

Management Views on Dividend Policy: Survey Evidence from Firms Listed in DSE

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Abstract

This study intends to identify the determinants of corporate dividend policy followed in Bangladesh. The study uses management views of 61 companies from eight major sectors of DSE. Cross tabulation methods used to find out the results of the study. The study shows that mixed results for the relationship between dividend per share and ownership structure, reserve & surplus, net asset value per share, earnings per share, dividend payout ratio and dividend yield.

Keywords: Management View, Dividend Policy, DSE

BACKGROUND OF THE STUDY

Dividend policy is an unsolved mystery in the field of corporate finance. A number of studies have been conducted regarding the factors that determine dividend decisions of companies as well as the effects of dividend policy on stock price. Even after decades of investigation, researchers still fail to agree on these aspects of dividend policy, at national and international level. This survey is a descriptive study with the objective of measuring management views on dividend policy of firms listed in DSE.

REVIEW OF PREVIOUS SURVEY STUDIES

Lintner (1956) in his pioneering work on dividend policy interviewed managers from 28 enterprises and concluded that dividends are sticky, tied to long-term sustainable earnings, paid by mature enterprises, smoothed from year to year and targeted a long-term payout ratio when determining dividend policy.

Khurana (1985) investigated the corporate dividend policy in India mailing structured questionnaire to 215 enterprises. The survey reveals that dividend decisions are primarily governed by net profit and past dividend.

Baker and Powel (2000) surveyed the views of corporate managers of major US enterprises about the factors influencing dividend policy. They concluded that the most important determinants of an

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enterprise's dividend policy were the level of current and expected future earnings and the pattern of past dividends.

Shah (2009) surveyed the views of 60 financial executives on the practices of dividend policy of corporate enterprises in Nepal. The results revealed, among others, stability of earnings, level of current earnings and pattern of past dividends are three important factors in determining corporate dividend policy.

John (2013) surveyed the opinions of managers on the factors that influence dividend decisions in Nigerian listed firms. The result of the survey reveals that pattern of past dividend,

Islam and Adnan (2018) made a questionnaire survey from financial decision makers of sample companies to analyze the determinants of dividend policy in the context of Bangladesh. The observed result reveals that present earnings and liquidity are the most likely factors for the firm in deciding the payout policy.

Rahman (2015) 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-the-hand theory and the relevant value theory receive the highest support among the surveyed managers.

Although there are numerous studies on dividend policy using secondary data from developed and emerging capital markets, the survey studies are very limited. This survey study, however, aims to reconcile the management views on dividend policy of firms listed in DSE with the findings of secondary data analysis.

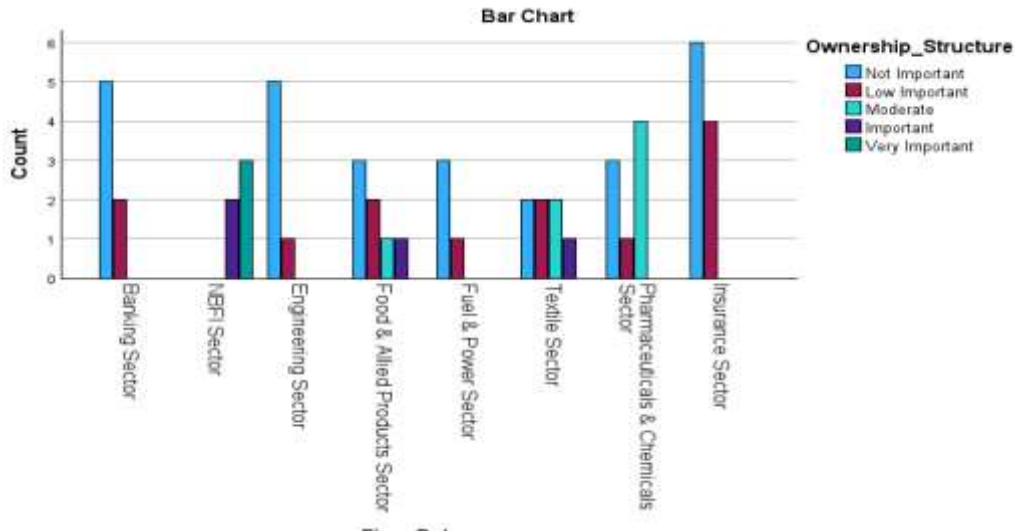
COLLECTION OF SURVEY DATA

A structured questionnaire (Appendix –1) has been developed for collecting opinions of top management of the firms under study with a view to achieving two-fold objectives of the study. For collecting opinions on the determinants of corporate dividend policy, I prepared the questionnaire based on five-point Likert scale, where Not Important = 1, Low Important = 2, Moderate = 3, Important = 4, Very Important = 5. For collecting opinions regarding the impact of dividend on stock price, five-point Likert scale is also used, where Strongly Disagree = 1, Disagree = 2, Neither = 3, Agree = 4, Strongly Agree = 5.

Pilot Survey: Before preparing the final questionnaire, two pilot surveys have been conducted to test the validity and relevance of the questions. At first, I personally surveyed to eight respondents and found some errors from their opinions. I revised the questionnaire and again surveyed to five respondents. Then, I prepared the questionnaire for final survey.

Final Survey: I e-mailed the survey questionnaire through Google form to the Chairman, Managing Director, Director, Chief Financial Officer (CFO) and Company Secretary of 61 listed companies in August 2022. The mailing included a cover letter. But I did not find satisfactory response. Then, I went personally to the respondents of different firms. Finally, I collected 54 respondent's opinions through questionnaire from all the eight sectors under study.

DATA ANALYSIS TECHNIQUES



Data have been analyzed through Cross-Tabulation Method using SPSS 29 and graphical presentation like bar chart.

DATA ANALYSIS AND FINDINGS

Data have been analyzed with a view to achieving two-fold objectives of the study. At first, cross-tabulation and bar chart have been used to analyze the opinions of the management of the firms regarding the factors that determine dividend decisions. Then, the opinions of the management of the firms regarding the impact of dividend on stock price of firms have been analyzed using the same techniques.

Factors Determining Dividend Decisions

1. Ownership Structure

Table 1: Cross-Tabulation – Ownership Structure

Firm Belongs * Ownership Structure Cross tabulation		Ownership Structure					Total	Mean
		Not Important	Low Important	Moderate	Important	Very Important		
Firm Belongs	Banking Sector	5	2	0	0	0	7	1.29
	NBFI Sector	0	0	0	2	3	5	4.60
	Engineering Sector	5	1	0	0	0	6	1.17
	Food & Allied Products Sector	3	2	1	1	0	7	2.00
	Fuel & Power Sector	3	1	0	0	0	4	1.25
	Textile Sector	2	2	2	1	0	7	2.29
	Pharmaceuticals & Chemicals Sector	3	1	4	0	0	8	2.13
	Insurance Sector	6	4	0	0	0	10	1.40
Total		27	13	7	4	3	54	2.01

Table 1 shows the level of importance of ownership structure of firms to make dividend decisions of different sectors under study. It is evident that ownership structure of financial institutions sector has the

highest mean value of 4.60 on the scale of 1 to 5. It indicates that ownership structure is one of the important factors that influence dividend decisions of firms under financial institutions sector. The mean values of Textile, Pharmaceuticals & Chemicals, Food & Allied Product, Insurance, Banking, Fuel & Power and Engineering sectors are 2.29, 2.13, 2.00, 1.40, 1.29, 1.25 and 1.17 respectively. This implies that ownership structure is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 2.01, which means ownership structure has the low level of importance in making dividend decisions of firms listed in DSE. The sector-wise level of importance of ownership structure of firms to make dividend decisions is depicted in Graph.

2. Reserve & Surplus

Table 2: Cross-Tabulation –Reserve & Surplus

Firm_Belongs * Reserve_Surplus Crosstabulation		Reserve_Surplus						Total	Mean
		Not Important	Low Important	Moderate	Important	Very Important			
Firm_Belongs	Banking Sector	0	0	0	3	4	7	4.57	
	NBFI Sector	0	3	2	0	0	5	2.40	
	Engineering Sector	0	3	3	0	0	6	2.50	
	Food & Allied Products Sector	0	0	1	3	3	7	4.29	
	Fuel & Power Sector	2	1	0	1	0	4	2.00	
	Textile Sector	1	2	2	2	0	7	2.71	
	Pharmaceuticals & Chemicals Sector	0	0	1	6	1	8	4.00	
	Insurance Sector	4	6	0	0	0	10	1.60	
Total		7	15	9	15	8	54	3.01	

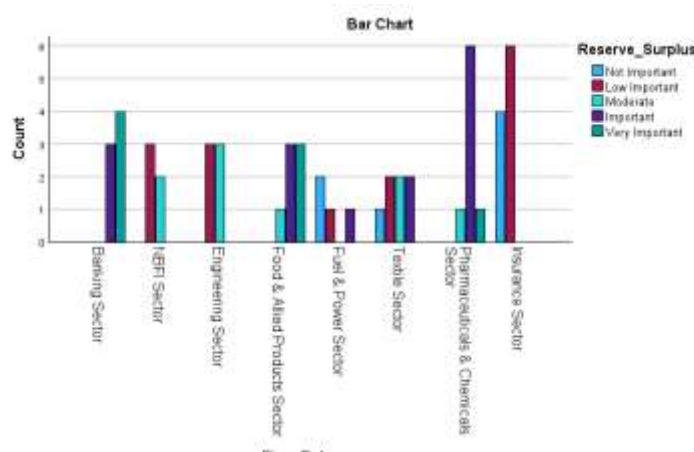


Table 2 shows the level of importance of reserve & surplus of firms to make dividend decisions of different sectors under study. It is evident that reserve & surplus of Banking sector has the highest mean value of 4.57 on the scale of 1 to 5. The mean values of Food & Allied Product and Pharmaceuticals & Chemicals

are 4.29 and 4.00 respectively. It indicates that reserve & surplus is one of the important factors that influence dividend decisions of firms under these sectors. The mean values of Textile, Engineering, Financial Institutions, Fuel & Power and Insurance sectors are 2.71, 2.50, 2.40, 2.00 and 1.60 respectively. This implies that reserve & surplus is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 3.01, which means reserve & surplus is moderately important in making dividend decisions of firms listed in DSE. The sector-wise level of importance of reserve & surplus of firms to make dividend decisions is depicted in Graph.

3. Net Asset Value per Share

Table 3: Cross-Tabulation –Net Asset Value per Share

Firm_Belongs * Net_Asset_Value per Share Crosstabulation		Net_Asset_Value per Share						Total	Mean
		Not Important	Low Important	Moderate	Important	Very Important			
Firm_Belongs	Banking Sector	0	1	3	2	1	7	2.86	
	NBFI Sector	0	3	2	0	0	5	2.40	
	Engineering Sector	3	1	2	0	0	6	1.83	
	Food & Allied Products Sector	0	0	1	3	3	7	4.29	
	Fuel & Power Sector	0	2	2	0	0	4	2.50	
	Textile Sector	0	0	1	3	3	7	4.29	
	Pharmaceuticals & Chemicals Sector	5	2	1	0	0	8	1.50	
	Insurance Sector	0	0	1	4	5	10	4.80	
Total		8	9	13	12	12	54	3.06	

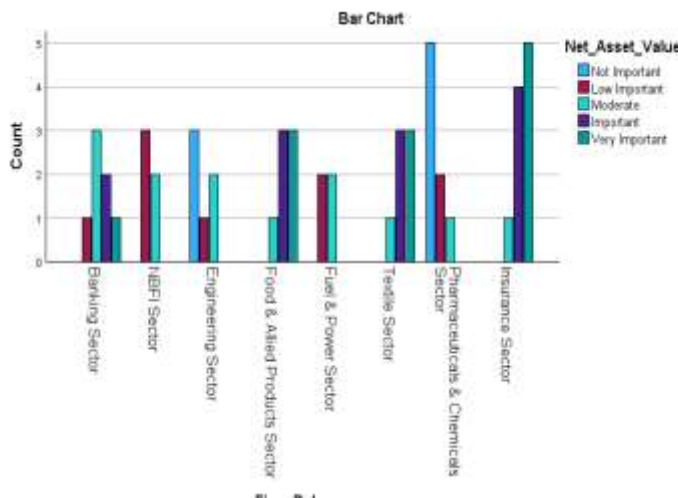


Table 3 shows the level of importance of net asset value per share of firms to make dividend decisions of different sectors under study. It is evident that net asset value per share of Insurance sector has the highest mean value of 4.80 on the scale of 1 to 5. The mean values of Food & Allied Product and Textile sector

are same, which is 4.29. It indicates that net asset value per share is one of the important factors that influence dividend decisions of firms under these sectors. The mean values of Banking, Fuel & Power, Financial Institutions, Engineering and Pharmaceuticals & Chemicals sectors are 2.86, 2.50, 2.40, 1.83 and 1.50 respectively. This implies that net asset value per share is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 3.06, which means net asset value per share is moderately important in making dividend decisions of firms listed in DSE. The sector-wise level of importance of net asset value per share of firms to make dividend decisions is depicted in Graph.

4. Earnings per Share

Table 4: Cross-Tabulation – Earnings per Share

Firm_Belongs * Earnings_per_Share Crosstabulation		Earnings_per_Share					Total	Mean
		Not Important	Low Important	Moderate	Important	Very Important		
Firm_Belongs	Banking Sector	4	0	2	1	0	7	2.00
	NBFI Sector	3	1	1	0	0	5	1.60
	Engineering Sector	0	0	1	1	4	6	4.50
	Food & Allied Products Sector	4	2	1	0	0	7	1.57
	Fuel & Power Sector	2	2	0	0	0	4	1.50
	Textile Sector	3	3	1	0	0	7	1.71
	Pharmaceuticals & Chemicals Sector	4	3	1	0	0	8	1.63
	Insurance Sector	5	4	1	0	0	10	1.60
Total		25	15	8	2	4	54	2.01

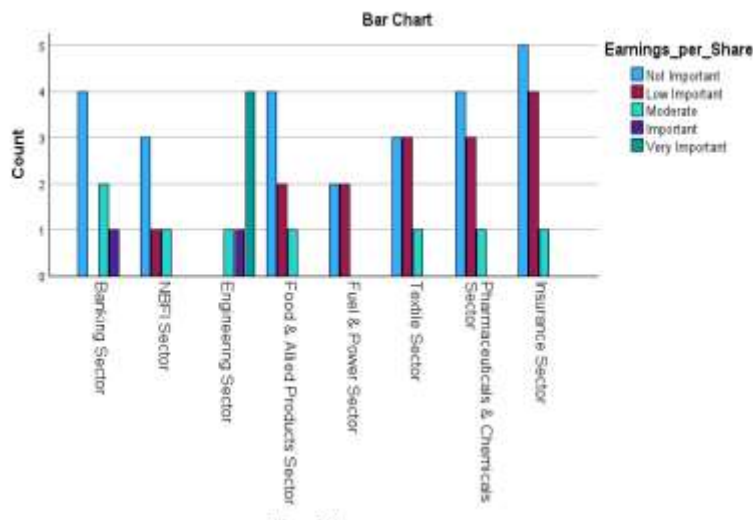


Table 4 shows the level of importance of earnings per share of firms to make dividend decisions of different sectors under study. It is evident that earnings per share of Engineering sector has the highest

mean value of 4.50 on the scale of 1 to 5. It indicates that earnings per share is one of the important factors that influence dividend decisions of firms under Engineering sector. The mean values of Banking, Textile, Pharmaceuticals & Chemicals, Financial Institutions, Insurance, Food & Allied Product and Fuel & Power sectors are 2.00, 1.71, 1.63, 1.60, 1.60, 1.57 and 1.50 respectively. This implies that earnings per share is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 2.01, which means earnings per share is low important in making dividend decisions of firms listed in DSE. The sector-wise level of importance of earnings per share of firms to make dividend decisions is depicted in Graph.

5. Dividend Payout Ratio

Table 5: Cross-Tabulation – Dividend Payout Ratio

Firm_Belongs * Dividend_Payout_Ratio Crosstabulation		Dividend_Payout_Ratio						Total	Mean
Firm_Belongs	Sector	Not Important	Low Important	Moderate	Important	Very Important			
Firm_Belongs	Banking Sector	0	0	1	2	4	7	4.43	
	NBFI Sector	3	1	1	0	0	5	1.60	
	Engineering Sector	1	2	2	0	1	6	2.67	
	Food & Allied Products Sector	4	2	1	0	0	7	1.57	
	Fuel & Power Sector	0	0	1	2	1	4	4.00	
	Textile Sector	3	3	1	0	0	7	1.71	
	Pharmaceuticals & Chemicals Sector	5	3	0	0	0	8	1.38	
	Insurance Sector	0	0	1	4	5	10	4.40	
Total		16	11	8	8	11	54	2.72	

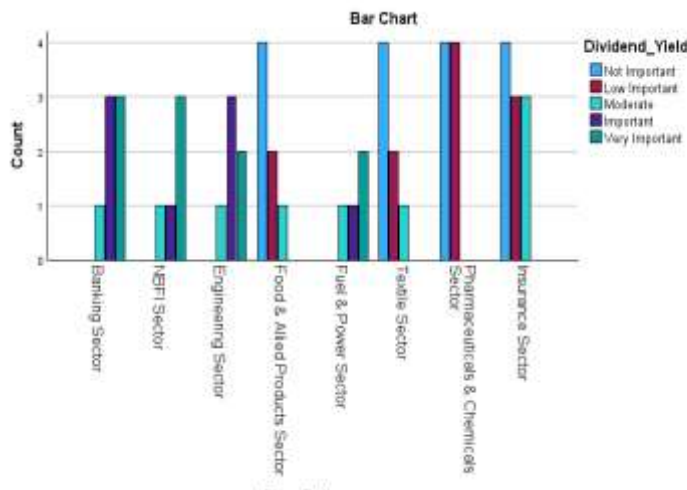


Table 5 shows the level of importance of dividend payout ratio of firms to make dividend decisions of different sectors under study. It is evident that dividend payout ratio of Banking sector has the highest mean value of 4.43 on the scale of 1 to 5. The mean values of Fuel & Power and Insurance sectors are

4.40 and 4.00 respectively. It indicates that dividend payout ratio is one of the important factors that influence dividend decisions of firms under these sectors. The mean values of Engineering, Textile, Financial Institutions, Food & Allied Product and Pharmaceuticals & Chemicals sectors are 2.67, 1.71, 1.60, 1.57 and 1.38 respectively. This implies that dividend payout ratio is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 2.72, which means dividend payout ratio is low important in making dividend decisions of firms listed in DSE. The sector-wise level of importance of dividend payout ratio of firms to make dividend decisions is depicted in Graph.

6. Dividend Yield

Table 6: Cross-Tabulation – Dividend Yield

Firm_Belongs * Dividend_Yield Cross tabulation		Dividend_Yield						Total	Mean
Firm_Belongs	Sector	Not Important	Low Important	Moderate	Important	Very Important			
Firm_Belongs	Banking Sector	0	0	1	3	3	7	4.29	
	NBFI Sector	0	0	1	1	3	5	4.40	
	Engineering Sector	0	0	1	3	2	6	4.17	
	Food & Allied Products Sector	4	2	1	0	0	7	1.57	
	Fuel & Power Sector	0	0	1	1	2	4	4.25	
	Textile Sector	4	2	1	0	0	7	1.57	
	Pharmaceuticals & Chemicals Sector	4	4	0	0	0	8	1.50	
	Insurance Sector	4	3	3	0	0	10	1.90	
Total		16	11	9	8	10	54	2.96	

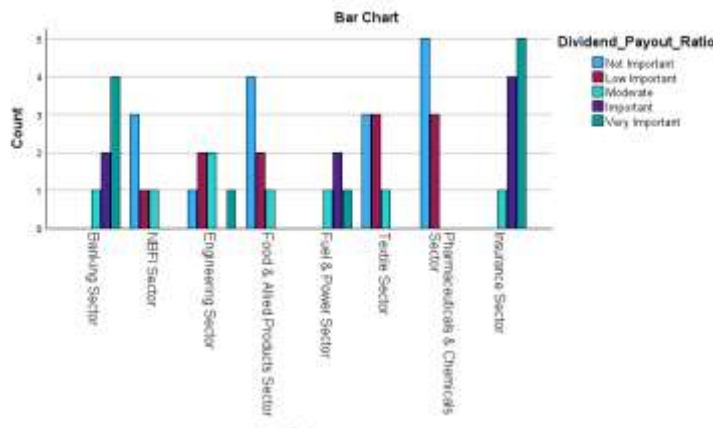


Table 6 shows the level of importance of dividend yield of firms to make dividend decisions of different sectors under study. It is evident that dividend yield of Financial Institutions sector has the highest mean value of 4.40 on the scale of 1 to 5. The mean values of Banking and Engineering sectors are 4.29, 4.25 and 4.17 respectively. It indicates that dividend yield is one of the important factors that influence dividend

decisions of firms under these sectors. The mean values of Insurance, Food & Allied Product, Textile and Pharmaceuticals & Chemicals sectors are 1.90, 1.57, 1.57 and 1.50 respectively. This implies that dividend yield is important in making dividend decisions for these sectors also. But the level of importance is low and differs from sector to sector. Overall mean value of all the sectors is 2.96, which means dividend yield is moderately important in making dividend decisions of firms listed in DSE. The sector-wise level of importance of dividend yield of firms to make dividend decisions is depicted in Graph

Impact of Dividend on Stock Price

Table: 7 Cross-Tabulation - Impact of DPS on Stock Price

Firm_Belongs * Impact_of DPS on Stock Price Cross tabulation		DPS_impact_on_Stock_Price						
		Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Total	Mean
Firm_Belongs	Banking Sector	0	0	2	3	2	7	4.00
	NBFI Sector	1	0	2	1	1	5	3.20
	Engineering Sector	0	1	2	2	1	6	3.50
	Food & Allied Products Sector	0	0	1	3	3	7	4.29
	Fuel & Power Sector	0	0	2	1	1	4	3.75
	Textile Sector	3	0	0	3	1	7	2.86
	Pharmaceuticals & Chemicals Sector	0	0	2	3	3	8	4.13
	Insurance Sector	0	0	3	3	4	10	4.10
Total		4	1	14	19	16	54	3.73

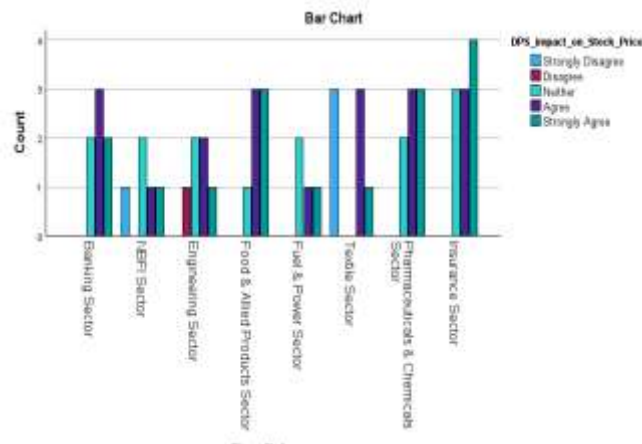


Table 7 shows the opinions of the management of firms regarding the level of agreement or disagreement about the impact of dividend on stock price. It reveals from the mean values of Food & Allied Product, Pharmaceuticals & Chemicals, Insurance and Banking are 4.29, 4.13, 4.10 and 4.00. It indicates that management of firms under these sectors agree on the impact of dividend on stock price of firms. The mean value of Fuel & Power, Engineering, Financial Institutions and Textile sectors are 3.75, 3.50, 3.20 and 2.86 respectively, which indicates that management of firms under these sectors neither agree nor disagree about the impact of dividend on stock price. That is, they are indifferent in opinions. Consequently, the survey provided a mixed result about the impact of dividend on stock price of the firms

listed in DSE. The opinions of the management of firms regarding the level of agreement or disagreement about the impact of dividend on stock price are depicted in Graph.

CONCLUSION

Management views on dividend policy of firms listed in DSE have been analyzed to identify the factors that influence dividend decisions as well as the impact of dividend on stock price. The survey results reveal that same factors are not equally important in dividend decisions of firms under different sectors. That is, the level of importance of factors differs from sector to sector. Reserve and surplus, dividend payout ratio and dividend yield are important factors in Banking sector; Ownership structure and dividend yield are important in financial institution sector; earnings per share and dividend yield are important in engineering sector; reserve and surplus and net asset value per share are important factors in food and allied product sector; dividend payout ratio and dividend yield are important in fuel and power sector; net asset value per share is important factor in textile sector; reserve and surplus is important in pharmaceuticals and chemical sector; net asset value per share and dividend payout ratio are important factors in insurance sector. These survey results are consistent with the findings of secondary data analysis. The survey regarding the impact of dividend on stock price produced mixed results in line with the findings of secondary data analysis. The respondents from banking, food and allied products, pharmaceuticals & chemicals and insurance sector agreed on the relevance of dividend on stock price, which supports relevance theory of Gordon (1963). On the other hand, the respondents from financial institutions, engineering, fuel & power and textile sector disagreed or were indifferent in their opinions regarding the relevance of dividend on stock price, which supports irrelevance theory of Modigliani-Miller (1961).

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