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PUBLICLY HELD COMPANIES

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*TO MY MOTHER AND MY WIFE*

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## ABSTRACT

Since Modigliani and Miller have written their irrelevance proposal in 1961, a fierce battle has started between three schools of thoughts and never stopped up to today. And as Bahrain is one of the world's most important financial centers, it is found inappropriate for the country to remain far from such heated financial debate. Therefore this project is carried out in the Bahraini market to explore the most important determinants of the dividend policies of the Bahraini publicly held companies. The result of the study has a striking similarity to the result contained in Lintner's behavioral model. Specifically it has revealed that the managers of the Bahraini publicly held companies believe that the dividend policy affects the value of the firms, and that the said policy is determined by certain determinants.

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# CHAPTER I

## INTRODUCTION

## 1.1: INTRODUCTION

The purpose of this chapter is to give the reader an idea on the construction of the study. It also conveys the motivation which stands behind undertaking the study, its purpose, methodology used, scope, limitation and the structure.

## 1.2 Motivation Behind Choosing The Topic:

Since 1961, when Franco Modigliani and Merton Miller wrote their classical proposition "Dividend Irrelevance" (hereafter referred to as MM Proposal), a fierce battle had started between three opposing schools of thoughts, and continued until today. The first school of thought believes that positive dividends affect the value of the firm positively; and this kind of thinking is supported by Graham and Dodd, 1951 (Brealy And Myers, 1988), Gordon (1963) (Archer And D'ambrosio, 1976) and John Lintner (1956). The second school believes that dividends are neutral and have no effect on the value of the firm (this thinking is based on certain assumptions, the details of which will be given at a later stage), and this school of thought is the one which has triggered the battle, and lead by Modigliani & Miller. The third school of thought believes in the existence of a negative correlation between dividends and the value of the firms. In other words this school thinks that the value of the company's

shares decreases with any increase in the dividend payout, mainly because the dividend income is treated as ordinary income, and is therefore taxed more heavily than capital gains. This school of thought is supported by Farrar and Selwyn, Brennan, M.J. (Abdulla, 1990). The said battle between the three schools has become too fierce, as the argument of each of them is very powerful to the extent that they have led one of the famous figures in the finance field (Fisher Black) to write an article, in 1976 i.e. after the elapse of fifteen years since the start of the debate to tell us with alas that the dividend is still a puzzle, and we don't know what the individual investor should do about dividend in his portfolio or what a corporation should do about its dividend policy (Jensen & Smith, 1984). Since Bahrain is one of the world's financial centers, it should not remain outside the circle of the said debate. And as the scene of the Bahraini market - at least to the best of our knowledge - has not witnessed any research project on the said topic, it is decided to carry out this project, with the aim of discovering the most important determinants of the dividend policy in the Bahraini publicly held companies. Non-existence of taxes in Bahrain is another motivator. This is because of the fact that most of the challenges made to MM proposal (as will be seen at a later stage) were made through the tax argument.

### **1.3: Purpose Of The Study :**

To find out the most important determinants of dividend policy in Bahraini Publicly Held Companies. To accomplish the above objective, the following null hypothesis will be tested:

There is no significant differences in the perceptions of the determinants of dividend policies amongst the managers of the different groups of Bahraini publicly held companies as classified by Bahrain Stock Exchange.

### **1.4: Scope Of The Study:**

The study covers all the Bahraini publicly held companies registered on Bahrain Stock Exchange as at 17/6/1991. The companies as at the stated date were thirty, mixed of financial and non financial firms.

### **1.5: Research Data:**

The data through which this study is made have been gathered through two sources, primary and secondary.

The primary Data Source:

1- Hand Delivery Questionnaires: Responses of 19 executives were collected through questionnaires delivered personally to the secretaries of general managers.

2- Personal Interviews: The researcher has interviewed eight executives of eight companies, two of those executives were members in the board of directors of two firms and the rest were amongst the top managements of the remaining six firms.

(3- Annual reports of few of the commercial Banks.

The Secondary Data Source:

1- Some of Bahrain Stock Exchange Periodical Reports.

2- Published and Unpublished Materials: These include text books, periodicals and a PHD. thesis (Abdulla,1990).

#### **1.6: Methodology:**

- The responses were to be obtained from peoples whose time is very valuable. At the same time the nature of the inquiry dictates that they consult others before giving their responses. Therefore the questionnaire technique is used for collection of data.

- The hand delivery system was used to make sure that the questionnaires are received by the right persons.

- For the purpose of detecting the false responses, the questionnaire was separated into two parts, the second one is used as a

cross reference for checking the accuracy of the responses given in the first part.

- Comparing the responses given by the respondents against the actions they took in the real world is another device used to detect the false responses.
- The questionnaire resembles to some extent the questionnaire made by Baker, et al, 1984.
- Due to the lack of information on the distribution and variance of the population from which the samples are drawn, the 'H' or Kruskal Wallis test, as it is also called, is employed for testing the above hypothesis.
- Due to the inability to reject the null hypothesis, the analysis and interpretations are made on the assumption of non-existence of significant differences in the perceptions of determinants of dividend policies amongst the participants of the stated groups of companies, and on the basis of the classification stated above. On the strength of this assumption the analysis and interpretations are made on the means of the responses given by the universe.

#### **1.7: Significance Of The Study:**

- As this study is the first one carried out in Bahrain on the dividend policy, it can serve to help the researchers in undertaking similar studies in this country in the future.
- The comparison between the result of this study and Abdulla's 1990, is expected to make it possible to compare between the per-

ceptions of the Bahraini & Kuwaiti managers of Bahraini and Kuwaiti publicly held companies, about issues relating to dividend policy.

#### **1.8: Limitation Of The Study:**

- Despite the immense effort put for achieving a 100% response rate, due to non cooperation of some of the executives, only a 90% response rate is reached to. This leaves a chance for the existence of non response bias.
- The financial data obtained from Bahrain Stock Exchange (BSE), which have been used to help in interpreting the findings cover a period of five years and on twenty three companies only.
- As the decision on dividend policy of each firm is taken by more than one person, the completion of the questionnaire by one person only, is seen as another limitation.
- The small size of the sample in each class.
- The limitation imposed on the employment of 'H' test (For more details read the caution made on the result of the test in page 37).

#### **1.9: The Structure Of The Study:**

- For the purpose of giving a foundation which enables to correlate the empirical part of the project with the theoretical part,

chapter two is made to give a brief survey of existing literature on dividend policy.

- Chapter three takes care of the findings, analysis and interpretation of the findings. After giving the introduction of the chapter, the hypothesis and its result have been given. After conveying the result of the hypothesis, a summary on the major determinants of the dividend policy in Bahraini publicly held companies, found as a result of the study is made. After this and before the start of the analysis, the reliability of the respondents' responses were tested.

- Chapter four ends the study by giving the conclusion.

## CHAPTER II

### BRIEF SURVEY OF EXISTING LITERATURE ON DIVIDEND POLICY DEBATE

**Introduction:** In this chapter we will shed some light on issues concerning the meaning and importance of dividend policy, mechanism, legal aspects and forms of dividend payment, possible determinants of dividend policy, the three main schools of thought of dividend policy and their debate concerning dividend policy and the value of the firm. The purpose behind this chapter is to help in formulating the hypothesis, which will be tested in the following chapter.

## 2.1) PROCEDURAL ASPECTS AND MANAGERIAL AND LEGAL DETERMINANTS OF DIVIDEND POLICY:

### 2.1.1) Importance And Meaning Of Dividend Policy:

Dividend policy is an issue which has stolen a big portion of the time of academics. Since MM'S seminal proposal of 1961, the researches on this topic have never stopped. The main goal of the academic researches is to find the relationship between the corporation's dividend policy and the price of its stock. But despite the fact that almost three decades have now elapsed since the academic community started their rigorous efforts for the discovery of the said relationship, they are still far from reaching a consensus on the issue. The academic community are still dispersed between those who believe in a positive correla-

tion between the dividend payout and the value of the firm, those who believe in the non existence of a relationship between any dividend policy and the value of the firm, once the firm's decision on its investment is made, and those who believe in a negative relationship between the dividend payout and the value of the firm. But does the issue of dividend deserve the time and effort dedicated and which will be dedicated to it by the various researchers? The reply is yes, as the knowledge of whether the dividend policy affect the value of the firm or no will benefit the companies. If the dividend policy is known to have an effect, the management of the firm will follow policies which result in maximizing the value of the firm. If it has no effect, the management will stop wasting its time in formulating and following certain dividend policy.

**What Is Meant By Dividend Policy:** According to Brealey and Myers (1988), dividend policy is a trade-off between retaining earnings on the one hand, and paying out cash and issuing new shares on the other.

#### **2.1.2) Some Legal Aspects Of Dividend Payments:**

The law, taking into consideration both of the shareholders' and creditors' interests, has put some provisions, with the aim of safeguarding the interests of both parties. Below are Some examples:

1 - Restrictions imposed on payment of dividends, when the payment is expected to lead to a capital impairment. In Bahrain the capital is defined as the nominal value of shares (Ministry Of Commerce, Art.103, P.28).

1

2 - In some places, the payment of cash dividend is prohibited, if the company is in a state of insolvency.(1)

The following provisions are imposed on Bahraini publicly held companies by the commercial companies law :(Ministry Of Commerce & Agriculture, Art. 189, p.54).

1- Each year 10% of the net profit must be transferred to a legal reserve account. This transfer can be stopped when the legal reserve reach 25% of the capital, unless the articles of association demand a higher percentage. This reserve shall not be distributed among the owners of the company. However, it can be used to ensure that dividends of at least 5% of the paid up capi-

(1) Insolvency in the legal sense occurs when the liabilities of a company exceed its assets. In technical sense insolvency simply means the inability of a company to meet the repayment of its debts when they fall due for repayment. (Horne, J. V. C.,1986).

tal, are paid to the shareholders, when the profits do not allow the payment of this minimum rate.

2- Profits realized from the sales of fixed assets shall not be distributed but should be transferred to a reserve account.

In addition, some protective covenants concerning dividend payments can be included into the bond indentures and loan agreements.

#### 2.1.3) Forms Of Dividend Payments:

The dividend can take the form of cash or stock. In addition to these forms the stock repurchase is used as an alternative to cash dividend.

#### 2.2) Dividend Policy And Value:

#### The Competing Schools Of Thoughts:

As stated earlier under motivation which stood behind making this study, the battle is still fierce between the three schools of thoughts. In this chapter the reader will be taken inside the campuses of the three schools, in order to read some of the arguments made in favour and against each of them.

### 2.2.1.: "The Bird In The Hand" School Of Thought:

This school of thought believes that the increase in the dividend payout has a positive impact on the value of the firm. In other words the current prices of the shares, other things being equal, will rise with the increase in dividend payout.

Graham and Dodd (Hess,1981), M. J. Gordon (Archer & Other,1976)

J.Lintner and Michael S.Rozeff are amongst the proponents of this school of thought. Graham & Dodd, in 1951, wrote *"The considered and continuous verdict of the stock market is overwhelmingly in favour of liberal dividends as opposed to niggardly ones. The common-stock investor must take this judgement into account in the valuation of stock for purchase. It is now becoming a standard practice to evaluate common stock by applying one multiplier to that portion of the earnings paid out in dividends and a much smaller multiplier to the undistributed balance"*.(Hess,1981,p.310 & 311).

The reason which stands behind the preference of the liberal dividends according to M.J.Gordon is the risk aversion of investors. And as running a corporation entails a risk element, a delay of the payment of dividend, increases the magnitude of uncertainty. Therefore the investor increases the rate of discount for each delay in payment of dividend (Archer & other,1976). The above argument shows an ingenuity when it is read for the first time, but as the reader takes some time to collect his thoughts and focus a bit more on the above reasoning, he will easily discover that MJG has confounded the dividend policy with investment policy. In fact when M.J.G. spoke about the increase of the uncertainty as the payment of dividends goes far in the future, he

was speaking about the uncertainty of future earnings, which are of course affected by the investment decision, which ought to be fixed and already decided on according to MMs. proposal. So in summary, what the 'Bird In The Hand ' says, is that investors do discount the future earnings of the company, which are affected by variables like operating and financial risk, and do not discount the dividends, which are simply one of the means through which the retained earnings can be distributed. John Lintner, an old proponent of this school has come with an idea which he called target ratio of dividends to current earnings, and the idea that the stockholder is entitled to a fair share of earnings. The idea of the target ratio will enable the company to stabilize the dividend payout, and to avoid any adverse stockholder reaction caused by erratic changes. (Lintner, 1956). There is no doubt that this pioneer is a respected writer, and his model has proved its ability to work in so many studies carried out by other researchers, like Fama and. Babiak (1976) (Archer & Other, 1976) and Baker, et al (1984) (Baker et al, 1984). However, as we said earlier the battle between the conflicting schools is fierce, and even this respected writer has not remained safe. However Woolridge and Ghosh argued that dividend cuts don't always signal bad news. In circumstances where the companies need funds for growth expansion, the cuts in dividends, may signal good news instead of bad news if management communicated the market with the right message. M. Rozeff, another proponent of this school, has argued that companies experiencing

or expecting to experience growth, companies with high betas, and companies with high percentage owned by insiders are expected to have low dividend payout . Rozeff has gone to the extent of saying about his model *"one of the potential uses of this model, then, is to ascertain whether the dividend payout ratio of an individual company is in line with the current market practice"* (Stern & Chew, 1986, p.325). So what Rozeff is telling us in effect is that the companies have means through which they can check whether their dividend policy is in line with the market norms. In fact he also claimed that there is an optimal dividend policy, and described it as the one which can perfectly balance the agency and the transactions cost, and thus put the combination of the two cost to its minimum (Stern & Chew, 1986). This is exactly opposite to what MM have claimed when they said that once the firm has decided on its investment policy, one dividend policy will be as good as the other.

#### **2.2.2 Some Of The Empirical Studies Which Have Substantiated "The Bird In The Hand Argument":**

One of the classic studies is the one which has been made by John Lintner in 1956 (Lintner, 1956). The study was made on the dividend policies of 28 American companies, through individual interviews with corporate managers. Most of the managers interviewed by Lintner have seen the problem as the decision on the proportion of income which they should pay as dividend rather than deciding on what proportion should be retained. The rest of the important results given by the study is the perception that the shareholders is entitled to a fair share of the firm earn-

ings. The shareholders prefer to receive a steady progression in dividends and most of the corporations use long term payout ratio or ideal ratio of dividend to current earnings. This ratio serves to ensure avoidance of erratic changes, which result in adverse reaction by investors. According to the study most of the companies move slowly toward the full adjustment through an adjustment rate. In good years where the earnings are high the companies normally make the ratio small, especially when they are close to the target payout ratio. In bad years they increase the ratio, especially if they are far from the target ratio. In summary the companies try to make dividends steady as this is highly valued by shareholders. The following example will serve to illustrate what is stated above:

Suppose a company has set its dividend payout ratio at 80%. Suppose further that the company at the end of its first fiscal year has made a profit of Bd.100. If this company is following the dividend policy followed by the majority, it will not distribute Bd.80 in dividend, but it will rather distribute a smaller percentage, say 60% i.e. Bd.60. If in the following year the company has made a profit of Bd.120, it will not be expected to change the 60% ratio. But if the company has continued making growth in its profit or at least continued to make the same profit for relatively a long period which gives the confidence that it will not be forced to cut the dividend; it will be expected to increase the ratio through a partial adjustment rate which gives a fraction of the extra profits realized to the

stockholders. If the average growth in the profit over the assumed period was 50% per annum for example, the company may change the ratio from 60% to 75%. It will also try to maintain the new ratio for a further relatively long period unless the company is forced to do a change by a compelling reason. The remaining fund from the earnings' growth which is not utilized for investment purpose is left in the company as a cushion for increasing the ratio when the profits decline, whenever possible.

Rozeff made a premise that stockholders wish management to distribute only the fund which is not used for capital investment, as this will minimize the costs associated with outside financing. But on the other hand the high dividends reduce the agency costs which arise from the separation of the firm ownership and control. From this premise he thought that the optimal dividend policy is the one which minimizes the total cost arising from the two offsetting considerations, namely the agency costs and the transaction costs. Rozeff chose a sample of 1000 companies which represent 64 industries to study how companies set their dividends payout ratios. Using the technique of "multiple regression analysis", and surrogates to represent the agency and the transactions costs, he examined the average payout ratio of the said companies over the period 1974-1980. The result obtained was consonant with his belief of the existence of an optimal dividend policy which conserve the shareholder wealth (Stern & Chew, 1986).

Asquith and Mullins(1983) have made another study, on the effect of initiating dividend payment on stockholders' wealth on 168 companies, covering the period from January 1954 to December 1980. The firms were a mixture of those who initiated dividend after a ten year interval or paid the dividend for the first time. They found that initiating dividends increases stockholders' wealth, and the subsequent dividend increases may have more positive impact on the shareholders' wealth. According to the writers the announcement of dividends conveys information above those which are conveyed through other announcement. At the end of their conclusion they stated *"The result of this research may be a solution to the dividend puzzle. In conclusion we can say that initiating a dividend policy does matter, probably as an information source, and that the market reaction is strong and positive"*(Jensen & Smith,1984,p.658). It can be seen that the writers have made the information effect as a possible cause for the strong and positive reaction of the market. Therefore it is not difficult to imagine the market's reaction in cases where it discovers that it has been deceived and the management only wanted to manipulate the prices of the firm.

The above school has also received a support from a study conducted by (Kennedy and Scott, 1984). The study which covered the period from 1967 -1976, was made on the dividend policy of large banks in USA. Its purpose was to add to the limited information available on dividend behavior of large banks and to identify the most important factors which influence the large banks' dividend decision. Each year of the above is represented by a sample of

50% of the number contained by the bank compustat tapes in that year, and the observations remaining were held back for testing the model's classification efficiency. The size of the sample of each year varied from 60 banks in 1967 to 122 in 1976. The study employed twenty variables which measure financial and geographic characteristics (like liquidity, leverage, geographic location...etc.) of the individual banks. These variables were made the independent variables and the dependent one was a four year average of the dividend payout ratio. The study used the technique of multiple discriminant analysis (MDA) for its analysis. Using the said technique the study performed a discriminant analysis for each of the ten years stated earlier. In addition to the individual analysis of each year, the study carried out a pooled analysis which contained the entire period of 1967-1976. According to the article, the study has achieved a reasonable success in determining whether an individual bank had a high, medium, or low dividend payout ratio relative to other banks and it has reached to a conclusion that bank dividend policy is influenced by certain financial and geographic factors and the inference of the dividend payout group to which a large bank would most likely belong is possible. The writers have ended their article with a great confidence in the existence of optimal dividend policies. Furthermore, they seemed to be sure that they have developed a classification functions which have the ability to determine the probable group of an individual bank. Read the following *"using these functions, an analyst can, with a few variables, designate a bank as belonging to either the high, low, or*

*medium, dividend payout group. Periodic updating of the discriminant function can provide the bank's management with a useful tool in formulating actual dividend policy. Management should be able to defend why its chosen policy is other than that predicted by the model. Such a process is valuable in confirming the soundness of a specific dividend policy"*( Kennedy & Scott, 1984,P.37). "confirming the soundness of a specific dividend

policy" !! This last sentence reveals that the writers are paying complete ignorance to what MM say. Isn't it ?

### **2.2.3: The School Of Irrelevance:**

This school of thought believes that in perfect market, and once the firm fixed its investment policy, the dividend policy does not affect the value of the firm, for the dividend in this case is one of the means through which the firm can distribute its earnings. The school argues by saying that once the investment policy is decided on, the money which will be used for dividend payout has to come from somewhere, either through issuance of debt or equity. We should remember that the money which will come through the new issue is exactly equal to the amount which has been paid as dividend, and therefore the value of the firm remain the same. All what will happen is that the stakes in the firm of some of the old stockholders will be diluted by the same amount which has been bought by the new stockholders. But neither of the two parties is better off. The old share-

holders have given up some of their stake to the new shareholders, and have received exactly the fair value in cash, and the new shareholders have received shares which have a market value exactly equivalent to the cash they have paid. The above was the main argument of MM(1961), which represents a revolution on the strong classical belief of the relevancy of dividend policy.

#### 2.2.4: Some of the Empirical Studies Substantiating The Ir-relevance School:

Since MM have proposed their dividend irrelevancy in 1961, until the end of the first half of 1970s, their proposal has remained without any empirical support, despite the fact that its logical argument has gained a strong acceptance in the academic field. In 1974, irrelevance proposal received the first empirical support, through the empirical study made by Fisher Black and Myron Scholes, which has been bred through a strong skepticism about the logic of the tax argument, which emerged in the early 1970s, and imposed a strong challenge on the MMs proposal. Black & Scholes have seen the tax argument to be vulnerable to its own 'reductio ad absurdum', and i.e. if the tax argument which says that high payout has a negative impact on the share prices due to tax effect is correct, all the companies would be expected to stop paying dividends. Why then a big majority of companies is

found to pay dividend? This has led Black & Scholes to assume that the dividend must be able to give the investors a benefit which offset the negative tax effect.

With this in minds they concluded their empirical study, which is regarded as the first rigorous empirical study on dividends and stock prices(Hess,1981). Black and Scholes studied the effect of the dividend policy on the value of the shares, through examining the behavior of the expected or real returns, instead of testing the effect through the price earning ratios (P/E). This is because when the price of a company's shares is increased due to the increase in dividend, their expected or real returns decline. The study classified all the common stocks on the New York Stock Exchange into 25 intermediate portfolio, for each of the years from 1931 to 1966. The classification was made on the basis of both dividend yield and risk . This classification was made through two steps:

**First:** The stocks were divided into five different groups on the basis of their dividend yield, ranging from highest to lowest; **and the second** was the division of each of the five groups into five subgroups on the basis of their beta or risk. This method of classification enabled Black & Scholes to hold the risk element of the securities constant, and to allow only the dividend yield to vary. In fact Black & Scholes, through the above classification & subclassification could manage to hit two birds with one

stone, as they managed to hold the risk constant in each individual portfolio, and at the same time managed to see whether the dividend yield had a different effect on stocks at different level of risk, through allowing the risk to vary between one group of portfolio and another. The result was the inability to show that differences in dividend yield lead to differences in stock returns, which implies that they were unable to show that the dividend policy affects the value of the firm. (Jensen & Smith, 1984).

J.R Woolridge and C. Ghosh ( Stern & Chew, 1986), have made another study, the result of which has substantiated the proposal of MM. It was carried out for the purpose of studying the reaction of the stock market, reported by the Wall Street Journal, to the announcement of dividend cuts made by NYSE- listed firms. Its sample contained 408 dividend cuts and omissions made over the period 1971-1982. The sample was divided into three categories:

- 1- Those dividend cuts which are accompanied by a simultaneous announcement of a decline in earnings or loss.
- 2- Those dividend cuts which come after a prior announcement of loss or earnings decline.
- 3- Those dividend cuts which are accompanied either by a simultaneous (or immediately prior) announcement of higher earnings and/or a statement of significant future investment or growth opportunities. The study has also included companies which cut or

omitted dividends and at the same time issued share dividends, and or repurchased some of their stocks.

The results of their studies are:

- 1- Generally, the market reacts very negatively to the dividend cut announcement, even if those announcements are accompanied by statements stating the need for funds to undertake profitable investment opportunities.
- 2- After a short time, the firms which cut the dividend, on average perform at least as well as the market, but those firms which appeared to have used the dividend cut to finance future growth, outperformed the market significantly. After one year from the announcement, even those which cut the dividend due to poor earnings outperformed the market .
- 3- Other Signaling means such as shares repurchase, and stock dividends when simultaneously made with announcement of dividend cut, appear to offset much of the negative market reaction caused by the cuts or omission of cash dividend.

The above results support the notion that the market does not have a preference for dividend per se over capital gains, which is originally proposed by MM.

#### 2.2.5: The Anti-Dividend School:

The Anti-Dividend or Tax Argument School Of Thought was the biggest challenge to MM proposal. This school of thought is buttressed on what at the surface seems to be strong and convincing argument, which says that the fact that most of the individuals are taxed more heavily on dividend income than capital income, makes them averse to dividend, and as a result the high payout stocks sell at a discount relative to their counter part of low payout stocks, when other things are held equal. According to this school investors demand more pre-tax returns to compensate their losses through taxes. This school of thought has gained a wide acceptance amongst the academic community in 1970's, and as already said has imposed a big challenge on MM. irrelevance. This school is supported by Farrar, and Selwyn (1967), Brennan (1970) and Litzenberger & Ramaswamy (1980 a, 1980 b, and 1982) and others (Abdulla, 1990). However, it can be easily seen that this school of thought is bearing a reason for its defeat or to say it differently it is vulnerable to its own "reductio ad absurdum", which is: If the cash dividend is associated with a negative effect on stock prices, why a high majority of the companies pay dividends. Or to say it in another way, if the companies can increase the value of their stocks, and in turn make their stockholders better off, by simply non-payment of dividend, why they do not stop it? These logical questions, as mentioned ear-

lier, have disseminated skepticism around the argument and the results obtained by the supporters of this school.

#### **2.2.6. The Empirical Studies:**

In 1979 Litzenberger And Ramaswamy made a study on dividend and stock returns, after criticizing the stated study of Black & Scholes. They claimed that the said study has reached to a distorted result due to loss of efficiency through their statistical method which was not capable to detect the effect of dividend tax on stock prices, and due to its inability to distinguish between ex - dividend and non ex dividend during the development of its proxies for the expected dividend yield.

The study of Litzenberger and Ramaswamy , 1979 (Hess,1981), like that of Black & Scholes, used a modified form of the CAPM, but while the modification made by Black & Scholes, was for taking care of the effect of dividend yield on returns, the modification made by Litzenberger and Ramaswamy was for taking care of measuring the implied difference in effective tax rates caused by different dividend yields. The sample of their study was the same to that of Black & Scholes, as it has contained all of the NYSE stocks, but the coverage was wider, as it covered the period from, 1936-1977. They found that the average dividend tax effect, was 23%,approximately, a percentage which cannot be attributed to chance alone. This has an implication that a dollar of dividend worths only 77 cents, of capital gains , while the study of Black

& Scholes (1974) came with a result which gives a dollar of capital gains a dollar of dividends.

The validity of this study was challenged by another study made by Miller and Scholes in 1981. According to Miller and Scholes, the strong positive correlation between yield and returns which has been interpreted by Litzenberger and Ramaswamy(1979) as a negative tax effect of dividends on stock prices, could be the effect of "information", communicated by dividend announcement. This is because Miller and Scholes(1981) found that in nearly a third of the ex-dividend months included in the Litzenberger-Ramaswamy study, a dividend was declared and paid in the same time, and they have found a strong evidence which shows that announcement of unanticipated dividend changes are accompanied by strong price reactions, and therefore any extraordinary change in share price can not be attributed solely to the tax effect of the dividend paid. Miller and Scholes in their study which has repeated the Litzenberger - Ramaswamy regressions, after removing all the cases where the dividend was declared and paid in the same month, found the estimate of the differential tax rate between dividends and capital gains under 4%, compared to about 23% found by Litzenberger and Ramaswamy (Hess,1981).

However, (Litzenberger and Ramaswamy,1982), reached to a conclusion which substantiated the result of their previous study. *"The conclusion of the present study is that these significant yields effects cannot be pinned to the information content in the prior knowledge that the firm will declare a dividend of unknown*

*magnitude."*

### 2.3: Possible Determinants Of Dividend Policy:

The following factors are seen by some writers to have impact on dividend policy:

- 1- Investors' preferences for current dividends or capital gain caused by the 'Bird in the hand effect' (Horne, 1986).
- 2- Cost associated with the issuance of common stock (Horne, 1986).
- 3- Taxes (Horne, 1986).
- 4- Profitable investments: The firms decision on dividend is affected by the availability of attractive investment projects (Rozeff, 1982).
- 5- Profitability: The previous and the expected profits affect the dividend payout (Brealy & Myers, 1988).
- 6- Dividends' Stability: investors attach a value to stability. All other things being the same, the stocks of the company that pays a stable dividends are expected to be sold higher than the prices of those of its counter parts which have no stability in dividend (Horne, 1986).
- 7- Liquidity: Needless to say that when the company is illiquid, it will not be in a position to pay dividend (Horne, 1986).

8- Ability to Borrow : If a company doesn't have this ability, it will restrict the payment of dividends, as this will be the only source of finance opened to the company (Horne,1986).

9- Control: when a firm pay a big amount as dividends, it may need to approach the capital market for a new equity. If the existing shareholders are unwilling or do not have the ability to subscribe , the ability of the old shareholders to control the company will be weakened. Therefore, the existing shareholders may prefer to finance the new investment from the retained earnings and receive low dividend payout (Horne,1986).

10- Number of stockholders: The knowledge of the stockholders' desire for dividends by the management is a function of the numbers of the stockholders. In fact according to Rozeff there is a negative correlation between the number of the stockholders and the knowledge of the desire (Rozeff,1982).

11- The Phase Of The Investment Opportunities: A company may face an environment rich of profitable investment opportunities. But those opportunities might be distributed in the following manner: opening a branch in area "X" after 7 years, doing an extension to its main office after 9 years and buying the project of one of the competitors after 10 years. In this situation the company may not be in a position to retain the profits in the company as the return on them are expected to be too low, for the company has no profitable investment until after a passage of a long time (Horne,1986).

- 12- Restriction Imposed Through Bond Indentures And Loan Agreement To Safeguard The Interests Of Creditors (Horne,1986).
- 13- Personal Incentives of Executives: For example it is expected that the executive will try to restrict the payment of dividend, when that executive receives an option plan, as he or she will expect the price of the stock option to go up through non payment or payment of low dividends, as the said stock options in general are not dividend protected (Lambert et al,1989).
- 14- Signaling Effect: Paying a dividend normally conveys good news to the market (Horne,1986).
- 15- Agency Considerations :According to Jensen & Meckling the separation of ownership of the firm has resulted in the existence of the agency cost. This is because of the divergence of the manager/agent interest and the owner/ shareholder interest. And in order to reduce the divergence,the shareholders/owners expend some resources on monitoring the behavior of the agent through the board of directors and through inviting auditors to audit the firms accounts. Motivating the managers through more perquisites are another way for reducing the divergence. The managers interest conflict with the interest of the creditors as well, and the alleviation of the conflict is made through bonding. All of these cost are agency cost borne by the firm. The agency cost is the difference between the market value of the firm when it is wholly owned by the management and between its value when it is less than wholly owned by the them. (Jensen & Smith 1984). Easterbrook has viewed the managers as risk averters, and their risk aversion

according to him is another source of agency cost (Easterbrook, 1984). According to Rozeff (Stern & Chew, 1986) and Easterbrook (1984), the agency cost is reduced through the dividend payout, as it is expected that the firm which pays dividend may enter the capital market for a new issue of capital, and in this case the managers are monitored through underwriters and other monitors including the present stockholders.

16- The belief that dividend policy affect the value of the enterprise (Baker, et al, 1984).

17- Managements' belief that the stockholders attach a high value to the continuity of dividend (Baker, et al, 1984).

18- Pattern of past dividends (Lintner, 1956).

Before ending up this part of the project and going to another one, we would like to give the following comments:

The list of the determinants given above may not be exhaustive, but in our opinion it contains the ones which have the biggest impact on any dividend policy, as they have been obtained from up-to-date & leading books and articles on the topic. However, the reason which stands behind the inclusion of some of the above list of determinants is the satisfaction of the context, and our questionnaire will not contain all of them. Some of the determinants like taxes, and may be option plans, are not applicable to the Bahraini market.

The number given against each determinant does not give a priority to any determinant over the others, but has been given only for the sake of reference in the case of need.

**Conclusion:** The relationship between the corporation's dividend policy and the price of its stock is still seems to be one of the mysteries, despite the huge numbers of the research studies made with the aim of discovering it, and despite the fact that more than three decades, since the start of the effort to solve this puzzle have elapsed.

### CHAPTER III

#### PRESENTATION AND ANALYSIS OF RESEARCH DATA

**3.1 Introduction:** This chapter will contain the result of testing the hypothesis that there is no significant differences in the perceptions of the determinants of dividend policies amongst the managers of the different groups of Bahraini publicly held companies, as classified by BSE, the findings and the interpretations thereto.

### 3.2 The Effect Of The Industry's Characteristics On Dividend

Policy: The effect of the industry's characteristics on dividend policy has received extensive investigation from various researchers, but a consensus on it is not reached to as yet. According to Abdulla, Dhrymes and Kurz (1964), Shapherd and Scott (1975), McCabe (1979) and Michar (1979) found a significant correlation between the characteristic of the firm and its dividend policy (Abdulla, 1990). Rozeff, however, found that the payout ratio of a company could not be explained by its industry type. Also Abdulla had found little evidence which could support the existence of an optimal dividend policy dictated by the type of the industry. It should be noted however, that Abdulla has cautioned the reader that the result of his test might have been influenced by the small numbers of firms in each sector, and by the classifications of the companies listed in Kuwaiti Stock Exchange (Abdulla, 1990).

The hypothesis employed under this survey is the non-existence of significant differences in the perceptions of determinants of dividend policies amongst the managers of the different groups of

Bahraini publicly held companies on the basis of BSE's classification. The test of this hypothesis is made through the 'H' or "Kruskal Wallis test" as it is also called. (Refer to the methodology for reason of employing this type of test). Due to the small size of firms available under each classification ( For example under the industrial sector there are only three companies and under hotels sector only three companies, including National Hotels and Bahrain Tourism Companies), the test has covered four classifications only, viz: Commercial banks, offshore banks and investments companies, insurance and the service sectors, as the number of the firms under each of these sectors is reasonable for inclusion in the test. This classification is extracted from the classification made by BSE. The responses of the managers of the four groups of industry give some indication on the existence of industry's effect. For example the expected level of future earnings is viewed by offshore banks & investment companies and by the service sector to have the greatest impact on dividend policy. The same determinant has been viewed by the commercial banks to engage rank number two after the pattern of past earnings. However, the insurance sector has placed it under rank number nine. Also the pattern of past earnings is seen as the most important determinant of dividend policy by the commercial banks. Offshore banks & investment, insurance and the services sectors viewed it to have ranks number five, eleven and three respectively. (Refer to table '3' in appendix 'A' for the factors seen by each of the four sectors to be the major deter-

minants of dividend policy). However, when the person scrutinizes the responses carefully, he will have the impression that there is a high likelihood that there are no significant differences in the responses of the managers of the various groups. Therefore it has been decided to test the responses. The later impression is substantiated as the "H" test result, as can be seen from table '4' located in appendix 'A', proved that the null hypothesis at a significance level of 5% can not be rejected. Therefore, it is concluded that the sample of the population of this study has one responses' mean. Based on this conclusion, the analysis will be restricted to the responses of the universe, and a separate analysis for each individual sector will not be made. But before moving to the next section, the readers' attention is drawn to the fact that the result of 'H' test obtained under this project, might have been influenced by the following:

- 1- The small size of some of our samples.
- 2- The classification made by BSE, as it seems that it has been made on ad hoc basis.
- 3- The number in each cell is less than five.
- 4- The fact that Abdulla has an evidence to support the existence of industry's effect (Abdulla, 1992).

### 3.3: Major Determinants Of Dividend Policy In Bahraini Publicly Held Companies:

The study has revealed that the major factors which determine the dividend policy in the Bahraini publicly held companies have a striking similarity to those contained by Lintner's behavioral model, which he developed in 1956. The most important factor in determining the dividend policy of the Bahraini publicly held firms is the expected level of future earnings. The Second important determinant is the management's concern about the continuity of the dividend payment. The third, fourth, sixth\* and seventh determinants are liquidity, availability of profitable investment, stability of dividend payment, pattern of past earnings and the informational effect of dividend respectively. The eighth rank of importance in the dividend policy has been shared by pattern of past dividend, legal requirements to pay dividend and the desire of management to maintain or increase the stock price. The study has revealed the ranks of some other factors. Those ranks will be conveyed to the reader at a later stage. However before ending up this summary and starting interpreting the findings we would like to satisfy a possible query in the

\* Rank four is shared by availability of profitable investment and stability of dividend.

mind of the reader: How to make sure that the responses received reflect the truth and do not contain false responses? The reply to this query is that the accuracy of the responses is seen through the second set of the statements contained in the questionnaire.

### 3.3.1: Testing The Accuracy Of Responses Through The Second Part Of The Questionnaire:

The following will serve to illustrate what is stated above:

#### Exhibit 1:

Level of importance: 0= No importance 1= Slight importance  
2= Moderate importance 3= Great importance 4= Maximum importance.

| Determinant (D)* |                                           | Level Of   |
|------------------|-------------------------------------------|------------|
| Number           | Determinant                               | Importance |
| 14               | The informational effect of the dividend. | 2.333      |
| 1                | Expected level of future earnings.        | 2.851      |

|    |                                                                      |       |
|----|----------------------------------------------------------------------|-------|
| 2  | Pattern of past earnings.                                            | 2.407 |
| 3  | Availability of profitable investment.                               | 2.481 |
| 15 | The desire of management to maintain<br>or increase the stock price. | 2.259 |
| 7  | Stability of dividend payment.                                       | 2.481 |
| 12 | The status of the dispersion of the<br>stockholders.                 | 0.962 |
| 5  | Pattern of past dividends.                                           | 2.259 |
| 6  | Concern about the continuity of<br>dividend payment.                 | 2.740 |
| 4  | Cost of issuing new stock.                                           | 0.888 |

Source: Primary. Data collected through questionnaire.

Exhibit 2:

Level of importance: -3= Strongly disagree -2= Moderately disagree -1= Slightly disagree 0= No opinion 1= Slightly agree 2= Moderately agree 3= Strongly agree.

| <u>P.S.Number</u> | <u>Perception Statement</u>                                                                                                | <u>Level Of Importance</u> |
|-------------------|----------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 1                 | The price of common stock is affected by the dividend payout.                                                              | 1.888                      |
| 3                 | A firm should have a target ratio of dividend/earnings and adjust its dividend payout periodically toward the said target. | 1.185                      |
| 4                 | The investors should be informed about the reasons of any change in the dividend policy.                                   | 1.925                      |
| 5                 | The dividend announcements are used by the market for assessing the value of the shares.                                   | 1.814                      |

- 8 Dividend payments serve to give signals  
about the future prospects of the firm. 1.888
- 9 A firm should not make changes in its  
dividend rates if it is not almost sure  
that it will not be forced to reverse  
them in a year or so. 0.814
- 10 The firm chose to reduce or suspend the  
payment of dividend if this can avoid  
them approaching the market for issuing  
new equity, as the cost of issuance is  
high. 0.296
- 12 A firm should struggle to retain uninterrupted  
record or dividend payment. 0.925
- 13 The importance attached to dividend  
increases as the dispersion of the  
stockholders increases. -0.250

Source: Primary. Data collected through questionnaire.

\* The number is the serial number given in the questionnaire.  
From now onward we will refer to any statement given in the first  
part of the questionnaire by 'D' which stands for determinant,  
followed by the respective number, and to any statement in part  
two by P.S. which stands for perception's statement, followed by  
the respective number also.

As an example, it can be seen from exhibit (1) that determinant number 14 (D14) has been viewed by the respondents to have a moderate importance. A glance on the level of importance given to each of statements number 4,5 and 8 (P.S. 4, 5, and 8), which have also dealt with the informational effect of dividend, will show us that each statement has received almost a moderate agreement or to say it differently a moderate importance. This is a good indicator that the responses given by the respondents to D14 are true. D15 in exhibit 1 and P.S.1 in exhibit 2 can serve as another example as each of them has received a moderate importance almost, while both are made in the same connection. D.12 in exhibit 1 and P.S. 13 in exhibit 2, which are made to examine the importance attached to the dispersion of the stockholders, can serve as another example, as the importance attached to each of them was a slight one almost. Also D6 and P.s.12 are almost in conformity as through each of them the continuity of dividend is found important, although D6 was given a moderate importance while P.S.12 was given a slight importance.

The conformity shown through the above comparison can serve to indicate that the responses of the respondents reflect the true picture of their opinions. However, there is another way through which the credibility of the responses can be examined, and that way is the verification of the responses through comparing them with what have taken place in reality. Therefore in order to

gain more trust or otherwise in the responses, all or some of them ( as whether the comparison will be made on all or on some will depend on the data available to us), will be compared with what have taken place in the real world.

### 3.4: Testing The Accuracy Of Responses Through The Practical Actions:

#### Expected Level Of Future Earnings:

As already stated earlier, the above factor has been viewed, as the most important determinant of the dividend policy. The data available for this study do not enable a judgment with a 100% confidence on whether the management responses made under the above heading is true or no. However, the following table, which has the aggregate figures of the net profits, DPR and EPS of 23 companies, can be employed to indicate whether the responses made under the above heading conforms with the action taken in the real world or no.

Exhibit 3:

Table Showing The Net Profits, Dividend Payout Ratio And Earnings Per Share Of 23 Publicly Held Companies Over The Period 1985-1989:

| Year | Profit (Bd.000) | Dividend Payout<br>Ratio (DPR) | Earnings Per Share<br>(EPS) |
|------|-----------------|--------------------------------|-----------------------------|
| 1985 | 2622.870        | 0.411                          | 0.222                       |
| 1986 | 1925.913        | 1.020                          | 0.144                       |
| 1987 | 424.609         | 0.450                          | 0.041                       |
| 1988 | 2913.087        | 0.455                          | 0.189                       |
| 1989 | 3115.000        | 0.618                          | 0.159                       |

Courtesy of Bahrain Stock Exchange.

From the above exhibit it seems that the relatively low DPR. made in 1985, is in conformity with the response obtained about the importance of the future profits, as it can be seen that the profit has witnessed a decline in 1986. In fact 1986 was expected to be a difficult year as can be seen from the following "We expect the Bahrain economy to carry on developing moderately albeit, a period of austerity and retrenchment is imminent." Alahli Commercial Bank (1985:5). The same report has also stated that (Moderate output growth and low inflation in the industrial countries was forecast for 1986 while most developing countries might hope for some acceleration in growth).

1986's DPR:

The high ratio of dividend payout distributed in 1986, coupled with a large decline made in the profit in 1987 will give a strong impression of the existence of a contradiction between the response given by respondents under the expected level of future earnings, and the action they have taken in reality. But when the person looks more deeply he may change his impression. This is because the response given by the respondents under the importance of the expected level of future earnings, should not be translated in isolation, but should be correlated with the other responses. It should for example be correlated to their response to P.S.3 which is related to the target ratio of dividend/earnings, and for which they attach a slight importance. Therefore so long the firms are keeping a target payout ratio and are moving to that ratio gradually, the person will be led to assume that in 1985, (taking into consideration the magnitude of the profit they made) the ratio they have distributed was below the target ratio, and therefore the significant increase in the ratio of 1986, might have been financed from the 1985's undistributed cash. We should also correlate their response about the level of future earnings to their response to D3, which is related to the availability of profitable investment, which has been characterized to have a moderate importance. 1987 was expected to be a year of uncertainty, as can be noticed from the

following: " *Particularly so in the face of the bank's expanding risk assets portfolio in an economic environment currently more prone to business failure.*" ( Chairman Report, Grindlays Bahrain Bank (GBB) Annual Report And Account, 1986:5). The chairman of

National Bank Of Bahrain (NBB) has also expected the economic conditions to continue to be difficult in 1987 (NBB,1986).

And it is clear from exhibit 3 that 1987 was not a good year and this means that the profitable investments were rare. Therefore, the increase in the DPR.of 1986 can be justified, for the firms could not invest the cash in profitable investment and under such circumstances it would be wise to repay them to the stockholders.

Therefore, the contradiction which was appearing at the surface has got no real existence, and again the action taken by the respondents in respect of the above DPR. seems to conform with their responses.

#### 1987's DPR:

The above ratio like the previous one may pave the way for a wrong impression, if the examiner has looked to it from the surface, as the ratio was relatively small, while 1988 has witnessed a significant rise in the profits. Therefore, again a care must be exercised before drawing any conclusion, especially when already deduced up to now, that the responses of the respondents seem to conform with their actions. So why the management have acted the way they had. There is a possible reason that they ex-

pected 1988 to be a bad year, although the events have made out of it, as can be seen from the profit result given in exhibit 3 above, a good year. Their pessimistic expectations, if they were in existence, can be easily justified, as during that year the war between Iran and Iraq has witnessed its darkest period, although the cease fire was reached to at a later stage during the year. So if this was the case, while it is coupled by the fact of the existence of the possibility that the firm has reached to its optimum target ratio by the end of 1986, and therefore it had no spare cash to sustain a high ratio in 1987, it can be seen again that the actions of the respondents conform with their responses. The assumption that 1988 was expected to be a good year is another scenario which can justify the action taken by the management. This is because under this scenario the management might have saved the cash for the purpose of investment, for 1988 was a promising year, and that is why they have distributed the relatively small ratio in 1987.

#### 1988's DPR:

It can easily be seen from the ratio of the above year that most probably the action taken by the respondents conforms with their responses. This is because the ratio has witnessed a slight increase over that of the previous year to reflect the small rise witnessed by the profit over that of the last year. The community by the end of 1988 has expected 1989 to be a year of

growth. This fact leads to a belief that it is most likely that the firms must have left the extra cash undistributed for the purpose of investing it in profitable investments which would have prevailed in 1989. The following will serve as an indicator that the community was expecting 1989 to be a good year. According to the chairman of GBB, greater economic activity was expected to take place in 1989. In 1988 which has witnessed the announcement of cease fire between Iraq & Iran, "major construction contracts which included the new headquarters of Batelco and extension of Bahrain Defense Force Hospital were commenced or announced" ( GBB.Reports & Accounts, 1988:6). Also the chairman of the board of directors of Bank Of Bahrain & Kuwait (BBK) has expected the economic activity to expand in 1989 (BBK,1988). Another scenario is also possible. Exhibit 1 above shows that the respondents have attached a moderate importance to D2, i.e. the pattern of past earnings. And a glance on the past earnings in exhibit 3 can show us that the pattern shows a wide fluctuations. This fact dictates on the management to exercise caution before they increase the DPR.

#### 1989's DPR:

Again the DPR. of the above year indicates that most probably the action of the firms' management conforms with their responses. This is because the business community was expecting 1990 to be a good year, and therefore the DPR. of 1989 was high in comparison to that of 1988. The chairman of the board of directors of BBK

has expected the impact of the positive trends and upward indications appeared in the economy during 1988 to be more apparent in 1990 and beyond (BBK 1989). However there is a possibility that some of the readers might not be convinced by the above justification and they may ask why the management has increased the ratio significantly? Why they have not made just a small rise, and used the extra cash for the abundant profitable investment, as this was the argument used for the justification of the management action of the previous year? The reply to this, is that there is a high probability that the management has saved enough cash from the year before, when they distributed a relatively small DPR. while the profit had witnessed a significant increase. In 1989 the profit has witnessed only a moderate increase.

Concern About Continuity Of Dividend Payment:

Table Showing Average Earnings Per Share(Average EPS), Number Of Companies That Paid Dividend And Their Percentage To The Total Number Of Companies, For The Period 1985-1989:

| Years                           | Average<br>EPS | Number Of Companies<br>Paid Dividend | Total Number<br>Of Companies* | % age Of   |
|---------------------------------|----------------|--------------------------------------|-------------------------------|------------|
|                                 |                | (1)                                  | (2)                           | (1) To (2) |
| 1985                            | 0.222          | 16                                   | 23                            | 70         |
| 1986                            | 0.144          | 18                                   | 23                            | 78         |
| 1987                            | 0.041          | 15                                   | 23                            | 65         |
| 1988                            | 0.189          | 17                                   | 23                            | 74         |
| 1989                            | 0.159          | 18                                   | <u>23</u>                     | 78         |
| Average Yearly Percentage ..... |                |                                      | <u>73</u>                     |            |

Courtesy Of Bahrain Stock Exchange.\* Data Available on 23 companies only out of 30.

The above table stands to indicate that the response given by the management about the importance of the continuity of the dividend payment corresponds with their action in reality, as even in the dark years when the earnings have fallen considerably , the average percentages of the companies which have paid dividend to those who have not paid, have never fallen below 65%. It has

also been seen that the management use the DPR technique upon taking the decision on the distributed dividends, and this is another indicator which indicates that the responses of the management under the concern of the continuity of dividend conform with their actions, as without the existence of the ratio, it will not be possible to maintain the continuity.

#### Stability Of Dividend Payment:

The following table will serve to indicate whether the responses given by the respondents under stability of dividend correspond with their action in the real world.

Table Showing The Mean(M), Standard Deviation(STD) And Coefficient Of Variation (Cov) Of Earnings Per Share (EPS), Dividend Per Share (DPS) And Dividend Payout Ratio (DPR):

| Years | 1985  | 1986  | 1987  | 1988  | 1989  | M     | STD   | COV.  |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EPS   | 0.222 | 0.144 | 0.041 | 0.189 | 0.159 | 0.151 | 0.061 | 0.403 |
| DPS   | 0.114 | 0.106 | 0.114 | 0.105 | 0.177 | 0.123 | 0.027 | 0.219 |
| DPR   | 0.411 | 1.020 | 0.450 | 0.455 | 0.618 | 0.590 | 0.226 | 0.383 |

Courtesy Of Bahrain Stock Exchange.

The above table lends some support to the respondents as it indicates that what they said in respect of the importance of the

stability of dividend payment has found its way to reality through their actions. This can be seen from the coefficient of variation which measures the relative variation. The least coefficient of variation has been given to the dividend per share, and this testifies that it is the most consistent variable between the three. The second least has been given to the dividend payout ratio, and this means that this variable comes next after DPS. in terms of stability. The largest coefficient of variation is given to earnings per share to reflect its inconsistency in comparison to the other two variables.

The verification of the response made by the management about the importance of the above determinant ends the process of examining whether the responses made by the management to the importance attached to each determinant, conform with their actions taken in the real world. During the process, responses made in respect of expected level of future earnings, dividend payout ratio, availability of profitable investment, concern about the continuity of dividend payment, stability of dividend and pattern of past earnings were verified. The pattern of past dividend has also indirectly been verified through the verification of the DPR., for the decision on the DPR. requires by necessity paying consideration to pattern of past dividend. The data available can not support the verification of the rest of the management's responses. However, it can be said that the result of the above verification of the responses gives a strong indication

that the responses given by the management correspond to their actions in reality, as the six determinants we have verified are amongst the first eight most important factors of the firm's dividend policy, whilst the rest of the responses were checked against the statements contained in the second part of the questionnaire, and indicators on the conformity have been seen through the usage of that technique as well.

### 3.5: Analysis And Interpretation :

#### Expected Level Of Future Earnings:

Expected level of future earnings is a factor usually viewed to place a high impact on the dividend policy. In order to investigate this notion, the respondents were asked to rank the following statement according to its level of importance in the dividend policy. " Expected Level Of Future Earnings". As mentioned previously, the above factor is found to be the most important determinant of the dividend policy of the Bahraini publicly held companies. This finding corresponds with the finding of Baker et al, as according to them they found that the anticipated level of firm's future earnings was the most important factor of the firm's dividend policy (Baker et al, 1984). It seems that it also corresponds with the finding of Lintner, as according to him, the management they interviewed had believed in general that, unless there were other compelling reasons to do otherwise, the management fiduciary responsibilities and standards of fairness call for the distribution of part of any substantial increase in earnings to the shareholders in dividends.(Lintner,1956,p.100). He also found that "the major changes in earnings or levels of earnings ' out of line' with existing dividend rates were generally seen to be the most important determinants of the company's dividend decisions" (Lintner,1956,p. 101). Although Lintner had not specifically

mentioned the expected level of future earnings per se as one of the determinants, it can be believed that he made it as a part of whole of the companies earnings, as most probably a decline in the expected earnings will be one of the major items which constitute the "Compelling reasons" which according to him are the only reasons which can justify the management actions in not distributing part of any substantial increase in earnings to the shareholders in dividends. However, Brealy and Myers have seen managers to take future prospects into account when they set the dividend payment (Brealy And Myers, 1988). In fact the management response under the above factor is consistent with their responses given under the importance of concern about the continuity of dividend payment and stability of dividend as they have attached almost high and moderate importance respectively to each of these two factors as will be seen later.

#### Concern About The Continuity Of Dividend Payment:

The study has also revealed that the continuity in dividend payment comes second in importance in the chain of the dividend policy determinants. This finding is in line with the finding of Baker et al, as their statement "*A firm should strive to maintain an uninterrupted record of dividend payment*" has received a strong agreement, and it has been given rank number 2 by one sector of their respondents and it has received rank number 3 from each of the other sectors (Baker et al, 1984, p. 81). Our find-

ing also corresponds with Lintner's belief. " A prudent foresighted management will always do its best to plan ahead in all aspects of financial policy to avoid getting into such uncomfortable situations where dividends have to be cut substantially below those which the company's previous practice would lead stockholders to expect on the basis of current earnings. Stockholder reactions in such situations have been sufficiently vigorous and effective in enough companies that the fear of such a reaction is an effective 'burr under the saddle' to all managements, including those which have never been in such difficulty themselves." (Lintner, 1956,p.101). Needless to say that although the statement quoted has spoken about substantial

dividend cuts, the omission of dividend is certainly implied, as if the stock holders' reactions to the cut are vigorous and effective, they will naturally be more vigorous and more effective under situations which witness dividend omission. In fact the

above finding is in conformity with the finding found by Abdulla through his study which he made on companies listed on Kuwait Stock Exchange(KSE), as according to him 72.1% of the

participants in the study " believe that avoiding changes in their dividend payments that may be reversed later is one of the prime consideration in the board of directors' deliberations prior to their dividend decisions" (Abdulla, 1990, p.111).

#### Liquidity:

The study has shown that liquidity comes under the third level of importance in connection with the effect on the firm's dividend policy. This finding is strikingly similar to the finding of Baker et al, as their study has revealed that the availability of cash was a third factor viewed as important in determining dividend policy (Baker et al, 1984). Some may argue by saying that availability of cash is not a counterpart of liquidity, as a

firm might be viewed as liquid, although it may not have a present cash. This statement is true, but it should be remembered that the said company will not be viewed as liquid, unless it has some other financial assets, which have the characteristic of easy conversion into cash with a negligible cost, and in this case, the case is boiled down to a situation in which the company has a ready cash. This finding has also a support from Abdulla, who found that 83.7% of his respondents believe that the cash flow is an important factor in determining the dividend payment's level (Abdulla, 1990). In fact even Lintner has implicitly attached a high importance to cash through his finding that companies generally have target payout ratios and they move toward those ratios through periodical adjustment rates (Lintner, 1956). This is because, that this finding implies that any need for cash is taken into consideration in advance, before moving to the optimum ratio through the rate of adjustment. Van Horne also views the cash as an important consideration (Horne, 1986). As a matter of fact it would have been surprising if the responses of the management did not pay a high value for liquidity, as it would be difficult to imagine how a company can pay cash dividend if it is illiquid. It is expected that somebody may argue by saying that it can borrow and pay dividend. It should however be remembered that it will be difficult for the illiquid firm to find a lender. In fact the firm in this case will be vulnerable to bankruptcy or liquidation, as some of the unpaid creditors may sue it to demand their rights.

### Availability Of Profitable Investment:

Amongst the findings, we found that the above factor comes fourth in importance in determining the dividend policy. This finding is in conformity with that of Rozeff, as he found that companies who experience or expect to experience growth pay lower dividend payout ratios. In fact he viewed this finding as a support to "the view that investment-policy influences dividend

policy"(Stern & Chew,1986, p.326). Rozeff found that " *A company forecasting an annual growth rate of 7% can be expected to have a payout ratio eleven percentage points higher than a company with an expected growth rate of 20 percent* " ( Stern & Chew,1986, p.325). The finding is again in conformity with the previous finding of Lintner, the periodically adjusted dividend payout ratio. If the conformity is not obvious, consider the following example: Suppose that a company pays Bd.3 for each share in dividend on income almost stable at Bd.6 for each share. Suppose further that the earnings of the said company is increased to Bd.9 per share and has reached to a reasonable stability at the new level. In this case if the firm see good opportunities for profitable investment, holding other things equal, the company is not expected to make full adjustment in its dividend rate i.e. the firm is not expected to pay Bd.4.5 in order to reach to its optimum payout ratio, on the assumption that Bd.3 was the optimum payout ratio. Most probably under these circumstances the firm may make a partial adjustment like paying Bd.4 or Bd.4.25 For example. Part of the cash saved as a result of the gap between the

new payout ratio and the old or optimum ratio will be used for investment purposes and the second part will be used for helping the company to pay some dividends during the bad years, when profits do not allow payment of dividends.

### Stability Of Dividend Payment:

According to the participants in the survey the stability of dividend payment comes fourth in the ranks of dividend policy determinants, sharing the rank with the availability of profitable investment. The relatively high importance attached to this factor is consistent with Lintner's findings, as according to him many management believe that the majority of stockholders prefer a reasonably stable rate of dividend payment and the market pays a premium on stability or gradual growth. The management principal device to reach to a reasonably consistent pattern of dividend is the dividend payout ratio (Lintner, 1956). The responses of the management under the above determinant is also in conformity with the result of Abdulla's seminal study made in the Gulf, as he found that maintaining a stability of dividend either through stabilizing the rate of dividend per share or through maintaining a percentage of the firm's paid in capital is an important consideration which affect the dividend decision of many of the KSE's listed companies (Abdulla, 1990).

### Pattern Of Past Earnings:

Most of the findings disclosed so far leads the person to expect the management to believe that the above factor is one of the important determinants, and that is what has happened, as they viewed it to engage rank number six in the hierarchy of the important determinants of dividend policy. Again, this finding is in line with Lintner's finding, as according to him the pattern of past earnings enters as important factor in deciding on the

firm target payout ratio. *"Among the more important factors which had more or less consciously and rationally entered into these standard were: the growth prospects of the industry .... and internal fund flows, judged by past experience ..."* (Lintner, 1956, p. 104). It will not be difficult to imagine the importance

of the pattern of past earnings once we take into consideration that the pattern of past earnings is one of the most important

indicators of the future earnings, which has been found by Baker et al and by this study, as the most important determinant of dividend policy. Fama & Babiak have also, like Lintner, found the pattern of past earnings an important determinant, through their finding that managers take decisions to increase dividend only when they become reasonably sure that they can keep the dividend permanently at the new level (Archer & D'ambrosio, 1976). Consult the following table:

# Direction Of Recent

| <u>Earnings Changes</u> |          |         | <u>Proportion Of Companies</u> |           |          |
|-------------------------|----------|---------|--------------------------------|-----------|----------|
| Current                 | Previous | 2 years | Increasing                     | Maintain- | Reducing |
| Year                    | Year     | Earlier | Dividend, %                    | ing       | Dividend |
|                         |          |         |                                | Dividend, | , %      |
|                         |          |         |                                | Percent   |          |
| +                       | +        | +       | 81                             | 8         | 11       |
| +                       | +        | -       | 67                             | 15        | 18       |
| +                       | -        | +       | 58                             | 17        | 25       |
| -                       | +        | +       | 54                             | 15        | 32       |
| +                       | -        | -       | 49                             | 18        | 34       |
| -                       | +        | -       | 45                             | 19        | 36       |
| -                       | -        | +       | 35                             | 17        | 48       |
| -                       | -        | -       | 25                             | 25        | 50       |

Source: Fama, E.F. And Babiak, " Dividend Policy: An Empirical Analysis," Journal Of The American Statistical Association, 63: 1132-1161 (December 1968), p.1134, in (Brealy, & Myers, 1988).

## The Informational Effect Of Dividend:

The study has revealed that the above factor is of a moderate importance, and comes under rank seven, in the hierarchy of the main determinants of the firm dividend policy. This finding corresponds with the finding of Baker et al, as they found that respondents have agreed relatively strongly that dividend payout affects common stock prices ( Baker & Others, 1984). This find-

ing also corresponds to the belief of Miller, M. H. & K. Rock, as according to them there is an asymmetry in information available to insiders - the management - and the outsiders i.e. the investors, and therefore the dividend can be used as a mean for sending signals about the firm's prospect (Miller & Rock, 1985).\* In fact our above finding is also supported by finding found by investigators amongst the strongest proponents of MM proposal, namely Black & Scholes. These two writers believe that a change in dividend make some indications about the probable future course of the firm's earnings.

\* If Miller & Rock can prove beyond any doubt the existence of asymmetry in information between the two parties, they can render the belief of the irrelevance school redundant, as perfect market, which implies non asymmetry in information is the main buttress on which MM proposal is built.

However they have also found that if the new expectation they have made as a result of the change in the dividend policy proved to be wrong, the effect of the information disappears\* (Jensen & Smith, 1984). The finding does also have a support from the finding of Abdulla (1990), as he found that the management uses the dividend payment as a signaling tool.

\* Our study did not approve or disapprove this second finding, and it has been stated in here because non stating it will distort the findings of Black & Scholes.

Pattern Of Past Dividend, The Desire Of Management To Maintain Or Increase The Stock Price And Legal Requirement:

The respondents have made the above three determinants to share rank number eight of the level of importance. However although they have been made to engage the said rank, and which may seem to the reader late in the sequence of the hierarchy, the three determinants are viewed as important in the dividend policy, as the weight given to each of them, makes each to have a moderate importance.\* The responses received in connection of pattern of past dividend is in line with the finding of Lintner, who found

*"that many management believe that most stock-holders prefer to have a reasonably stable rate and that the market puts a premium on stability or gradual growth in rate"*(Lintner, 1956, p.99). According to the same researcher, companies in their effort to avoid erratic changes in rates use the device of target payout ratio (Lintner, 1956). It is clear that the firms in order to decide on the said target ratio, must - if it wants the ratio to lead to the avoidance of erratic changes in dividend- take the pattern of past dividend into consideration. Baker et al found the pattern of past dividend as one of the two most highly ranked determinants (Baker et al, 1984). The management's response in respect of the importance of the factor, which has

\* Moderate importance according to the weighting of the questionnaire = 2, while each of the said factors has received 2.259. Refer to Table (2) in appendix (A).

resulted in the start of the battle of the debate of the dividend policy, specifically the desire of the management to maintain or increase the stock price almost corresponds with the finding of Abdulla, as he found that his respondents believe that dividend announcement influences the price of the stock (Abdulla, 1990). It is also consistent with the finding of Baker et al, as they have found that this factor has come fourth in importance (Baker et al, 1984). The finding is not consistent with the proposal of MM, but this does not mean that it can serve to support the relevance school against the irrelevance school, as the school of irrelevance has put the existence of a perfect market as a condition for the crystallization of their proposal, while the market of Bahrain is not perfect, as can be seen from the existence of fees, asymmetry in information...etc. The result found in respect of the legal requirement indicates that most of the Bahraini publicly held companies are affected by the law. This is contrary to the belief of Horne, who believes that legal restrictions are unimportant in most dividend decisions, and only some companies are affected by them. This however, does not constitute a surprise. This is because of the fact that each state has its own law, through which issues relating to the dividend and issues relating to all of the affairs governed by the state, are regulated, and therefore it is natural for the responses on issues made in connection with the law's impact to differ from one country to another to reflect the effect of the

law in each state. In Bahrain the law seems to have a moderate impact on the dividend decision. This prompts the question of "why the impact is so heavy in Bahrain?" The reply to this question might be seen in the following: The law requires the firm to transfer 10% of the net profit in each year to a legal reserve account, until the reserve reaches 25% of the capital. The law also dictates on the companies to distribute, in the bad years, a minimum ratio of 5% of the paid up capital, as long as the legal reserve account permits doing so. At the same time it restricts the companies from distributing the reserve account among the owners of the company. The companies, however, can use the legal reserve fund for the distribution of the above ratio or even of a larger one when the profits are low. Among the restrictions imposed by the law on the companies is non permitting the companies to distribute the profits realized from the sales of fixed assets, and dictating on them to transfer the said profits to a reserve account kept for the purpose of restoring the assets of the company (Ministry Of Commerce And Agriculture (M.O.C. & A), Art.189). The law also does not allow the company to decrease its capital without the consent of the general assembly in extraordinary meeting (M.O.C. & A, Art.125 ). So, from the above, it can be seen that some of the requirements, especially the building of reserves and the 5% ratio minimum requirement in dividend pay, are expected to impose some impact on the companies. The above might be the reasons or at least some of the reasons which led the management of the Bahraini publicly held

companies to attach the said level of importance to the legal requirement.

#### Ability To Borrow:

This factor has engaged rank number eleven in the hierarchy of importance. Its importance lies between slight and moderate as its weight or mean is 1.777.\* This finding seems somewhat in

line with Lintner's. *"If investment opportunities were particularly abundant and could not be financed with the fund currently available after dividend had been increased in line with the established policies, the remaining investment projects which could be undertaken only through outside financing were re-examined to make sure that they were sufficiently desirable as to justify the company in having recourse to outside capital. If so, the necessary capital was raised and the projects were undertaken; if not, the projects were abandoned. In the companies which as a matter of policy would not go to the outside market except in most extreme circumstances, the capital budget year by year was simply cut to fit the available funds"* (Lintner, 1956, p.105 and 106).

#### Satisfaction Of The Existing Shareholders To Retain The Same Ability To Control The Organization:

This factor has been seen to have a slight importance and engaged rank number twelve at a weight of 0.888. This finding seems to be conflicting with the finding of Micheal Rozeff as he found that dividend has a positive correlation with the number of outsiders

\* According to the weighting of the questionnaire slight importance = 1 Moderate importance = 2

who bear the company's shares ( Stern And Chew, 1986) . This could mean that the management of the companies listed with BSE. view one shareholder as good as another, as they may believe on the belief of Horne, and that is the control can work two ways. The stock holders who in cases when the company enters the capital market to sell new stock for financing the dividend payment, can not buy any or enough shares which enable them to retain the same percentage in the ownership of the company, may prefer to receive low dividend. On the other hand when the company tries to satisfy the desire of this type of stockholders through distributing low dividend, it exposes itself to a take over risk, especially when there is an existing company or individual investors who view the company as a take over target, as in this case the people seeking the takeover may make use of the low dividend for convincing the shareholders that the company is not maximizing their interest ( Horne, 1986).

#### The Status Of The Dispersion Of The Stockholders:

Rozeff as we have already stated under the previous factor has found that as the dispersion of the stockholders increases, the dividend payout ratios increase. " A tenfold increase in the number of a company's shareholders from 500 to 5000 typically raises the dividend payout ratio by six percentage points; another tenfold increase, from 5000 to 50000 shareholder, would raise the expected payout by another six points" (Stern, And Chew,

1986, p. 325). He reasoned the positive correlation between the dispersion of the stockholders and the dividend payout by the reduction of agency cost, through the additional information. Rozeff assumes that when firms pay dividends to stockholders, they enter the capital market issuing new securities to finance existing and new investments. This process benefits the existing shareholders by putting them in a positive position which enables them to observe the terms under which the new fund is raised. Through the new issue the existing shareholders can identify the new supplier of funds. There is also a strong likelihood that the new lenders and the new equity suppliers will not supply the fund, unless they are informed of its uses, and this will give additional information to the existing shareholders.

However, managers of BSE's listed companies didn't attach any importance to the above factor, as they gave it a weight of only 0.962, making it to fill rank number thirteen. This belief seems in consistency with their belief in respect of the importance attached to the concern about the continuity of dividend payment and to the stability of dividend, as they highly valued these two factors. Therefore, as long as they are highly concerned with stability and continuity of dividend, they are not expected to correlate the magnitude of dividend payment with the number of the shareholders.

### Cost Of Issuing New Stock:

According to Rozeff the transaction costs influence the dividend payout ratios of the firm ( Stern, And Chew,1986). However, this study has found that the impact of the abovementioned factor is negligible, as it has been given a weight of 0.888 and engaged rank number fourteen in importance, sharing the rank with the effect of dividend in reducing the agency cost. This indicates that the cost of issuing new stock in Bahrain is low. Unfortunately, information on the cost of issuance are not available for this study, but the following may help in envisaging the magnitude of the said cost:

- 1 - The middleman's fee collected for his work in connection with buying and selling of common stock has been set by the Minister of Commerce & Agriculture at 0.25% of the total value of any shares' consignment which has a value of Bd. 10,000 or less. The minimum fee is Bd. 1/=.
- 2 - The fee is reduced to 0.125% on any value over Bd.10,000/=.
- 3 - The fee is collected from each of the consignment parties. (BSE,1990).

### The Effect Of Dividend In Reducing The Agency Cost:

As already discussed under the analysis of the status of the dispersion of the stockholders, Rozeff, believes that dividend results in reduction of the agency cost. Easterbrook also believes that agency cost, like monitoring of managers and the cost resulted from the managers' risk aversion can be reduced through the dividend payments (Easterbrook, 1984). For more details read the agency cost under possible determinants of dividend policy in page 31. Our finding however has not supported the beliefs of the two writers. A justification for the responses made by the respondents in this connection might be found in the frustration which invaded Fisher Black when he thought that stockholders preference of \$2 in dividend over \$2 invested in assets might be a good reason for paying dividends, but soon realized that the changes in the values of the stock and bonds, created as a result of the change in dividend policy are so small to the extent that they would not be detectable. And if the impacts are large, the company can negotiate with the creditors. And if the company agrees not to pay any dividend at all, it can be assumed that creditors will give better credit terms, and this will eliminate the negative effects caused by the dividend cut (Jensen & Smith, 1984).

**Conclusion:** The above chapter has shown that the null hypothesis which states that there is no significant differences between the perceptions of the managers of the various groups of companies as classified by BSE, could not be rejected. It has also shown that the perceptions of the participants resembles the perceptions of those who participated in Lintner's (1956), Baker's et al (1984) and Abdulla's (1990).

CHAPTER IV

CONCLUSION

**Introduction:** This chapter aims to summarize the main conclusions derived from the analysis carried out in the preceding chapter.

#### 4: Conclusions:

The result of the survey has shown a high conformity with Lintner's behavioral model, developed by him in 1956. The study has shown the expected-level of future earnings as the major determinant of dividend policy with a weight of 2.851, followed by the concern about the continuity of dividend payment in the second rank, with a weight of 2.74 and liquidity in the third rank, with a weight of 2.592. Each of the said three factors is viewed to have almost a great importance.

This study has attached to each factor contained by the continuum of availability of profitable investment, stability of dividend, pattern of past earnings, the informational effect of dividend, the pattern of past dividends, legal requirements to pay dividend and the desire of the management to maintain or increase the stock price a value of moderate importance.

The factors of ability to borrow and the satisfaction of the existing shareholders to retain the same ability to control the organization have been viewed to have a slight importance.

The continuum constituted of the status of the dispersion of the stockholders, the effect of the dividend in reducing the agency cost and the cost of issuing new stock has been seen outside the circle of dividend determinants, and has no influence on the dividend policy.

The study has also given some indication that the shares of the companies which pay high-dividend - other things equal - command higher prices than those who pay low dividend.

It has also revealed that there are no significant differences between the opinions of the respondents of the various groups of companies as classified by BSE, in connection with the determinants of dividend policies. This finding is in line with the finding of Rozeff, as he found that the industry of a company does not help in explaining its payout ratio ( Stern & Chew, 1986).

The study has also shown through its theoretical part, that the researchers are far from reaching to a consensus on the effect of dividend policy on the value of the shares, despite the passage of more than three decades since they started their research on the issue.

It is important after ending the conclusions to remind the reader that this study was carried out in a non-perfect market, and therefore its finding can not be taken as one of the testimonies against MM proposal.

APPENDIX ' A '

# Distribution Table

## Major Determinants Of Firms Dividend Policy

| Level Of Importance                                                                                                                                                     | 0      | 1      | 2      | 3      | 4      | Total Mean |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|--------|--------|--------|------------|
| 1- Expected Level Of Future Earnings                                                                                                                                    |        |        |        |        |        |            |
| %age of response                                                                                                                                                        | 0.1111 | 0      | 0.1852 | 0.3333 | 0.3704 | 1          |
| Weight                                                                                                                                                                  | 0      | 0      | 0.3704 | 0.9999 | 1.4816 | 2.851      |
| 2- Pattern Of Past earnings.                                                                                                                                            |        |        |        |        |        |            |
| %age of response                                                                                                                                                        | 0.0740 | 0.1111 | 0.2962 | 0.3703 | 0.1481 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1111 | 0.5925 | 1.111  | 0.5925 | 2.407      |
| 3- Availability Of Profitable Investment                                                                                                                                |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.0370 | 0.1851 | 0.2592 | 0.2962 | 0.2222 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1851 | 0.5185 | 0.8888 | 0.8888 | 2.481      |
| 4- Cost Of Issuing New Stock                                                                                                                                            |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.4814 | 0.2592 | 0.1481 | 0.1111 | 0      | 1          |
| Weight                                                                                                                                                                  | 0      | 0.2592 | 0.2962 | 0.3333 | 0      | 0.888      |
| 5- Pattern Of Past Dividends                                                                                                                                            |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.0740 | 0.1481 | 0.3333 | 0.3333 | 0.1111 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1481 | 0.6666 | 1      | 0.4444 | 2.259      |
| 6- Concern About The Continuity Of Dividend<br>payment                                                                                                                  |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.0370 | 0.1481 | 0.1481 | 0.3703 | 0.2962 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1481 | 0.2962 | 1.1111 | 1.1851 | 2.740      |
| 7- Stability Of Dividend                                                                                                                                                |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.074  | 0.1111 | 0.2222 | 0.4444 | 0.1481 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1111 | 0.4444 | 1.3333 | 0.5925 | 2.481      |
| 8- Liquidity                                                                                                                                                            |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.1111 | 0.0370 | 0.3333 | 0.1851 | 0.3333 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.037  | 0.6666 | 0.5555 | 1.3333 | 2.592      |
| 9- Ability To Borrow                                                                                                                                                    |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.2962 | 0.1481 | 0.1851 | 0.2222 | 0.1481 | 1          |
| Weight                                                                                                                                                                  | 0      | 0.1481 | 0.3703 | 0.6666 | 0.5925 | 1.777      |
| 10- The effect of the dividend in reducing the<br>agency costs such as cost of monitoring<br>managers and the cost associated with making<br>the indentures' covenants. |        |        |        |        |        |            |
| Percentage Of Response                                                                                                                                                  | 0.4814 | 0.2222 | 0.2222 | 0.0740 | 0      | 1          |
| Weight                                                                                                                                                                  | 0      | 0.2222 | 0.4444 | 0.2222 | 0      | 0.888      |

Table (1)

(79)

P.1/4

Table (1)

(79)

P.1/4

11- Satisfaction of the existing shareholders to retain the same ability to control the organization.

|                        |        |        |        |        |        |  |       |
|------------------------|--------|--------|--------|--------|--------|--|-------|
| Percentage Of Response | 0.1851 | 0.2222 | 0.3703 | 0.1481 | 0.0740 |  | 1     |
| Weight                 | 0      | 0.2222 | 0.7407 | 0.4444 | 0.2962 |  | 1.703 |

12- The status of the dispersion of the stock-holders.

|                        |        |        |        |        |   |  |       |
|------------------------|--------|--------|--------|--------|---|--|-------|
| Percentage Of Response | 0.5555 | 0.0740 | 0.2222 | 0.1481 | 0 |  | 1     |
| Weight                 | 0      | 0.074  | 0.4444 | 0.4444 | 0 |  | 0.962 |

13- Legal requirements to pay dividend.

|                        |        |        |        |        |        |  |       |
|------------------------|--------|--------|--------|--------|--------|--|-------|
| Percentage Of Response | 0.2962 | 0.0740 | 0.1111 | 0.1111 | 0.4074 |  | 1     |
| Weight                 | 0      | 0.074  | 0.2222 | 0.3333 | 1.6296 |  | 2.259 |

14- The informational effect of the dividend.

|                        |        |        |        |        |        |  |       |
|------------------------|--------|--------|--------|--------|--------|--|-------|
| Percentage Of Response | 0.0740 | 0.2222 | 0.2222 | 0.2592 | 0.2222 |  | 1     |
| Weight                 | 0      | 0.2222 | 0.4444 | 0.7777 | 0.8888 |  | 2.333 |

15- The desire of the management to maintain or increase the stock price.

|                        |        |        |        |        |        |  |       |
|------------------------|--------|--------|--------|--------|--------|--|-------|
| Percentage Of Response | 0.1481 | 0.1111 | 0.3333 | 0.1481 | 0.2592 |  | 1     |
| Weight                 | 0      | 0.1111 | 0.6666 | 0.4444 | 1.037  |  | 2.259 |

#### Factors Affecting Firms Dividend Policy Financial

| Level of Importance                                                                                                           | -3     | -2     | -1     | 0      | 1      | 2      | 3     | Total | Mean  |
|-------------------------------------------------------------------------------------------------------------------------------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| 1- The price of the common stock is affected by the dividend payout.                                                          |        |        |        |        |        |        |       |       |       |
| Percentage Of Response                                                                                                        | 0      | 0.0370 | 0.0740 | 0.0740 | 0.0370 | 0.3333 | 0.444 | 1     |       |
| Weight                                                                                                                        | 0      | -0.074 | -0.074 | 0      | 0.0370 | 0.6666 | 1.333 |       | 1.888 |
|                                                                                                                               |        |        |        |        |        | 1      | 1     |       |       |
| 2- Decision on the dividend payout is made after satisfying the firm's investment and financing requirements.                 |        |        |        |        |        | 1      | 1     |       |       |
| Percentage Of Response                                                                                                        | 0.0370 | 0      | 0.0740 | 0      | 0.0740 | 0.4444 | 0.370 | 1     |       |
| Weight                                                                                                                        | -0.111 | 0      | -0.074 | 0      | 0.0740 | 0.8888 | 1.111 |       | 1.888 |
| 3- A firm should have a target ratio of dividend/earnings and adjust its dividend payout periodically toward the said target. |        |        |        |        |        |        |       |       |       |
| Percentage Of Response                                                                                                        | 0.0740 | 0.0740 | 0.0370 | 0.0740 | 0.1481 | 0.3333 | 0.259 | 1     |       |
| Weight                                                                                                                        | -0.222 | -0.148 | -0.037 | 0      | 0.1481 | 0.6666 | 0.777 |       | 1.185 |

Table (1)

(80)

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4- The investors should be informed about the reasons of any change in the dividend policy.

|                        |        |   |   |        |        |        |       |       |
|------------------------|--------|---|---|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.0370 | 0 | 0 | 0.0370 | 0.1481 | 0.4444 | 0.333 | 1     |
| Weight                 | -0.111 | 0 | 0 | 0      | 0.1481 | 0.8888 | 1     | 1.925 |

5- The dividend announcements are used by the market for assessing the value of the shares.

|                        |   |        |        |        |        |        |       |       |
|------------------------|---|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0 | 0.0370 | 0.0370 | 0.0370 | 0.1351 | 0.3703 | 0.333 | 1     |
| Weight                 | 0 | -0.074 | -0.037 | 0      | 0.1851 | 0.7407 | 1     | 1.814 |

6- A change in the existing dividend payout has more impact than the change of the actual amount of dividend.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.0370 | 0.1111 | 0.0740 | 0.2222 | 0.2962 | 0.2222 | 0.037 | 1     |
| Weight                 | -0.111 | -0.222 | -0.074 | 0      | 0.2962 | 0.4444 | 0.111 | 0.444 |

7- The firm's financing decisions should be independent of its dividend decisions.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.1111 | 0.0370 | 0.1111 | 0.0370 | 0.1481 | 0.1851 | 0.370 | 1     |
| Weight                 | -0.333 | -0.074 | -0.111 | 0      | 0.1481 | 0.3703 | 1.111 | 1.111 |

8- Dividend payments serve to give signals about the future prospects of the firm.

|                        |   |        |        |   |        |        |       |       |
|------------------------|---|--------|--------|---|--------|--------|-------|-------|
| Percentage Of Response | 0 | 0.0740 | 0.0370 | 0 | 0.1481 | 0.2962 | 0.444 | 1     |
| Weight                 | 0 | -0.148 | -0.037 | 0 | 0.1481 | 0.5925 | 1.333 | 1.888 |

9- A firm should not make changes in its dividend rates if it is not almost sure that it will not be forced to reverse them in a year or so.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.0740 | 0.1111 | 0.0370 | 0.1481 | 0.1851 | 0.2222 | 0.222 | 1     |
| Weight                 | -0.222 | -0.222 | -0.037 | 0      | 0.1851 | 0.4444 | 0.666 | 0.814 |

10- The firms chose to reduce or suspend the payment of dividend if this can avoid them approaching the market for issuing new equity, as the cost of issuance is high.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.1481 | 0.0740 | 0.0740 | 0.1851 | 0.1481 | 0.2962 | 0.074 | 1     |
| Weight                 | -0.444 | -0.148 | -0.074 | 0      | 0.1481 | 0.5925 | 0.222 | 0.296 |

11- The possibility of paying dividends increases as the firm's ability to borrow increases.

|                        |        |        |        |        |        |        |   |    |
|------------------------|--------|--------|--------|--------|--------|--------|---|----|
| Percentage Of Response | 0.3333 | 0.1851 | 0.0370 | 0.1481 | 0.1351 | 0.1111 | 0 | 1  |
| Weight                 | -1     | -0.370 | -0.037 | 0      | 0.1851 | 0.2222 | 0 | -1 |

12- A firm should struggle to retain uninterrupted record of dividend payments.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.0740 | 0.1111 | 0.0740 | 0.0370 | 0.2222 | 0.2222 | 0.259 | 1     |
| Weight                 | -0.222 | -0.222 | -0.074 | 0      | 0.2222 | 0.4444 | 0.777 | 0.925 |

13- The importance attached to dividend increases as the dispersion of the stockholders increases.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.2222 | 0.0740 | 0.1481 | 0.1111 | 0.2222 | 0.1851 | 0.037 | 1     |
| Weight                 | -0.666 | -0.148 | -0.148 | 0      | 0.2222 | 0.3703 | 0.111 | -0.25 |

14- Once the firm has made its decision on its investment and financing policy, the dividend policy has no impact on the price of its stock.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.3333 | 0.1481 | 0.1851 | 0.0740 | 0.1111 | 0.1111 | 0.037 | 1     |
| Weight                 | -1     | -0.296 | -0.185 | 0      | 0.1111 | 0.2222 | 0.111 | -1.03 |

15- When a firm experience or expect to experience growth it reduces its dividend or pays none at all.

|                        |        |        |        |        |        |        |       |       |
|------------------------|--------|--------|--------|--------|--------|--------|-------|-------|
| Percentage Of Response | 0.3333 | 0.1481 | 0.1481 | 0.0370 | 0.1481 | 0.0740 | 0.111 | 1     |
| Weight                 | -1     | -0.296 | -0.148 | 0      | 0.1481 | 0.1481 | 0.333 | -0.81 |

Major Determinants of Dividend Policy  
In Bahraini Publicly Held Companies.

---

|                                                                                                                                                                | Mean  | Rank |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------|
| 1 - Expected level of future earnings                                                                                                                          | 2.851 | 1    |
| 2 - Patern of past earnings                                                                                                                                    | 2.407 | 6    |
| 3 - Availability of profitable investment.                                                                                                                     | 2.481 | 4    |
| 4 - Cost of issuing new stock.                                                                                                                                 | 0.888 | 14   |
| 5 - Pattern of past dividend.                                                                                                                                  | 2.259 | 8    |
| 6 - Concern about the continuity of dividend payment.                                                                                                          | 2.74  | 2    |
| 7 - Stability Of Dividend.                                                                                                                                     | 2.481 | 4    |
| 8 - Liquidity.                                                                                                                                                 | 2.592 | 3    |
| 9 - Ability to borrow                                                                                                                                          | 1.777 | 11   |
| 10 - The effect of the dividend in reducing the agency cost such as cost of monitoring managers and the cost associated with making the indentures' covenants. | 0.888 | 14   |
| 11 - Satisfaction of the existing shareholders to retain the same ability to control the organization.                                                         | 1.703 | 12   |
| 12 - The status of the dispersion of the stockholders.                                                                                                         | 0.962 | 13   |
| 13 - Legal requirements to pay dividend.                                                                                                                       | 2.259 | 8    |
| 14 - The informational effect of the dividend.                                                                                                                 | 2.333 | 7    |
| 15 - The desire of the management to maintain or increase the stock price.                                                                                     | 2.259 | 8    |

Major Determinants of Dividend Policy  
According To The Responses Of Commercial  
Banks' Managers

|                                                                                                                                                                | Mean | Rank |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
| 1 - Expected level of future earnings                                                                                                                          | 2.4  | 2    |
| 2 - Patern of past earnings                                                                                                                                    | 2.8  | 1    |
| 3 - Availability of profitable investment.                                                                                                                     | 2.2  | 6    |
| 4 - Cost of issuing new stock.                                                                                                                                 | 1    | 12   |
| 5 - Pattern of past dividend.                                                                                                                                  | 2    | 8    |
| 6 - Concern about the continuity of dividend payment.                                                                                                          | 2.4  | 2    |
| 7 - Stability Of Dividend.                                                                                                                                     | 2.4  | 2    |
| 8 - Liquidity.                                                                                                                                                 | 1.6  | 9    |
| 9 - Ability to borrow                                                                                                                                          | 0.8  | 14   |
| 10 - The effect of the dividend in reducing the agency cost such as cost of monitoring managers and the cost associated with making the indentures' covenants. | 0.8  | 14   |
| 11 - Satisfaction of the existing shareholders to retain the same ability to control the organization.                                                         | 1.4  | 10   |
| 12 - The status of the dispersion of the stockholders.                                                                                                         | 1    | 12   |
| 13 - Legal Requirements to pay dividend.                                                                                                                       | 2.4  | 2    |
| 14 - The informational effect of the dividend.                                                                                                                 | 2.2  | 6    |
| 15 - The desire of the management to maintain or increase the stock price.                                                                                     | 1.4  | 10   |

Table (3)

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Major Determinants of Dividend Policy  
According To Offshore Banks & Investment  
Companies Managers

|                                                                                                                                                                | Mean   | Rank |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|------|
| 1 - Expected level of future earnings                                                                                                                          | 3.5714 | 1    |
| 2 - Patern of past earnings                                                                                                                                    | 2.8572 | 5    |
| 3 - Availability of profitable investment.                                                                                                                     | 2.0003 | 10   |
| 4 - Cost of issuing new stock.                                                                                                                                 | 1.5717 | 13   |
| 5 - Pattern of past dividend.                                                                                                                                  | 2.7143 | 7    |
| 6 - Concern about the continuity of dividend payment.                                                                                                          | 2.8574 | 3    |
| 7 - Stability Of Dividend.                                                                                                                                     | 2.8571 | 6    |
| 8 - Liquidity.                                                                                                                                                 | 3.1429 | 2    |
| 9 - Ability to borrow                                                                                                                                          | 2.4288 | 8    |
| 10 - The effect of the dividend in reducing the agency cost such as cost of monitoring managers and the cost associated with making the indentures' covenants. | 0.8571 | 15   |
| 11 - Satisfaction of the existing shareholders to retain the same ability to control the organization.                                                         | 2.0002 | 11   |
| 12 - The status of the dispersion of the stockholders.                                                                                                         | 0.8572 | 14   |
| 13 - Legal Requirements to pay dividend.                                                                                                                       | 1.7143 | 12   |
| 14 - The informational effect of the dividend.                                                                                                                 | 2.4288 | 8    |
| 15 - The desire of the management to maintain or increase the stock price.                                                                                     | 2.8574 | 3    |
| Table (3)                                                                                                                                                      | P.2/4  |      |

Major Determinants of Dividend Policy  
According To Insurance Companies'  
Managers

|                                                                                                                                                                            | Mean | Rank |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
| 1 - Expected level<br>of future earnings                                                                                                                                   | 1.5  | 9    |
| 2 - Patern of past earnings                                                                                                                                                | 1    | 11   |
| 3 - Availability of<br>profitable investment.                                                                                                                              | 2.75 | 2    |
| 4 - Cost of issuing new stock.                                                                                                                                             | 0.5  | 15   |
| 5 - Pattern of past dividend.                                                                                                                                              | 1.75 | 7    |
| 6 - Concern about the continuity<br>of dividend payment.                                                                                                                   | 2    | 4    |
| 7 - Stability Of Dividend.                                                                                                                                                 | 1.5  | 9    |
| 8 - Liquidity.                                                                                                                                                             | 3    | 1    |
| 9 - Ability to borrow                                                                                                                                                      | 2    | 4    |
| 10 - The effect of the dividend<br>in reducing the agency cost such as<br>cost of monitoring managers and the<br>cost associated with making<br>the indentures' covenants. | 0.75 | 13   |
| 11 - Satisfaction of the existing<br>shareholders to retain the same<br>ability to control the organization.                                                               | 2    | 4    |
| 12 - The status of the dispersion<br>of the stockholders.                                                                                                                  | 0.75 | 13   |
| 13 - Legal Requirements to pay<br>dividend.                                                                                                                                | 1    | 11   |
| 14 - The informational effect<br>of the dividend.                                                                                                                          | 1.75 | 7    |
| 15 - The desire of the management<br>to maintain or increase the<br>stock price.                                                                                           | 2.75 | 2    |

Table (3)

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Major Determinants of Dividend Policy  
According To Services Sectors' Managers  
Managers

|                                                                                                                                                                | Mean | Rank |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
| 1 - Expected level of future earnings                                                                                                                          | 3.2  | 1    |
| 2 - Patern of past earnings                                                                                                                                    | 3    | 3    |
| 3 - Availability of profitable investment.                                                                                                                     | 2.2  | 8    |
| 4 - Cost of issuing new stock.                                                                                                                                 | 1.2  | 15   |
| 5 - Pattern of past dividend.                                                                                                                                  | 2.8  | 5    |
| 6 - Concern about the continuity of dividend payment.                                                                                                          | 3.2  | 1    |
| 7 - Stability Of Dividend.                                                                                                                                     | 2.8  | 5    |
| 8 - Liquidity.                                                                                                                                                 | 2.2  | 8    |
| 9 - Ability to borrow                                                                                                                                          | 1.4  | 13   |
| 10 - The effect of the dividend in reducing the agency cost such as cost of monitoring managers and the cost associated with making the indentures' covenants. | 1.4  | 13   |
| 11 - Satisfaction of the existing shareholders to retain the same ability to control the organization.                                                         | 1.6  | 10   |
| 12 - The status of the dispersion of the stockholders.                                                                                                         | 1.6  | 10   |
| 13 - Legal Requirements to pay dividend.                                                                                                                       | 3    | 3    |
| 14 - The informational effect of the dividend.                                                                                                                 | 2.8  | 5    |
| 15 - The desire of the management to maintain or increase the stock price.                                                                                     | 1.6  | 10   |

Table (3)

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Part One OF The Questionnaire:

H Test Results. Value of  $X_{0.05}$  for 4-1 degree of freedom  
= 7.815 Criterion: Reject the null

Question Number: hypothesis if  $H > 7.815$ , otherwise reserve  
judgement.

Question Number:

$$\begin{aligned} 1 - A &= 12/(20 \times 21) \times (51^2/5 + 50^2/5 + 63^2/5 + 46^2/5) - 3 \times 21 \\ B &= 1 - \{ (2^3 - 2) + (2^3 - 2) + (11^3 - 11) \} / (20^3 - 20) \\ A/B &= 1.1043 \end{aligned}$$

$$\begin{aligned} 2 - A &= 12/(20 \times 21) \times (56.5^2/5 + 48^2/5 + 61.5^2/5 + 44^2/5) - 3 \times 21 \\ B &= 1 - \{ (10^3 - 10) \} / 7980 \\ A/B &= 1.2362 \end{aligned}$$

$$\begin{aligned} 3 - A &= 12/(20 \times 21) \times (51^2/5 + 55^2/5 + 50^2/5 + 54^2/5) - 3 \times 21 \\ B &= 1 - \{ (3^3 - 3) + (7^3 - 7) \} / 7980 \\ A/B &= 0.10173 \end{aligned}$$

$$\begin{aligned} 4 - A &= 12/(20 \times 21) \times (53.5^2/5 + 45^2/5 + 64^2/5 + 47.5^2/5) - 3 \times 21 \\ B &= 1 - \{ (3^3 - 3) + (12^3 - 12) \} / 7980 \\ A/B &= 1.56748 \end{aligned}$$

$$\begin{aligned} 5 - A &= 12/(20 \times 21) \times (52^2/5 + 57^2/5 + 58^2/5 + 43^2/5) - 3 \times 21 \\ B &= 1 - \{ (4^3 - 4) + (9^3 - 9) \} / 7980 \\ A/B &= 0.89298 \end{aligned}$$

$$\begin{aligned} 6 - A &= 12/(20 \times 21) \times (48.5^2/5 + 55^2/5 + 58.5^2/5 + 48^2/5) - 3 \times 21 \\ B &= 1 - \{ (8^3 - 8) \} / 7980 \\ A/B &= 0.4788 \end{aligned}$$

$$\begin{aligned}
 7 - \quad A &= 12/(20 \times 21) \times (47.5^2/5 + 55^2/5 + 62^2/5 + 45.5^2/5) - 3 \times 21 \\
 B &= 1 - \{(2^3 - 2) + (3^3 - 3) + (11^3 - 11)\} / 7980 \\
 A/B &= 1.17267
 \end{aligned}$$

$$\begin{aligned}
 8 - \quad A &= 12/(20 \times 21) \times (57.5^2/5 + 48^2/5 + 52^2/5 + 52.5^2/5) - 3 \times 21 \\
 B &= 1 - \{(3^3 - 3) + (2^3 - 2) + (9^3 - 9)\} / 7980 \\
 A/B &= 0.286976
 \end{aligned}$$

$$\begin{aligned}
 9 - \quad A &= 12/(20 \times 21) \times (63.5^2/5 + 45^2/5 + 47^2/5 + 54.5^2/5) - 3 \times 21 \\
 B &= 1 - \{(2^3 - 2) + (10^3 - 10)\} / 7980 \\
 A/B &= 1.380923
 \end{aligned}$$

$$\begin{aligned}
 10 - \quad A &= 12/(20 \times 21) \times (57.5^2/5 + 52^2/5 + 54^2/5 + 46.5^2/5) - 3 \times 21 \\
 B &= 1 - \{(2^3 - 2) + (13^3 - 13)\} / 7980 \\
 A/B &= 0.5
 \end{aligned}$$

$$\begin{aligned}
 11 - \quad A &= 12/(20 \times 21) \times (54.5^2/5 + 51^2/5 + 53^2/5 + 51.5^2/5) - 3 \times 21 \\
 B &= 1 - \{(2^3 - 2) + (9^3 - 9)\} / 7980 \\
 A/B &= 0.04715
 \end{aligned}$$

N.B: See next page for formula used.

$$12 - A = 12/(20 \times 21) \times (50^2/5 + 56^2/5 + 57^2/5 + 47^2/5) - 3 \times 21$$

$$B = 1 - \{(2^3 - 2) + (14^3 - 14)\} / 7980$$

$$A/B = 0.4011$$

$$13 - A = 12/(20 \times 21) \times (57^2/5 + 44^2/5 + 60^2/5 + 49^2/5) - 3 \times 21$$

$$B = 1 - \{(13^3 - 13) / 7980\}$$

$$A/B = 1.26666$$

$$14 - A = 12/(20 \times 21) \times (60^2/5 + 49^2/5 + 56^2/5 + 45^2/5) - 3 \times 21$$

$$B = 1 - \{(2^3 - 2) + (8^3 - 8)\} / 7980$$

$$A/B = 0.8363$$

$$15 - A = 12/(20 \times 21) \times (60^2/5 + 48^2/5 + 45^2/5 + 57^2/5) - 3 \times 21$$

$$B = 1 - \{(2^3 - 2) + (2^3 - 2) + (7^3 - 7)\} / 7980$$

$$A/B = 0.91415$$

Formula:

\*

$$H = 12 / \{n(n+1)\} \sum_{i=1}^K R_i^2 / n_i - 3(n+1)$$

Adjustment Formula For Ties:

\*\*

$$1 - \sum_{i=1}^G (T_i^3 - T_i) / (N^3 - N)$$

$R_i$  = Sum of the ranks assigned to  $n_i$  values of the  $i$ th sample.

$G$  = Number of different Group of ties.

$T$  = No. of ties observation in the tied group of scoors.

$N$  = Total number of observation.

\* Source: Freund & Smith (1986).

\*\* Source: Groebner & Shannon (1989).

APPENDIX ' B '

Figures For Comparison

| Firm's Name/Year | 1985    |       |        |       |       |       |
|------------------|---------|-------|--------|-------|-------|-------|
|                  | N.P*    | DPR   | EPS    | DPS   | MPPS  | DY    |
| ACB              | 2301    | 0.348 | 0.288  | 0.1   | 1.73  | 0.058 |
| AIC              | 80      | 0     | 0.08   | 0     | 0.675 | 0     |
| BATELCO          | 26133   | 0.574 | 0.437  | 0.25  | 2.79  | 0.09  |
| BBK              | 0       | 0     | 0      | 0     | 2.15  | 0     |
| BCPC             | 705     | 0.748 | 0.1    | 0.075 | 1.28  | 0.059 |
| BFMC             | 646     | 0.5   | 0.3    | 0.15  | 1.55  | 0.097 |
| BHC              | 1267    | 0.669 | 0.149  | 0.1   | 1.45  | 0.069 |
| BIB              | 619     | 0.929 | 0.108  | 0.1   | 1.22  | 0.082 |
| B. INTL. B       | 5306    | 0.767 | 0.029  | 0.023 | 0.275 | 0.082 |
| BIC              | 406     | 0.222 | 0.677  | 0.15  | 2     | 0.005 |
| BKIC             | 108     | 0.667 | 0.09   | 0.06  | 1.575 | 0.038 |
| BLIC             | -468    | 0     | -0.187 | 0     | 1.2   | 0     |
| BMB              | 97      | 0     | 0.004  | 0     | 0.1   | 0     |
| BM&MI            | 2440    | 0.885 | 0.452  | 0.4   | 3.5   | 0.114 |
| BSB              | 2175    | 0     | 0.054  | 0     | 0.405 | 0     |
| BSR&E            | 380     | 0.737 | 0.475  | 0.35  | 3.5   | 0.1   |
| BTC              | 2262    | 0.158 | 0.314  | 0.05  | 0.7   | 0.071 |
| DPFC             | 455     | 0     | 0.303  | 0     | 0.825 | 0     |
| GT&FPCO          | 994     | 0.629 | 0.398  | 0.25  | 2.6   | 0.096 |
| INVESTCORP       | 4544    | 0.622 | 0.006  | 0.004 | 0.027 | 0.131 |
| NBB              | 8040    | 0.522 | 0.287  | 0.15  | 3.77  | 0.04  |
| NI&ECO           | 3371    | 0.475 | 0.843  | 0.4   | 4.55  | 0.088 |
| NHC              | -1535   | 0     | -0.11  | 0     | 0.26  | 0     |
| Averages         | 2622.87 | 0.411 | 0.222  | 0.114 | 1.658 | 0.053 |

Table (5)

See Notes On The Table On P.6

P.1

## Firm's Name/Year

|            | N.P*     | DPR   | 1986   |       | MPPS  | DY    |
|------------|----------|-------|--------|-------|-------|-------|
|            |          |       | EPS    | DPS   |       |       |
| ACB        | 400      | 8.51  | 0.006  | 0.05  | 1.5   | 0.033 |
| AIC        | 34       | 0     | 0.034  | 0     | 0.6   | 0     |
| BATELCO    | 17618    | 0.766 | 0.294  | 0.225 | 3.05  | 0.074 |
| BBK        | 0        | 0     | 0      | 0     | 1.21  | 0     |
| BCPC       | 748      | 0.705 | 0.106  | 0.075 | 1.19  | 0.063 |
| BFMC       | 339      | 0.634 | 0.157  | 0.1   | 1.55  | 0.065 |
| BHC        | 1090     | 0.778 | 0.128  | 0.1   | 1.5   | 0.067 |
| BIB        | 693      | 0.83  | 0.121  | 0.1   | 1.4   | 0.071 |
| B. INTL. B | 6148     | 0.772 | 0.034  | 0.026 | 0.37  | 0.071 |
| BIC        | 525      | 0.229 | 0.438  | 0.1   | 1.9   | 0.008 |
| BKIC       | 134      | 0.672 | 0.112  | 0.075 | 1     | 0.075 |
| BLIC       | -577     | 0     | -0.231 | 0     | 0.35  | 0     |
| BMB        | 1302     | 0     | 0.005  | 0     | 0.11  | 0     |
| BM&MI      | 1943     | 0.834 | 0.36   | 0.3   | 3.75  | 0.08  |
| BSB        | 1152     | 0.868 | 0.029  | 0.025 | 0.358 | 0.07  |
| BSR&E      | 353      | 0.793 | 0.441  | 0.35  | 3.5   | 0.1   |
| BTC        | 88       | 4.068 | 0.012  | 0.05  | 0.85  | 0.059 |
| DPFC       | 455      | 0.328 | 0.303  | 0.1   | 0.575 | 0.173 |
| GT&FPCO    | 835      | 0.749 | 0.334  | 0.25  | 3     | 0.083 |
| INVESTCORP | 5718     | 0.495 | 0.029  | 0.014 | 0.032 | 0.449 |
| NBB        | 4370     | 0.641 | 0.156  | 0.1   | 2.75  | 0.036 |
| NI&ECO     | 2052     | 0.78  | 0.513  | 0.4   | 5     | 0.08  |
| NHC        | -1124    | 0     | -0.08  | 0     | 0.2   | 0     |
| Averages   | 1925.913 | 1.02  | 0.144  | 0.106 | 1.554 | 0.072 |

P. 2

| Firm's Name/Year | 1987    |       |        |       |       |       |
|------------------|---------|-------|--------|-------|-------|-------|
|                  | N.P*    | DPR   | EPS    | DPS   | MPPS  | DY    |
| ACB              | -5555   | 0     | -0.694 | 0     | 0.9   | 0     |
| AIC              | 20      | 0     | 0.02   | 0     | 0.7   | 0     |
| BATELCO          | 17752   | 0.811 | 0.296  | 0.24  | 2.75  | 0.087 |
| BBK              | -23442  | 0     | -0.426 | 0     | 0.7   | 0     |
| BCPC             | 726     | 0.726 | 0.103  | 0.075 | 1.15  | 0.065 |
| BFMC             | 506     | 0.425 | 0.235  | 0.1   | 1.5   | 0.067 |
| BHC              | 1148    | 0.887 | 0.135  | 0.12  | 2.1   | 0.057 |
| BIB              | 686     | 0.838 | 0.119  | 0.1   | 1.4   | 0.071 |
| B.INTL.B         | 6476    | 0.733 | 0.009  | 0.007 | 0.096 | 0.069 |
| BIC              | 743     | 0.242 | 0.619  | 0.15  | 1.9   | 0.007 |
| BKIC             | 142     | 0.423 | 0.118  | 0.05  | 1     | 0.05  |
| BLIC             | -508    | 0     | -0.203 | 0     | 0.25  | 0     |
| BMB              | -8200   | 0     | -0.015 | 0     | 0.066 | 0     |
| BM&MI            | 1523    | 0.064 | 0.282  | 0.3   | 3.9   | 0.077 |
| BSB              | 664     | 0     | 0.017  | 0     | 0.37  | 0     |
| BSR&E            | -493    | 0     | -0.616 | 0.7   | 3.5   | 0.2   |
| BTC              | 358     | 0.773 | 0.064  | 0.05  | 0.98  | 0.051 |
| DPFC             | 390     | 0.456 | 0.131  | 0.06  | 1.25  | 0.048 |
| GT&FPCO          | 686     | 0.911 | 0.274  | 0.25  | 2.6   | 0.096 |
| INVESTCORP       | 10589   | 0.521 | 0.027  | 0.014 | 0.132 | 0.107 |
| NBB              | 4360    | 0.642 | 0.156  | 0.1   | 2.08  | 0.048 |
| NI&ECO           | 1690    | 0.888 | 0.338  | 0.3   | 4.1   | 0.073 |
| NHC              | -495    | 0     | -0.035 | 0     | 0.45  | 0     |
| Averages         | 424.609 | 0.45  | 0.041  | 0.114 | 1.473 | 0.051 |

P3

| Firm's Name/Year | 1988     |       |        |       |       |       |
|------------------|----------|-------|--------|-------|-------|-------|
|                  | N.P*     | DPR   | EPS    | DPS   | MPPS  | DY    |
| ACB              | 1021     | 0     | 0.128  | 0     | 1.075 | 0     |
| AIC              | 35       | 0     | 0.035  | 0     | 0.5   | 0     |
| BATELCO          | 19563    | 0.767 | 0.326  | 0.25  | 3.25  | 0.078 |
| BBK              | 1005     | 0     | 0.018  | 0     | 0.695 | 0     |
| BCPC             | 721      | 0.781 | 0.103  | 0.08  | 1.13  | 0.071 |
| BFMC             | 397      | 0.542 | 0.185  | 0.1   | 1.4   | 0.071 |
| BHC              | 2004     | 0.064 | 0.236  | 0.15  | 2.1   | 0.072 |
| BIB              | 724      | 0.794 | 0.126  | 0.1   | 1.61  | 0.062 |
| B.INTL.B         | 5707     | 0.809 | 0.008  | 0.007 | 0.092 | 0.07  |
| BIC              | 1032     | 0.233 | 0.86   | 0.2   | 1.9   | 0.005 |
| BKIC             | 194      | 0.371 | 0.162  | 0.06  | 1     | 0.06  |
| BLIC             | -215     | 0     | -0.086 | 0     | 0.17  | 0     |
| BMB              | 3782     | 0.698 | 0.007  | 0.005 | 0.074 | 0.064 |
| BM&MI            | 1865     | 1.013 | 0.345  | 0.35  | 3.6   | 0.097 |
| BSB              | -2801    | 0     | -0.14  | 0     | 0.79  | 0     |
| BSR&E            | 458      | 0.611 | 0.573  | 0.35  | 3.5   | 0.1   |
| BTC              | 624      | 0.572 | 0.087  | 0.05  | 0.875 | 0.058 |
| DPFC             | 374      | 0.556 | 0.126  | 0.07  | 1.45  | 0.048 |
| GT&FPCO          | 823      | 0.759 | 0.329  | 0.25  | 2.95  | 0.085 |
| INVESTCORP       | 17407    | 0.325 | 0.044  | 0.014 | 0.313 | 0.045 |
| NBB              | 6810     | 0.647 | 0.243  | 0.15  | 3.1   | 0.048 |
| NI&ECO           | 1731     | 0.924 | 0.346  | 0.22  | 4.5   | 0.071 |
| NHC              | 3740     | 0     | 0.276  | 0     | 0.33  | 0     |
| Averages         | 2913.087 | 0.455 | 0.189  | 0.105 | 1.583 | 0.048 |

P.4

| Firm's Name/Year | 1989  |       |       |       |       |       |
|------------------|-------|-------|-------|-------|-------|-------|
|                  | N.P*  | DPR   | EPS   | DPS   | MPPS  | DY    |
| ACB              | -3984 | 0     | -0.49 | 0     | 1.12  | 0     |
| AIC              | 158   | 0     | 0.158 | 0     | 0.935 | 0     |
| BATELCO          | 20607 | 0.728 | 0.343 | 0.25  | 3.31  | 0.076 |
| BBK              | 5137  | 0     | 0.093 | 0     | 0.84  | 0     |
| BCPC             | 728   | 0.821 | 0.104 | 0.085 | 1.02  | 0.083 |
| BFMC             | 321   | 0.67  | 0.149 | 0.1   | 1.41  | 0.071 |
| BHC              | 1503  | 0.677 | 0.177 | 0.12  | 2.05  | 0.059 |
| BIB              | 792   | 0.726 | 0.138 | 0.1   | 1.5   | 0.067 |
| B. INTL. B       | 5829  | 0.788 | 0.008 | 0.007 | 0.092 | 0.069 |
| BIC              | 427   | 0.703 | 0.356 | 0.25  | 3.3   | 0.009 |
| BKIC             | 226   | 0.531 | 0.188 | 0.1   | 1.55  | 0.065 |
| BLIC             | -150  | 0     | -0.12 | 0     | 0.282 | 0     |
| BMB              | 3918  | 0.673 | 0.007 | 0.005 | 0     | 0.073 |
| BM&MI            | 2426  | 0.946 | 0.449 | 0.425 | 4.15  | 0.102 |
| BSB              | 1621  | 0.617 | 0.081 | 0.05  | 0.79  | 0.063 |
| BSR&E            | 612   | 2.092 | 0.765 | 1.6   | 8.15  | 0.196 |
| BTC              | 676   | 0.74  | 0.094 | 0.07  | 0.94  | 0.074 |
| DPFC             | 296   | 0.802 | 0.1   | 0.08  | 0.93  | 0.086 |
| GT&FPCO          | 847   | 0.797 | 0.339 | 0.27  | 3.07  | 0.088 |
| INVESTCORP       | 19522 | 0.29  | 0.049 | 0.014 | 0.282 | 0.05  |
| NBB              | 8070  | 0.694 | 0.288 | 0.2   | 3.27  | 0.061 |
| NI&ECO           | 1815  | 0.924 | 0.379 | 0.35  | 4.505 | 0.078 |
| NHC              | 248   | 0     | 0.013 | 0     | 0.442 | 0     |
| Averages         | 3115  | 0.618 | 0.159 | 0.177 | 1.91  | 0.06  |

N.P\*: ( In Bd. 000 )

P.5

Source: Bahrain Stock Exchange.

Abbreviations:

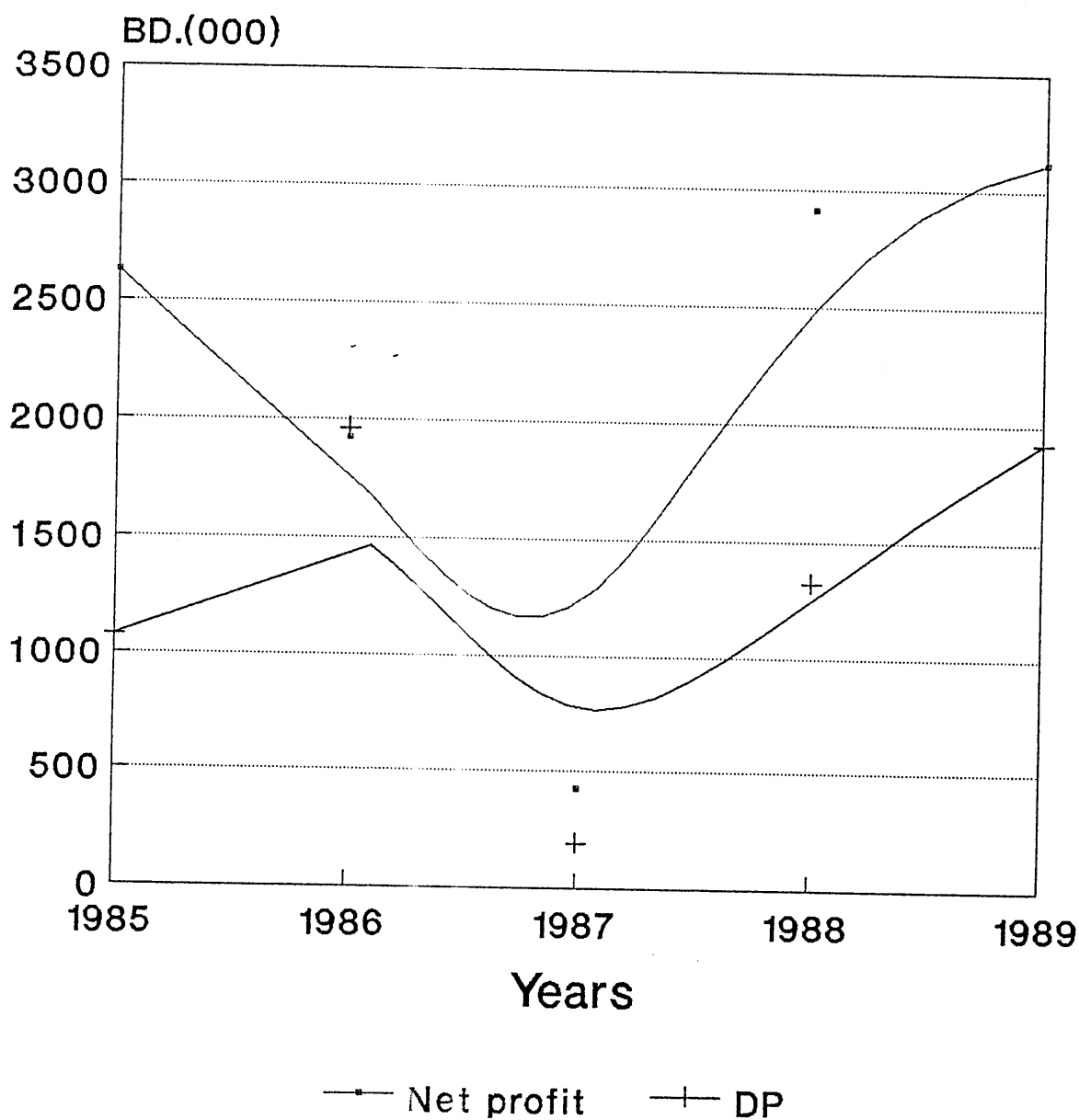
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ACB: Alahli Commercial Bank, AIC: Alahlia Insurance Company.  
Batelco: Bahrain Telecommunication Company, BBK: Bank Of Bahrain  
& Kuwait, BCPC: Bahrain Car Park Company, BFMC: Bahrain Flour Mill  
Co., BHC: Bahrain Hotels Company, BIB: Bahrain Islamic Bank,  
B.Intl.B: Bahrain International Bank, BIC: Bahrain Insurance Company  
BLIC: Bahrain Light Industries, BKIC: Bahrain & Kuwait Insurance  
company, BMB: Bank Of Bahrain & The Middle East, BM&MI: Bahrain  
Maritime & Merchantile International, BTC: Bahrain Tourism Company,  
DPFC: Dilmon Poultry Farm Company, GT&FPCO: General Trading & Food  
Processing Company, Investcorp: Investcorp Bank, NBB: National  
Bank Of Bahrain, NI&ECO: National Import & Export Company and NHC:  
National Hotels Company.

N.P: Net Profit    DPR: Dividend Payout Ratio    EPS:    Earning Per  
Share    DPS: Dividend Per Share    MPPS: Market Price Per Share  
DY: Dividend Yield.

P.6

APPENDIX ' C '

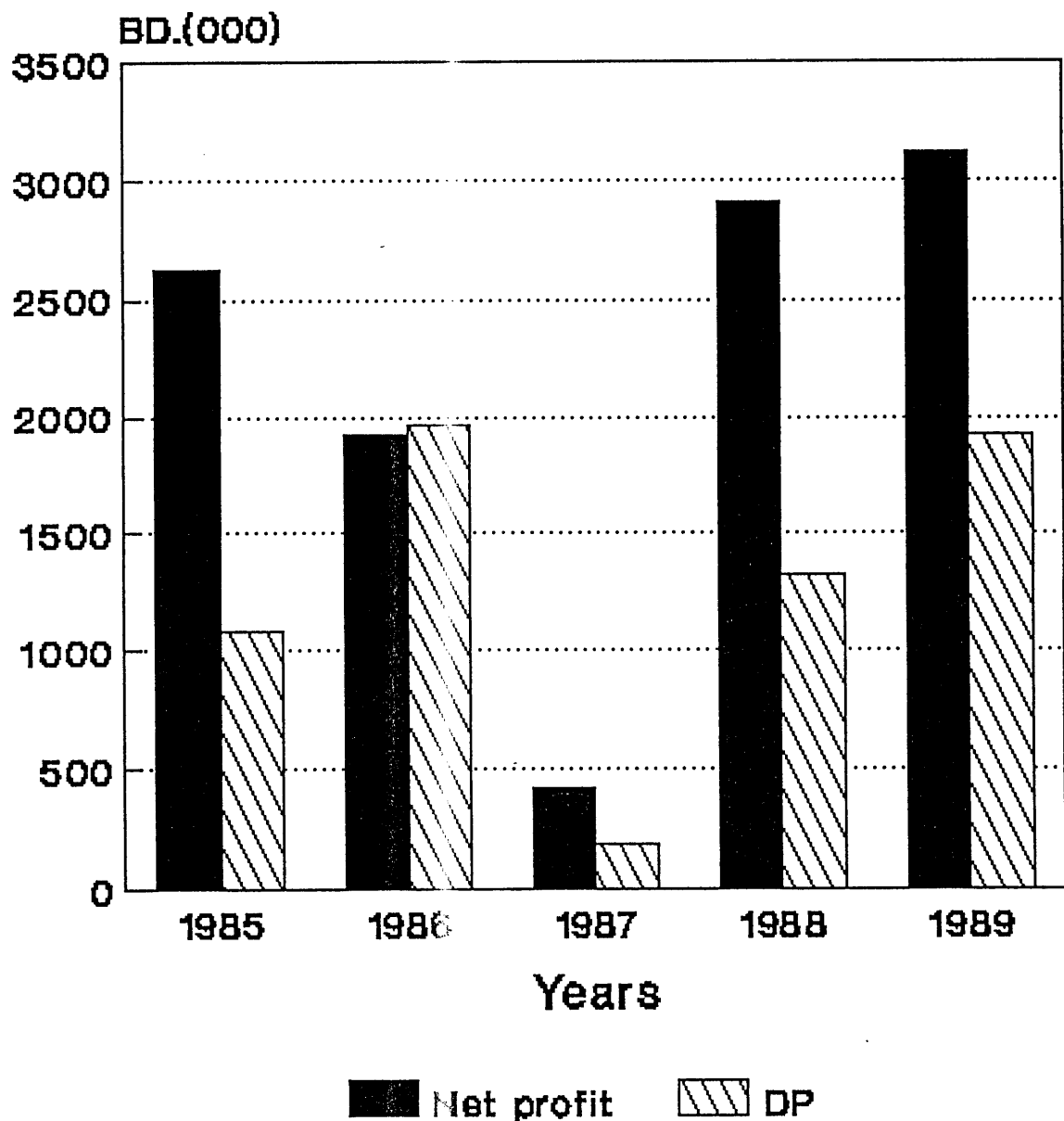
# Bahraini Publicly Held Companies Yearly Comparison Of Net Profit And Dividend Payout (DP)



Source: Primary.

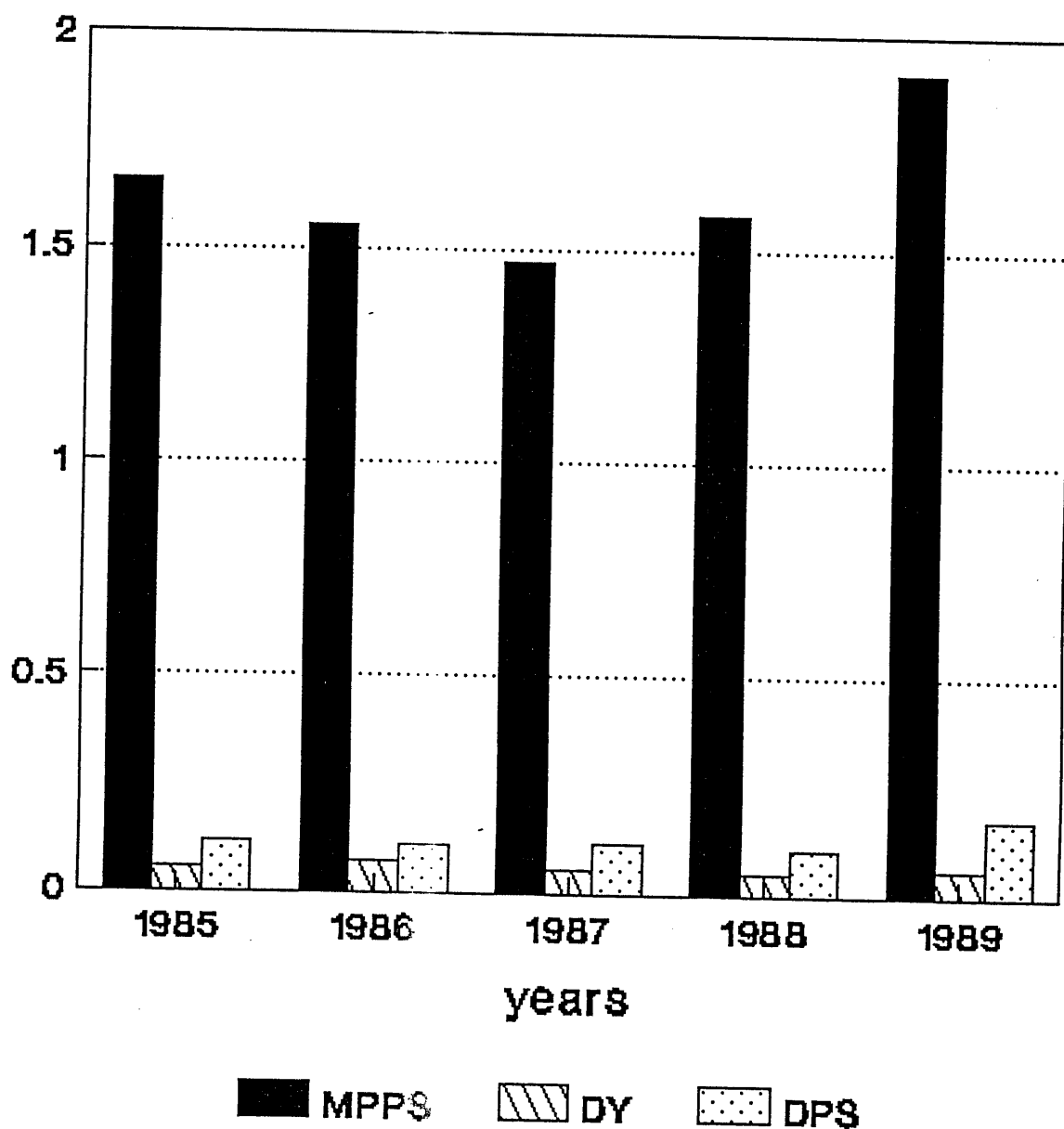
Fig. I

## Bahraini Publicly Held Companies Yearly Comparison Of Net Profit And Dividend Payout (DP)



Source: Primary.

# BAHRAINI PUBLICLY HELD COMPANIES YEARLY COMPARISON OF DPS, MPPS & DIVIDEND YIELD

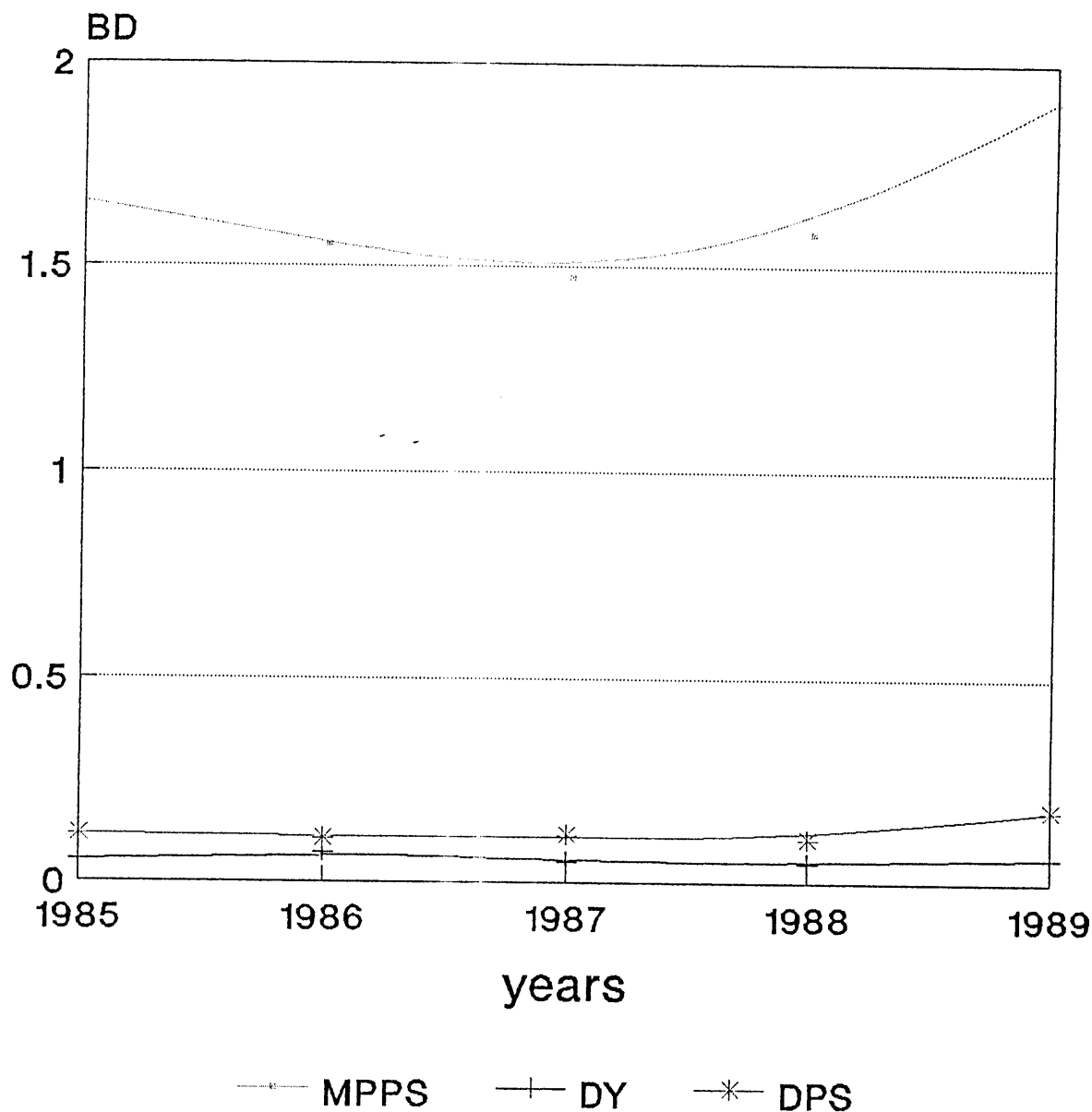


DPS: Dividend Per Share, MPPS: Market Price Per Share & DY: Dividend Yield  
Source: Primary

FIG.3

# BAHRAINI PUBLICLY HELD COMPANIES

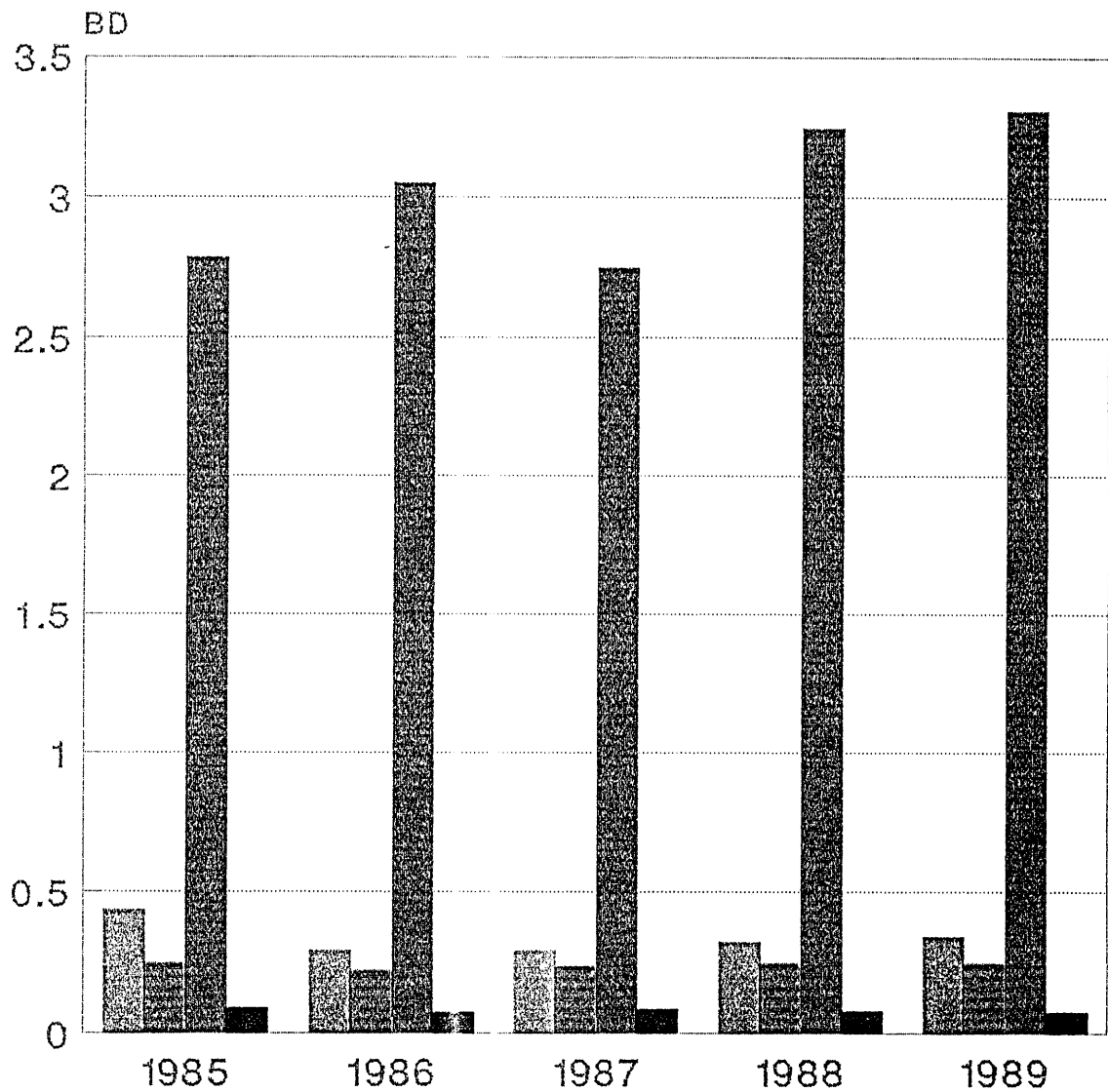
## YEARLY COMPARISON OF DPS, MPPS & DIVIDEND YIELD



DPS: Dividend Per Share, MPPS: Market Price Per Share & DY: Dividend Yield  
Source: Primary

FIG. 4

# BAHRAIN TELECOMMUNICATION CO. YEARLY COMPARISON



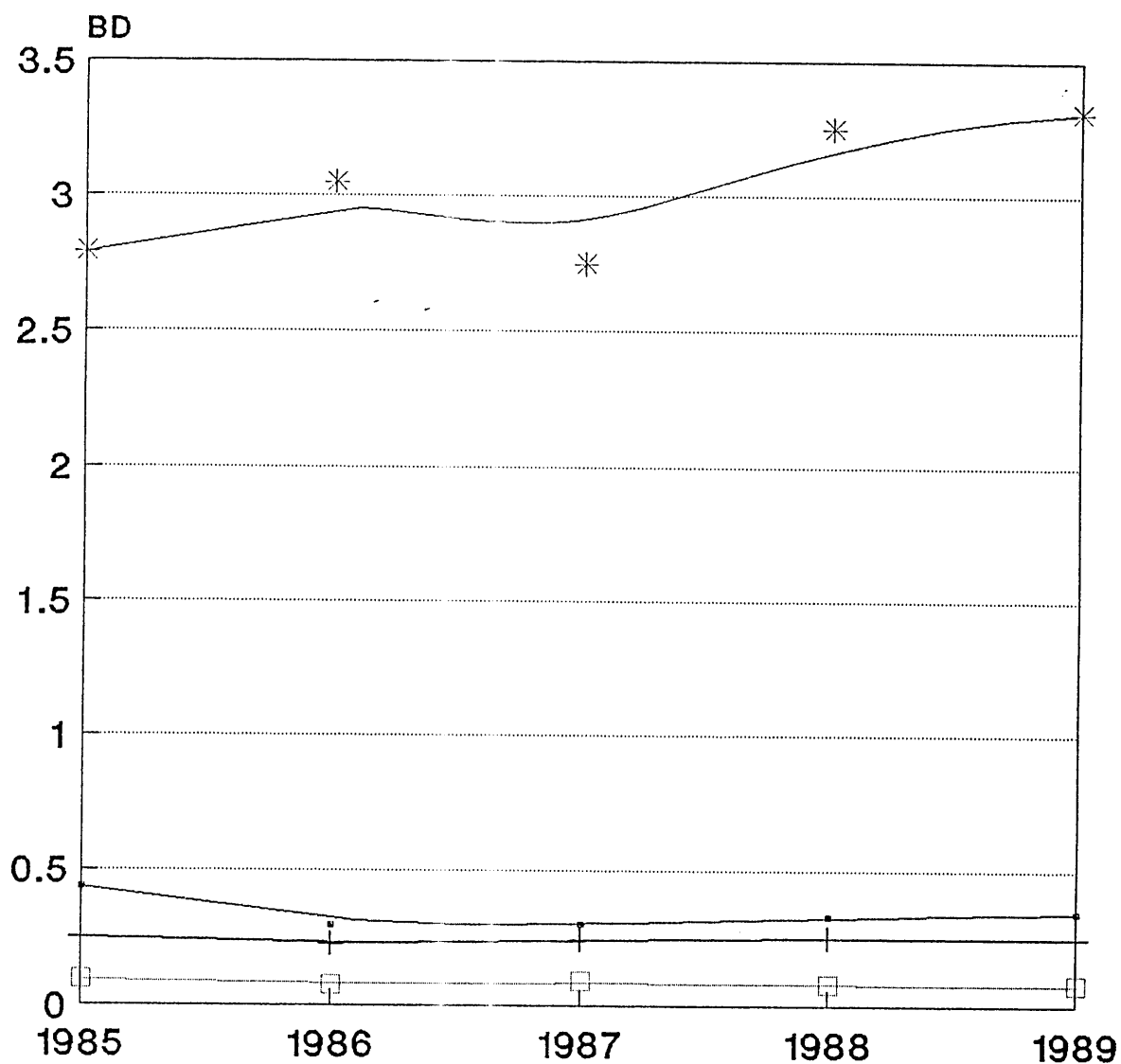
Data Source: Primary

EPS DPS MPPS Dividend Yield

EPS: Earnings Per Share DPS: Dividend  
Per Share MPPS: Market Price Per Share

FIG. 5

# BAHRAIN TELECOMMUNICATION CO. YEARLY COMPARISON



Data Source: Primary

—•— EPS    —+— DPS    —\*— MPPS    —□— Dividend Yield

EPS: Earnings Per Share    DPS: Dividend  
Per Share    MPPS: Market Price Per Share

FIG. 6

# Alahli Com. Bank Yearly Comparison

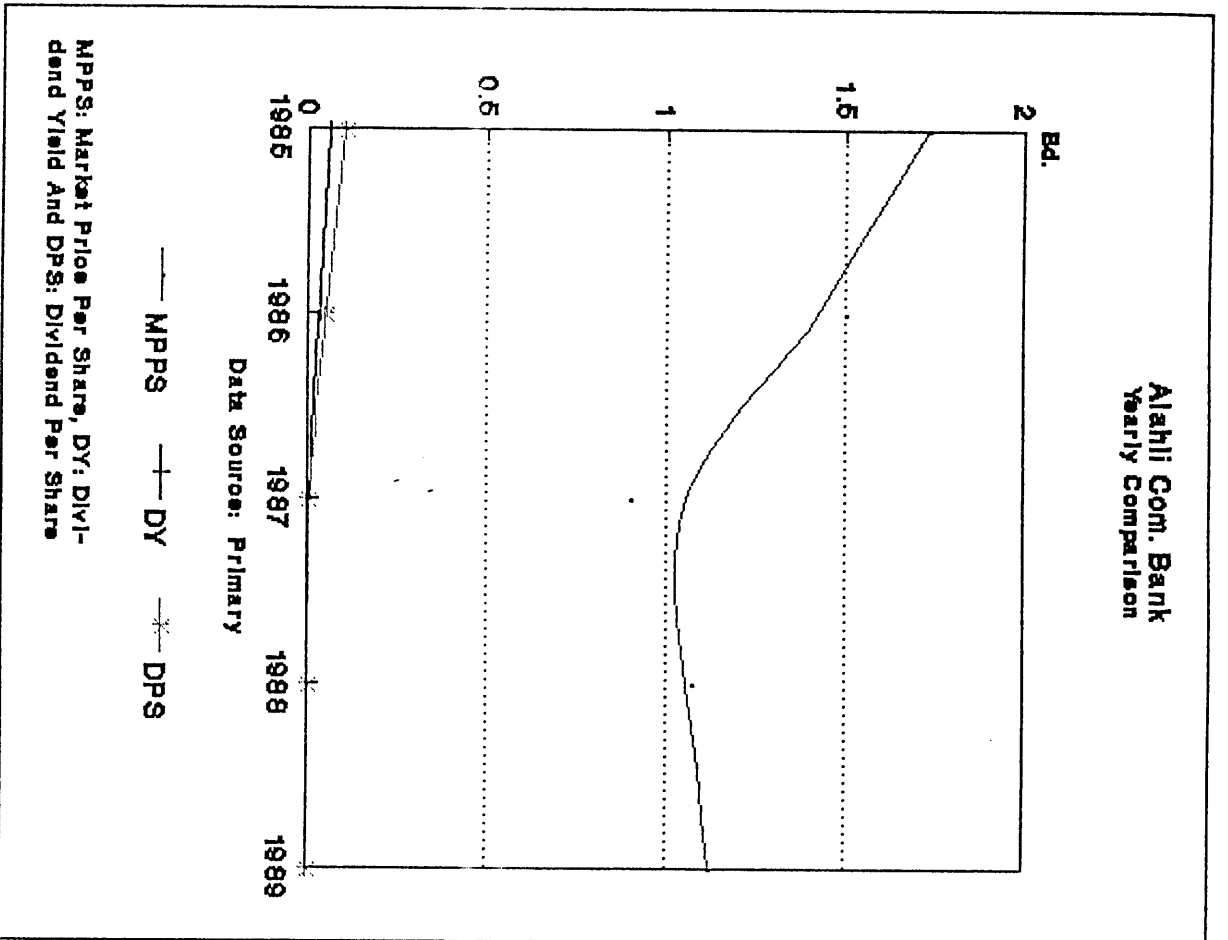
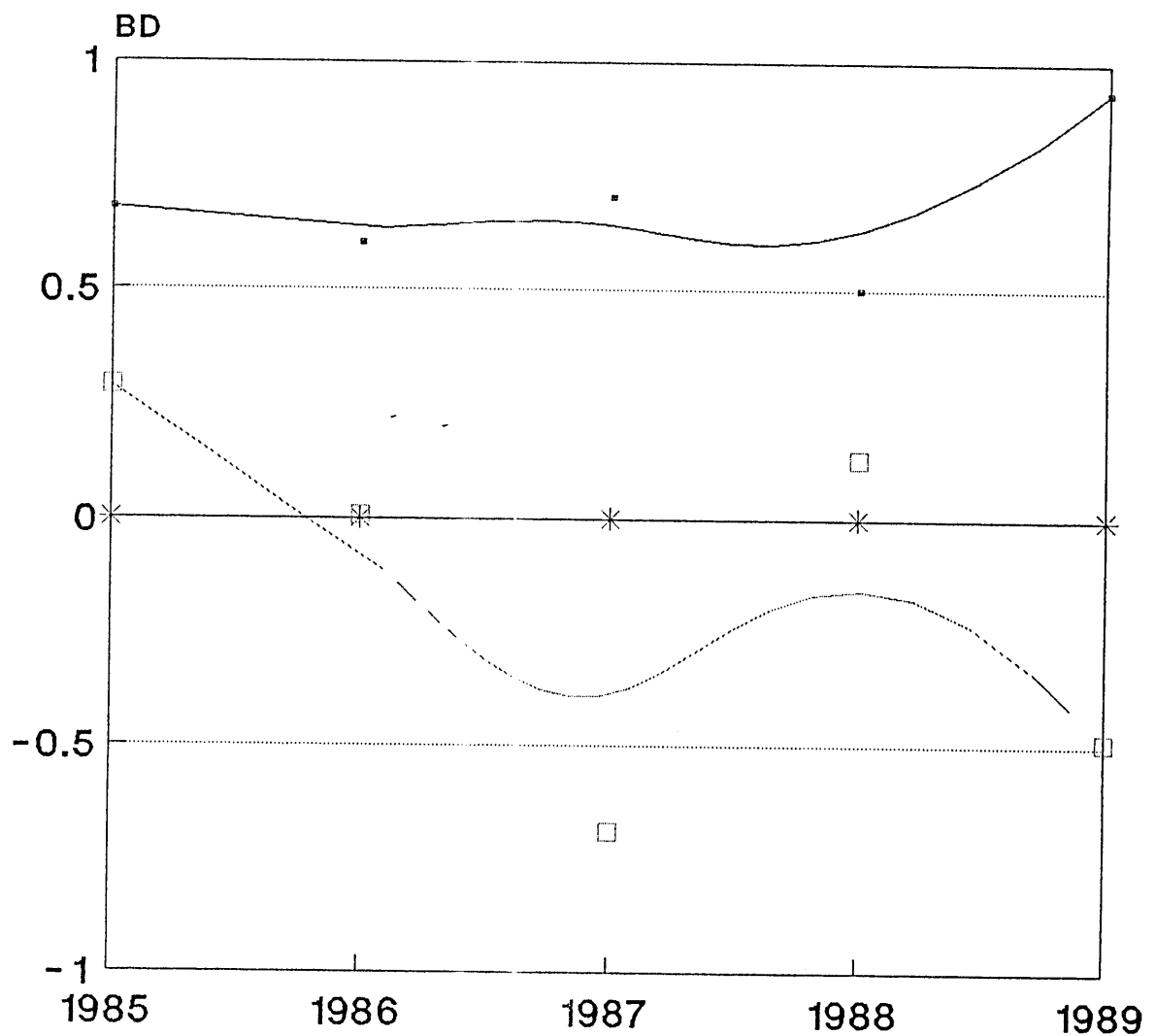


FIG.7

# Alahlia Insurance Company Yearly Comparison



—•— MPPS

—+— DY

—\*— DPS

—□— Earnings Per Share

MPPS: Market Price Per Share, DY: Dividend Yield And DPS: Dividend Per Share

APPENDIX ' D '

Dear Sir/Madam,

As partial fulfillment of Master's Degree requirements at the University of Bahrain, I have chosen to do a study on the dividend determinants in the Bahraini publicly held companies registered in the Bahraini Stock Exchange as at 31/12/1990. And as your company is one of the members of the said Stock Exchange, I Kindly request you to complete the enclosed questionnaire at your earliest convenience.

Yours sincerely,

Essa Makki Abdulla,  
Student No. 876 309  
Tel. Res. 326 030  
Off. 250 805

Please rank the following statements according to their level of importance in the dividend policy:

0= No importance    1= Slight importance    2= Moderate importance  
3= Great importance    4= Maximum importance.

Please put your answer in the brackets placed at the end of each statement:

- 1- Expected level of future earnings. (    )
- 2- Pattern of Past earnings. (    )
- 3- Availability of profitable investment. (    )
- 4- Cost of issuing new stock. (    )
- 5- Pattern of past dividends. (    )
- 6- Concern about the continuity of dividend payment. (    )
- 7- Stability Of Dividend. (    )
- 8- Liquidity. (    )
- 9- Ability to borrow. (    )
- 10- The effect of the dividend in reducing the agency costs  
such as cost of monitoring managers and the cost associated with making the indentures' covenants. (    )
- 11- Satisfaction of the existing shareholders' desire to  
retain the same ability to control the organization. (    )
- 12- The status of the dispersion of the stock-holders. (    )
- 13- Legal requirements to pay dividend. (    )
- 14- The informational effect of the dividend. (    )
- 15- The desire of the management to maintain or increase  
the stock price. (    )

Please state your opinion for each of the following statements:

-3= Strongly disagree    -2= Moderately disagree    -1= Slightly disagree    0= No opinion    +1= Slightly agree    +2= Moderately agree    +3= Strongly agree.

- 1- The price of the common stock is affected by the dividend payout. (    )
- 2- Decision on the dividend payout is made after satisfying the firm's investment and financing requirements. (    )
- 3- A firm should have a target ratio of dividend/earnings and adjust its dividend payout periodically toward the said target. (    )
- 4- The investors should be informed about the reasons of any change in the dividend policy. (    )
- 5- The dividend announcements are used by the market for assessing the value of the shares. (    )
- 6- A change in the existing dividend payout has more impact than the change of the actual amount of dividend. (    )
- 7- The firm's financing decisions should be independent of its dividend decisions. (    )

- 8- Dividend payments serve to give signals about the future prospects of the firm. ( )
- 9- A firm should not make changes in its dividend rates if it is not almost sure that it will not be forced to reverse them in a year or so. ( )
- 10- The firms chose to reduce or suspend the payment of dividend if this can avoid them approaching the market for issuing new equity, as the cost of issuance is high.( )
- 11- The possibility of paying dividends increases as the firm's ability to borrow increases. ( )
- 12- A firm should struggle to retain uninterrupted record of dividend payments. ( )
- 13- The importance attached to dividend increases as the dispersion of the stockholders increases. ( )
- 14- Once the firm has made its decision on its investment and financing policy, the dividend policy has no impact on the price of its stock. ( )
- 15- When a firm experience or expect to experience growth it reduces its dividend or pays none at all. ( )

## APPENDIX 'E'

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