

The background of the top section features a blue-toned image with silhouettes of two business professionals in business attire, one slightly behind the other, both leaning forward and pulling a large, dark percentage sign (%). The scene is set against a light blue background with faint grid lines and a line graph in the upper left corner.

# Do Managers' Thoughts Reflect in the Dividend Decision in Bangladesh ?

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## Abstract

Dividend decision is an important decision for the firm as it may influence its capital structure and stock price. Dividend is being used by the firms as a weapon of signaling firm's quality and performance to the market place in an asymmetric information framework. The goal of organization that is the maximization of stockholders' wealth largely depends on how management handles the dividend policy. The main objective of this study is to examine the effect of opinions of managers working in the different levels of the firms on factors influencing dividends decision in Bangladeshi listed firms. The study employs survey research design and obtained primary data from randomly selected managers of 150 listed companies in the Dhaka Stock Exchange (DSE) through the administration of questionnaire. The result found that reaction of investors after dividend announcement, current degree of financial leverage, availability of alternative source of capital; liquidity constraints such as availability of cash, pattern of past dividends, level of current earnings, growth and investment opportunities have significant influence on dividend decision in Bangladesh.

**Keywords:** Dividend, Business Decisions, Bangladesh, Listed Companies.

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# 1. Introduction

Among the most crucial decisions to be taken for efficient performance and attainment of objectives in any organization are the decisions relating to dividend. Dividend policy of the firm has significant implication for investors, managers, lenders, and other stakeholder. Business decisions can be grouped into three main classes as financing, investment and dividend decisions (Adesola and Okwong, 2009). Financing decision requires a proper mixture and blend of capital from accessible sources. Investment decisions are concerned with the well-organized deployment of capital funds, meanwhile, dividend decision involves the intervallic determination of fraction of a firms total distributable earnings that is payable to its shareholders.

# 2. Literature Review

Dividends can be described as the financial benefits or returns accruable to any shareholder of a corporation for his investment (Al-Malkawi, 2008). Thus, dividend represents a form of reward for investment in corporate organizations (Baker et al., 2006). The term also refers to that portion of profits of a company which is distributed by the company among its shareholders. It is the reward of the shareholders for investments made by them in the shares of the company (Robinson, 2006). Changes in earnings and existing dividend rates are the most important factors influencing an organization's dividend decision. Meanwhile, in another study Miller and Modigliani recommended the irrelevance proposition and demonstrated that in a perfect capital market, organization's dividend decision is not a thing of importance at all. Beside these foundational studies, several other studies have been carried out on dividend decision and its influencing factors in corporate organizations. Similarly, Baker et al., (2001) examined the factors influencing dividend policy decisions of National Association of Securities Dealers Automated Quotation (NASDAQ) listed firms. Respondents in the study were requested to provide their opinions on 22 different factors which may influence dividend decisions. The result revealed that many of the managers of the selected firms made dividend decisions that are consistent with Lintner survey results and model. Similarly, Baker et al. (2007) carried out a research on the determinants of dividend policy among Canadian managers and reported that the rate of present and prospective earnings, pattern of the dividend payment, and nature of the industry have significant influence on corporate dividend the determinants of dividend policy and

Among the three main classes of business decisions, dividends decision remains one of the most crucial decisions as it affects the organization's value and shareholders' wealth. Dividend policy however remains a controversial issue in corporate finance since the question as to why firms pay dividends remains a puzzle (Hassan et al., 2012). Although various reasons have been presented in previous studies as to what influences organizations dividend decisions; nevertheless the results of these studies have been contradictory. Besides, most of these previous studies were conducted in the advanced market economies, only limited studies have so far been carried out in developing economies particularly Bangladesh; thus calling for further studies.

reported that current year's profit is more important than previous year's dividend while deciding the dividend policy. Furthermore, John and Muthusamy, (2010) examined the factors that influence dividend decision in Indian paper industry with particular emphasis on the influence of leverage. Using Lintner dividend model and its extended versions, the study analyzed the factors influencing dividend decisions in India. The results of the study revealed that leverage is negatively associated with dividend payout in Indian paper industry. OJ Akinyomi (2013) carried out a survey research on the perceptions of managers on the dividend decisions in Nigeria and found similar relationship. El-Sady et al., (2012) also carried out a survey on the perception of corporate managers of Kuwaiti firms using questionnaire as research instrument. The study reported the level of current and future earnings, liquidity constraints such as availability of cash as the most influencing factors on dividend decision. Baker and Powell, 2012 carried out a study on dividend policy in Indonesia by using mail survey to obtain relevant information from the executives of the selected firms. The results of the study revealed that managers are of the opinion that stability of earnings and the level of current and expected future earnings are the most important determinants of dividends. They are also of the opinion that the effects of dividends on stock prices and needs of current shareholders are important determinants. The result revealed that managers of Indonesian firms perceive that dividend policy affects firm value. Their study suggests that no universal set of factors is likely to be appropriate to all firms in setting dividend policy.

### 3. Objectives of the Study

In view of the limited studies on dividend policy in the developing economies, the main objective of this study is to investigate the thoughts of managers in Bangladesh on the main factors influencing dividend decisions. Specifically, the study sets out to:

- i) Examine whether the reaction of investors after dividend announcement influence dividend decisions in Bangladesh.
- ii) Investigate whether the pattern of past dividend influences dividend decisions in Bangladesh.
- iii) Examine whether the level of current earnings influences dividend decisions in Bangladesh.
- iv) Investigate whether the current degree of financial leverage influences dividend decisions in Bangladesh.
- v) Explore whether the availability of alternative source of capital influences dividend decisions in Bangladesh.
- vi) Investigate whether liquidity constraints such as availability of cash influence dividend decisions in Bangladesh.
- vii) Examine whether growth and investment opportunities influence dividend decisions in Bangladesh.



### 4. Methodology of the Study

The researchers applied a survey research design for this study. Five-point rating scaled questionnaire starting from strongly agreed (SA), agreed (A), undecided (U), disagreed (D), and strongly disagreed (SD) was used to collect data from 150 randomly selected listed firms in Bangladesh. A total number of 300 copies of the questionnaire were administered, out of which 247 copies (representing 82.33%) were retrieved and usable. The questionnaire was designed in such a way that every question in the questionnaire was related to the research questions. The study was conducted in 2013.

Chi-square test with 5% level of significance was employed in testing the hypotheses. The decision rule is to reject the null hypothesis if the calculated value is greater than the critical value and accept if otherwise. Chi-square is calculated with the help of the following formula.

$$\chi^2 = \sum \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

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Where,

$O_{ij}$  = represents observed frequency

$E_{ij}$  = represents expected frequency

$E = \frac{\text{Number of questionnaire}}{\text{Number of response}}$

Level of significant= 0.05; Formula for degree of freedom= n-1; Therefore the degree of freedom, df = 5-1 = 4. Thus, the value of  $\chi^2$  from that 4 degree of freedom at 5% significance is 9.49.

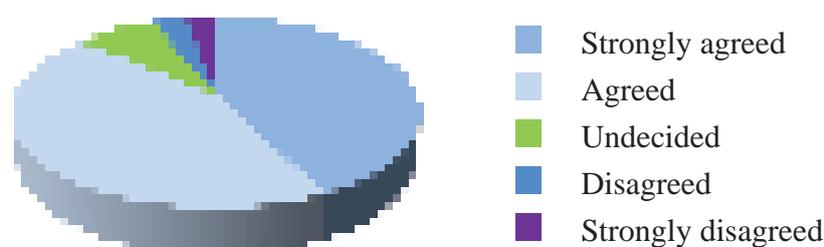
In order to be able to test the significance of the relationship that exists between each of the identified factors and dividend decisions, the following hypotheses have been formulated:

- H<sub>0-1</sub> The reaction of investors after dividend announcement does not influence dividend decisions of the companies.
- H<sub>0-2</sub> The pattern of past dividends does not significantly influence dividend decisions of the companies.
- H<sub>0-3</sub> The level of current earnings does not significantly influence dividend decisions of the companies.
- H<sub>0-4</sub> The current degree of financial leverage does not significantly influence dividend decisions of the companies.
- H<sub>0-5</sub> The availability of alternative sources of capital does not significantly influence dividend decisions of the companies.
- H<sub>0-6</sub> Liquidity constraints do not significantly influence dividend decisions of the companies.
- H<sub>0-7</sub> Growth and investment opportunities do not significantly influence dividend decisions of the companies.

## 5. Data Analysis & Findings

The perceptions of the respondents on the various statements put forward in the questionnaire are analyzed as follows:

**Table 1:** The reaction of investors after dividend announcement & influences on dividend decisions.



Sl. No.	Responses	No. of responses	% of Responses
1	Strongly agreed	105	42.51
2	Agreed	108	43.73
3	Undecided	19	7.69
4	Disagreed	8	3.24
5	Strongly disagreed	7	2.83
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number one reveals that 213 (representing 86.24%) of the respondents agreed that the reaction of investors after dividend announcements influences dividend decisions in Bangladesh. Meanwhile the remaining 13.76% of the

respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the reaction of investors after dividend announcements influences dividend decisions of the firms.

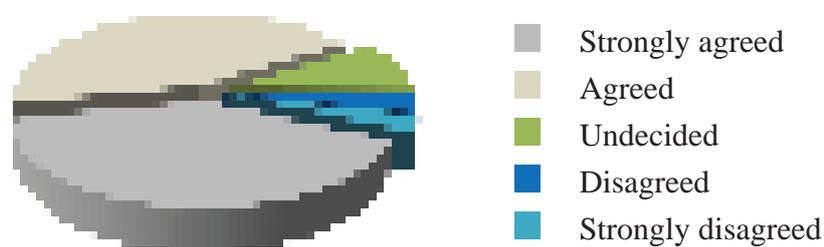
**Table 2:** Observed & expected frequency distribution of the responses.

Observed (O)	Expected (E)	(O - E) 2	(O - E) 2	$\frac{(O - E) 2}{E}$
105	49.40	55.60	3091.36	62.4517
108	49.40	58.60	3433.96	69.3729
19	49.40	-30.40	924.16	18.7076
8	49.40	-41.40	1713.96	36.6955
7	49.40	-42.40	1799.46	36.3526
$\chi^2$				223.5803

The result of the hypothesis one indicates a  $\chi^2$  value of 233.5803 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. Thus we conclude that the reaction of investors after dividend announcements does significantly influence dividend decisions of the firms.

**Table 3:** Past dividends' pattern and its influences on dividend decisions.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agreed	99	40.09
2	Agreed	109	44.13
3	Undecided	23	9.31
4	Disagreed	9	3.64
5	Strongly disagreed	7	2.83
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number one reveals that 208 (representing 84.22%) of the respondents agreed that the pattern of past dividends influences dividend decisions in Bangladesh. Meanwhile the remaining 15.78%

of the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the pattern of past dividends influences dividend decisions of the firms.

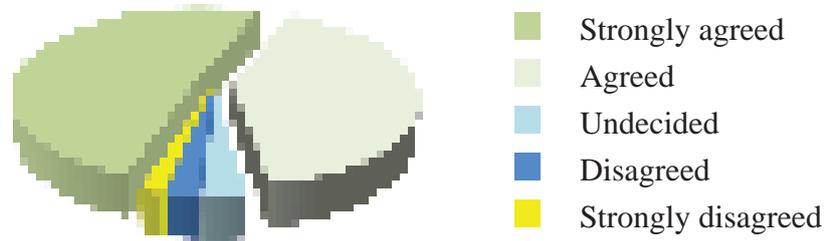
**Table 4:** Observed & expected frequency distribution of past dividend pattern.

Observed (O)	Expected (E)	(O - E) 2	(O - E) 2	$\frac{(O - E) 2}{E}$
99	49.40	49.60	2460.16	49.8000
109	49.40	59.60	3502.76	70.9060
23	49.40	-26.40	696.96	14.1085
9	49.40	-40.40	1632.16	33.0937
7	49.40	-42.40	1797.76	36.3919
$\chi^2$				204.3001

The result of the hypothesis one indicates a  $\chi^2$  value of 204.3001 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. Thus we conclude that the pattern of past dividends does significantly influence dividend decisions of the firms.

**Table 5:** The level of current earnings and its influences on dividend decisions.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agreed	126	51.01
2	Agreed	103	41.70
3	Undecided	8	3.24
4	Disagreed	6	2.43
5	Strongly disagreed	4	1.62
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number two reveals that 229 (representing 92.71%) of the respondents agreed that the level of current earnings influences dividend decisions in Bangladesh. Meanwhile the remaining 7.29% of

the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the level of current earnings influences dividend decisions of the firms.

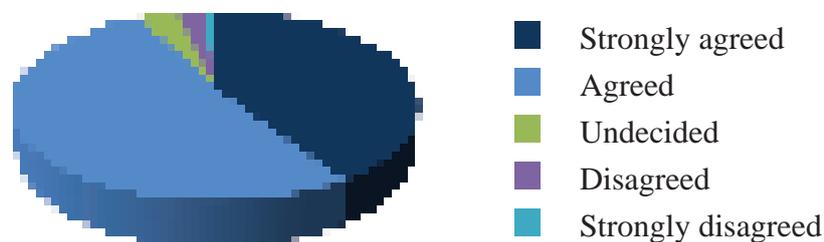
**Table 6:** Observed & expected frequency distribution of current earnings.

Observed (O)	Expected (E)	(O - E) <sup>2</sup>	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
126	49.40	76.60	5867.56	118.7765
103	49.40	53.60	2872.96	58.1571
8	49.40	-41.40	1713.96	34.6955
6	49.40	-43.40	1883.56	38.1287
4	49.40	-45.40	2061.16	41.7239
$\chi^2$				291.4814

The result of the hypothesis two indicates a  $\chi^2$  value of 291.4814 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. So

we conclude that the level of current earnings does significantly influence dividend decisions of the firms.

**Table 7:** Degree of financial leverage & influences on dividend decisions.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agreed	101	40.89
2	Agreed	128	51.82
3	Undecided	9	3.65
4	Disagreed	6	2.43
5	Strongly disagreed	3	1.21
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number three reveals that 229 (representing 92.71%) of the respondents agreed that the current degree of financial leverage influences dividend decisions in Bangladesh. Meanwhile the

remaining 7.29% of the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the current degree of financial leverage influences dividend decisions of the firms.

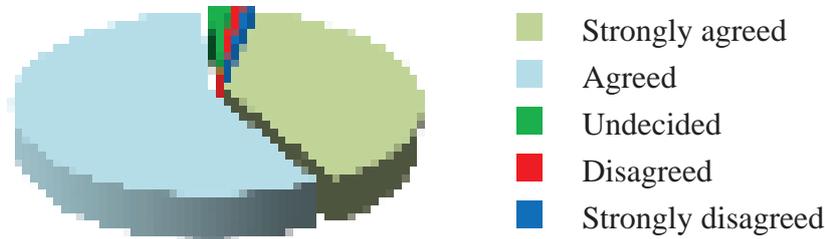
**Table 8:** Observed & expected frequency of financial leverage.

Observed (O)	Expected (E)	(O - E) <sup>2</sup>	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
101	49.40	51.60	2662.56	53.8980
128	49.40	78.60	6177.96	125.0599
9	49.40	-40.40	1632.16	33.0397
6	49.40	-43.40	1883.56	38.1287
3	49.40	-46.40	2152.96	43.5822
$\chi^2$				293.7045

The result of the hypothesis three indicates a  $\chi^2$  value of 293.7045 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. Hence, we conclude that the current degree of financial leverage does significantly influence dividend decisions of the firms.

**Table 9:** Availability of alternative source of capital influences dividend.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agree	96	38.87
2	Agreed	141	57.09
3	Undecided	5	2.02
4	Disagreed	3	1.21
5	Strongly disagreed	2	0.81
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number four reveals that 237 (representing 95.96%) of the respondents agreed that the availability of alternative source of capital influences dividend decisions in Bangladesh. Meanwhile the

remaining 4.04% of the respondents does not agree to the statement. This implies that most of the respondents are of the opinion that the availability of alternative source of capital influences dividend decisions of the firms.

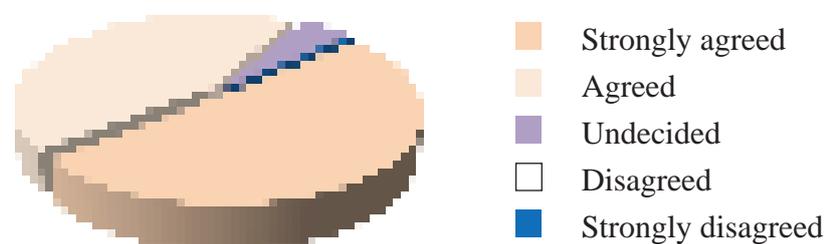
**Table 10:** Observed & expected frequency of alternative sources of capital.

Observed (O)	Expected (E)	(O - E) <sup>2</sup>	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
96	49.40	46.60	2171.56	43.9587
141	49.40	91.60	8390.56	169.8493
5	49.40	-44.40	1971.36	39.9061
3	49.40	-46.40	2152.96	43.5821
2	49.40	-47.40	2246.76	45.4810
$\chi^2$				342.7772

The result of the hypothesis four indicates a  $\chi^2$  value of 342.7772 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. Hence it is found that the availability of alternative source of capital does significantly influence dividend decisions of the firms.

**Table 11:** Liquidity constraints and its influence on dividend decisions.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agreed	125	50.60
2	Agreed	108	43.72
3	Undecided	13	5.27
4	Disagreed	-	0.00
5	Strongly disagreed	1	0.41
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number five reveals that 233 (representing 94.32%) of the respondents agreed that liquidity constraints such as availability of cash influence dividend decisions in Bangladesh. Meanwhile the

remaining 5.68% of the respondents does not agree to the statement. This implies that most of the respondents are of the opinion that liquidity constraints such as availability of cash influence dividend decisions of the firms.

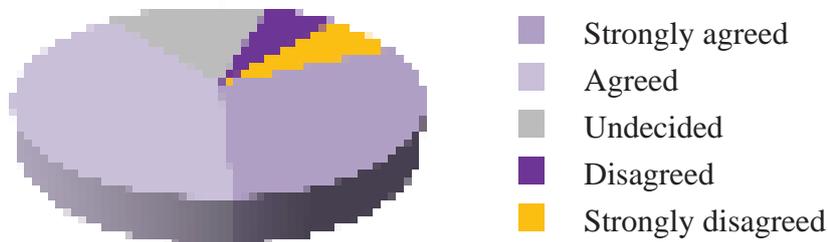
**Table 12:** Observed & expected frequency of liquidity constraints.

Observed (O)	Expected (E)	(O - E) <sup>2</sup>	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
125	49.40	75.60	5715.36	115.6955
108	49.40	58.60	3433.96	69.5134
13	49.40	-36.40	1324.96	26.8211
-	49.40	-49.40	2,440.36	49.4000
1	49.40	-48.40	2,342.56	47.4202
$\chi^2$				308.8502

The result of the hypothesis five indicates a  $\chi^2$  value of 308.8502 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. So liquidity constraints do significantly influence dividend decisions of the firms.

**Table 13:** Growth and investment opportunities influence on dividend decisions.



Sl. No.	Responses	No. of Responses	% of Responses
1	Strongly agreed	76	30.77
2	Agreed	100	40.48
3	Undecided	37	14.98
4	Disagreed	16	6.48
5	Strongly disagreed	18	7.29
Total		247	100

Source: Field Survey, 2013

The analysis of responses to statement number six reveals that 176 (representing 71.25%) of the respondents agreed that growth and investment opportunities influence dividend decisions in Bangladesh. Meanwhile the

remaining 28.75% of the respondents does not agree to the statement. This implies that the majority of the respondents are of the opinion that growth and investment opportunities influence dividend decisions of the firms.

**Table 14:** Observed & expected frequency of investment opportunity.

Observed (O)	Expected (E)	(O - E) <sup>2</sup>	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
76	49.40	26.60	707.56	14.3231
100	49.40	50.60	2560.36	51.8292
37	49.40	-12.40	153.76	3.1126
16	49.40	-33.40	1115.56	22.5822
18	49.40	-31.40	985.96	19.9587
$\chi^2$				111.8058

The result of the hypothesis six indicates a  $\chi^2$  value of 111.8058 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative

hypothesis. Therefore growth and investment opportunities do significantly influence dividend decisions of the firms.

## 6. Conclusion

From the literature review and analysis of data, it could be concluded that each of the identified variables of: the reaction after dividend announcements, current degree of financial leverage, availability of alternative source of capital, liquidity constraints such as availability of cash, pattern of past dividends, the level of current earnings, growth and investment

opportunities has a significant influence on dividend decision in Bangladeshi. The study has revealed the important factors, perceived by managers working in the different levels of the organizations, which influence dividend decision in Bangladeshi firms. 

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