	16.0	16.0	16.0
Disagree to some extent	29	19.3	19.3	35.3
Neutral	47	31.3	31.3	66.7
Agree to some extent	20	13.3	13.3	80.0
Strongly Agree	30	20.0	20.0	100.0
Total	150	100.0	100.0	

**Q.12**

**I wish to receive dividends because I believe the company will otherwise invest the money unprofitably**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	8	5.3	5.3	5.3
Disagree to some extent	34	22.7	22.7	28.0
Neutral	32	21.3	21.3	49.3
Agree to some extent	52	34.7	34.7	84.0
Strongly Agree	24	16.0	16.0	100.0
Total	150	100.0	100.0	

**Q.13**

**I like to receive cash dividend if a company would have to issue new shares of common stock to afford**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	45	30.0	30.0	30.0
Disagree to some extent	17	11.3	11.3	41.3
Neutral	33	22.0	22.0	63.3
Agree to some extent	55	36.7	36.7	100.0
Total	150	100.0	100.0	

**Q.14**

**I like to receive cash dividends if a company would have to borrow money to be able to afford**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	19	12.7	12.7	12.7
Disagree to some extent	12	8.0	8.0	20.7
Neutral	75	50.0	50.0	70.7
Agree to some extent	36	24.0	24.0	94.7
Strongly Agree	8	5.3	5.3	100.0
Total	150	100.0	100.0	

**Q.15**

**Increase in dividend shows that company's future performance will:**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Performance Deteriorate Strongly	12	8.0	8.0	8.0
Performance Deteriorate Slightly	12	8.0	8.0	16.0
Performance Remains Neutral	32	21.3	21.3	37.3
Performance Improve Slightly	80	53.3	53.3	90.7
Performance Improve Strongly	14	9.3	9.3	100.0
Total	150	100.0	100.0	

**Q.16**

**Decrease in dividend shows that company's future performance will:**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Performance Deteriorate Strongly	8	5.3	5.3	5.3
Performance Deteriorate Slightly	57	38.0	38.0	43.3
Performance Remains Neutral	63	42.0	42.0	85.3
Performance Improve Slightly	22	14.7	14.7	100.0
Total	150	100.0	100.0	



**Q.17**

**I value company's decision of not paying dividends and use that money to buy back its own stocks as:**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Extremely Negative	37	24.7	24.7	24.7
Slightly Negative	56	37.3	37.3	62.0
Neutral	34	22.7	22.7	84.7
Slightly Positive	23	15.3	15.3	100.0
Total	150	100.0	100.0	

**Q.18**

**Stock repurchase is good because it is a signal that the stock is undervalued**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree to some extent	28	18.7	18.7	18.7
Neutral	68	45.3	45.3	64.0
Agree to some extent	54	36.0	36.0	100.0
Total	150	100.0	100.0	

**Q.19****I like my stocks to pay dividends or not for tax reasons**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	14	9.3	9.3	9.3
Disagree to some extent	27	18.0	18.0	27.3
Neutral	45	30.0	30.0	57.3
Agree to some extent	42	28.0	28.0	85.3
Strongly Agree	22	14.7	14.7	100.0
Total	150	100.0	100.0	

**Q.20****I think the stock dividends are like cash dividend or like (small) stock splits**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid More Like Cash Dividend	138	92.0	92.0	92.0
Neutral	1	.7	.7	92.7
More like stock split	11	7.3	7.3	100.0
Total	150	100.0	100.0	

**Q.21****Because of transaction cost I have preference of stock dividends over cash dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	19	12.7	12.7	12.7
Disagree to some extent	60	40.0	40.0	52.7
Neutral	33	22.0	22.0	74.7
Agree to some extent	38	25.3	25.3	100.0
Total	150	100.0	100.0	

**Q.22****Considering income taxes only, do you currently have preference for stock dividends over cash dividends**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Prefer Cash Dividend	69	46.0	46.0	46.0
Neutral	34	22.7	22.7	68.7
Prefer Stock Dividend	47	31.3	31.3	100.0
Total	150	100.0	100.0	

**Q.23**

**Suppose a company does not have enough cash to pay a dividend. Would you prefer receiving stock dividend:**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Prefer Not to Receive	12	8.0	8.0	8.0
Prefer Not to Receive	21	14.0	14.0	22.0
Neutral	18	12.0	12.0	34.0
Prefer to Receive	47	31.3	31.3	65.3
Strongly Prefer to Receive	52	34.7	34.7	100.0
Total	150	100.0	100.0	

**Q.24**

**Suppose a company does not have enough cash to pay a dividend. Would you prefer not to receive dividend at all:**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Prefer Not to Receive	3	2.0	2.0	2.0
Prefer Not to Receive	44	29.3	29.3	31.3
Neutral	45	30.0	30.0	61.3
Prefer to Receive	17	11.3	11.3	72.7
Strongly Prefer to Receive	41	27.3	27.3	100.0
Total	150	100.0	100.0	

# CROSS TABULATION

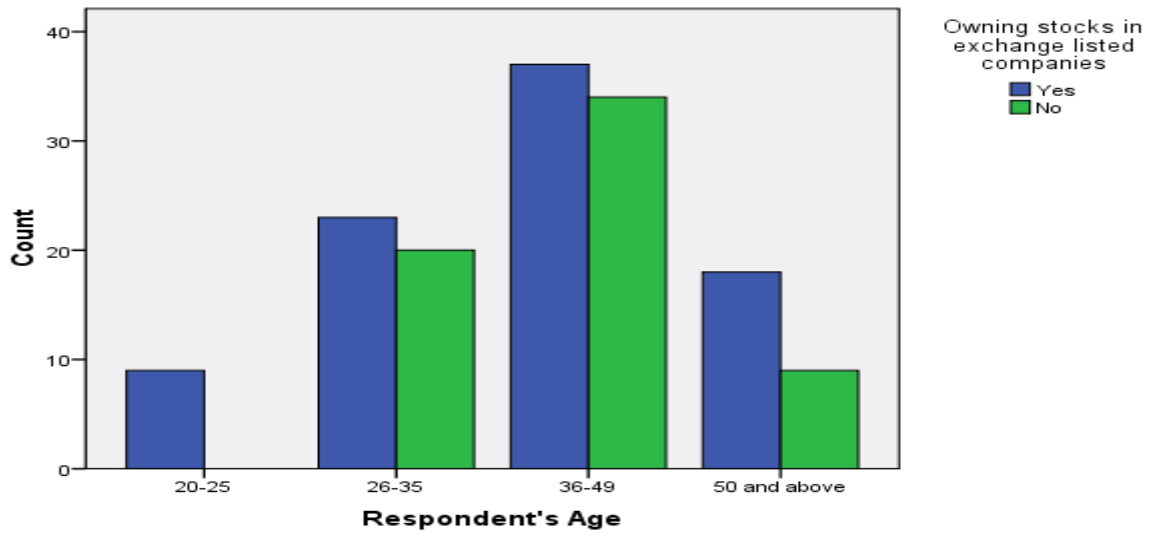
## Respondent's Age \* Owing stocks in exchange listed companies

			Owing stocks in exchange listed companies		Total
			Yes	No	
Respondent's Age	20-25	Count	9	0	9
		% within Respondent's Age	100.0%	.0%	100.0%
		% within Owing stocks in exchange listed companies	10.3%	.0%	6.0%
		% of Total	6.0%	.0%	6.0%
	26-35	Count	23	20	43
		% within Respondent's Age	53.5%	46.5%	100.0%
		% within Owing stocks in exchange listed companies	26.4%	31.7%	28.7%
		% of Total	15.3%	13.3%	28.7%
	36-49	Count	36	33	69
		% within Respondent's Age	52.1%	47.9%	100.0%
		% within Owing stocks in exchange listed companies	42.5%	54.0%	47.3%
		% of Total	24.7%	22.7%	47.3%
50 and above	Count	19	10	29	
	% within Respondent's Age	66.7%	33.3%	100.0%	
	% within Owing stocks in exchange listed companies	20.7%	14.3%	18.0%	
	% of Total	12.0%	6.0%	18.0%	
Total	Count	87	63	150	
	% within Respondent's Age	58.0%	42.0%	100.0%	
	% within Owing stocks in exchange listed companies	100.0%	100.0%	100.0%	
	% of Total	58.0%	42.0%	100.0%	

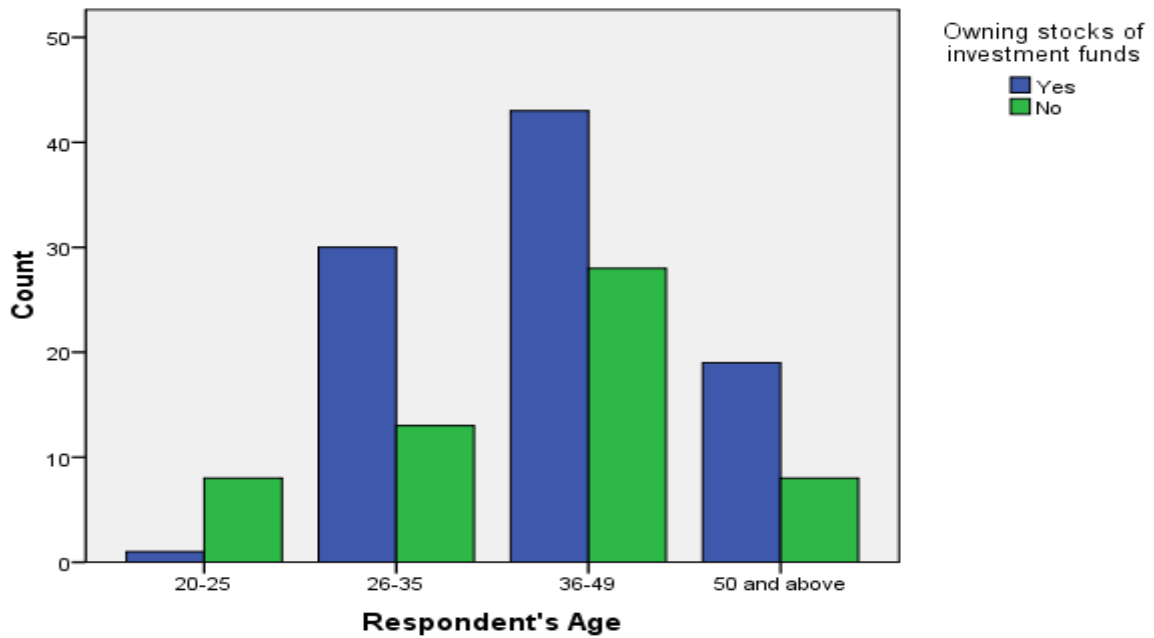
**Respondent's Age \* Owing stocks of investment funds**

			Owing stocks of investment funds		Total
			Yes	No	
Respondent's Age	20-25	Count	1	8	9
		% within Respondent's Age	11.1%	88.9%	100.0%
		% within Owing stocks of investment funds	1.1%	14.0%	6.0%
		% of Total	.7%	5.3%	6.0%
	26-35	Count	30	13	43
		% within Respondent's Age	69.8%	30.2%	100.0%
		% within Owing stocks of investment funds	32.3%	22.8%	28.7%
		% of Total	20.0%	8.7%	28.7%
	36-49	Count	43	28	71
		% within Respondent's Age	60.6%	39.4%	100.0%
		% within Owing stocks of investment funds	46.2%	49.1%	47.3%
		% of Total	28.7%	18.7%	47.3%
50 and above	Count	20	9	29	
	% within Respondent's Age	70.4%	29.6%	100.0%	
	% within Owing stocks of investment funds	20.4%	14.0%	18.0%	
	% of Total	12.7%	5.3%	18.0%	
Total	Count	93	57	150	
	% within Respondent's Age	62.0%	38.0%	100.0%	
	% within Owing stocks of investment funds	100.0%	100.0%	100.0%	
	% of Total	62.0%	38.0%	100.0%	

Bar Chart



Bar Chart



## **CONCLUSION AND RECOMMENDATION**

In this paper it has been tried to solve the puzzle regarding the dividends. Shareholders are the key to solving the different dividend theories. So far it has not been tried to ask the investors and find relationship to their demand for dividends. In this paper a structured questionnaire was used to bridge a gap between investors in Pakistan and company managers in relation to dividends. We have found that dividend payment has strong liking. Investors prefer receiving dividends in any form either cash or stock form against not receiving dividend payments at all. Therefore it also concludes that investor does not think dividend policy is neutral in capital market. There was not enough evidence to support the resolution of Gordon about the dividend. Cost related to transaction has been one of the major reasons for dividend preference. The result of the agency cost theory show that shareholders feel indifferent when their dividends are paid through borrowings but showed strong agreement when their dividend payments are met through issuing new shares. There was a strong support for theory of signal which shows a positive relation between the dividend payments and value of the shares.

Signaling theory may show a strong agreement but only the firms that are well settled should use. Companies that are in initial stages and often retain most of their earnings for future investments should not approach this theory because their retaining may spread the fear among her shareholders that company future performance may deteriorate. Signaling theory should show consistency in payout if dividends because it will help investor in keeping a track of future performance otherwise the signaling will be overlooked by the investor making the dividend payment pointless.

Share buy-back is a less costly method compare to dividend payment when there is an excess of free cash flow but it seemed to be a very negative decision of the company in view of the shareholders. This may be because the dividend is a huge part of their consumption. Dividend policies should not be revised by the company in favor of shares buy-back decision because this may cause distrust among shareholders. Especially companies that are following signaling theory should not take u-turn and start repurchasing because dividends payout ratio will be hurt and through the research the investors would think the stock value is deteriorating.

It is also very surprising to see there is a strong believe that stock dividends are like cash dividends in view of investors which is a good sign for the companies because the can easily substitute stock dividends when there is a shortage of cash and also keep consistency in payout ratio.



According to the Free Cash flow theory investors believe that in the downturn time in the market instead of investing in negative NPV projects the company should rather payout dividend. The negative NPV projects will not only hurt in the current downturn market scenario but also it will hurt in long term because the company will have to set aside a budget every year for the improvement in those projects. The information gap between managers and shareholders also is one of the reason for mistrust and the investor believe the dividend payout will keep manager from investing inappropriately and at the same time keep him occupied in market participation for additional funds availability.

This research is based on individual investors. Institutional investors that deal in pension funds, investment funds, and financial institution should be next surveyed for further progress in this research.

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## **APPENDIX I - QUESTIONNAIRE**

Gender: \_\_\_\_\_

Age: \_\_\_\_\_

**Tick the suitable answers:**

1) Did you own stocks of exchange listed companies during the last three years?

Yes

No

2) Did you own stocks of investment funds during the last three years (only direct investment)?

Yes

No

**Remarks for the respondents:**

- A. If you have answered **Yes** to question 1 and 2 then please continue with question 3.
- B. If you have answered **No** to question 1 and **Yes** to question 2 then please continue with question 4.

**Indicate on the following scale:**

	<b>Strongly Disagree</b>	<b>Disagree to some extent</b>	<b>Neutral</b>	<b>Agree to some extent</b>	<b>Strongly Agree</b>
<b>3)</b> I hold some shares in investment funds in addition to holding shares in individual companies directly because investment funds pay more reliable dividends.					
<b>4)</b> I hold shares in investment funds only and no shares in individual companies because investment funds pay more reliable dividends.					
<b>5)</b> I like my stocks to pay dividends.					
<b>6)</b> I prefer receiving dividends based on the difference of transaction cost between the sale of common stock and the receipt of dividends					

**7) Comparing high dividend yield companies with low dividend yield companies. I believe that high dividends companies are:**

<b>Not risky</b>	<b>Less risky</b>	<b>Neutral</b>	<b>More risky</b>	<b>Very risky</b>

**Indicate on the following scale:**

	Strongly Disagree	Disagree to some extent	Neutral	Agree to some extent	Strongly Agree
8) I believe shares that pay relatively higher dividends are less risky					
9) In economic downturns, fewer good investment projects are available. I for this reason, invest more in dividend paying stocks in economic downturns?					

10) How much of the total dividends that you receive do you use for consumption purposes.

0-20%	20%-40%	40%-60%	60%-80%	80%-100%	No opinion

Indicate on the following scale:

	Strongly Disagree	Disagree to some extent	Neutral	Agree to some extent	Strongly Agree
11) I will sell part of my stock in a company for consumption purposes if the management decides not to pay dividend anymore?					
12) I wish to receive dividends because I believe the company will otherwise invest the money unprofitably.					
13) I like to receive cash dividend if a company would have to issue new shares of common stocks to afford					
14) I like to receive cash dividends if a company would have to borrow money to be able to afford					

Do you think dividend increase/decrease tells you something about the company's future performance?

	Performance Deteriorate Strongly	Performance Deteriorate Slightly	Performance remains Neutral	Performance Improve Slightly	Performance Improve Strongly
15) Increase in dividend					
16) Decrease in dividend					

17) I value company's decision of not paying dividend and use that money to buy back its own stocks as:

<b>Extremely Negative</b>	<b>Slightly Negative</b>	<b>Neutral</b>	<b>Slightly Positive</b>	<b>Extremely Positive</b>

18) I think a stock repurchase is good because it is a signal that the stock is undervalued.

<b>Strongly Disagree</b>	<b>Disagree to some extent</b>	<b>Neutral</b>	<b>Agree to some extent</b>	<b>Strongly Agree</b>

19) I like my stocks to pay dividends or not for tax reasons.

<b>Strongly Disagree</b>	<b>Disagree to some extent</b>	<b>Neutral</b>	<b>Agree to some extent</b>	<b>Strongly Agree</b>

20) I think the stock dividends are like cash dividend or like (small) stock splits

<b>More like cash dividend</b>	<b>Neutral</b>	<b>More like stock split</b>

21) Because of transaction cost I have preference of stock dividends over cash dividends.

<b>Strongly Disagree</b>	<b>Disagree to some extent</b>	<b>Neutral</b>	<b>Agree to some extent</b>	<b>Strongly Agree</b>

22) Considering income taxes only, do you currently have preference for stock dividends over cash dividends.

<b>Prefer cash dividend</b>	<b>Neutral</b>	<b>Prefer stock dividend</b>

Suppose a company does not have enough cash to pay a dividend. In such case I prefer:

	<b>Strongly Prefer not to receive</b>	<b>Prefer not to receive</b>	<b>Neutral</b>	<b>Prefer to receive</b>	<b>Strongly prefer to receive</b>
<b>23) To receive stock dividend</b>					
<b>24) Not to receive dividend at all</b>					