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MANAGERIAL PERSPECTIVE REGARDING SIGNALING EFFECTS OF DIVIDEND POLICY: A CASE STUDY OF PAKISTAN STOCK EXCHANGE

Liaqat Ali [1] Saima Batool [2] and Saqib Adnan[3]

ABSTRACT

The present study was conducted to evaluate the managerial perception for the signaling effect of dividend payout. Research study was conducted in non financial firms of Pakistan Stock Exchange. A sample of 217 was estimated which were used for the data collection with the help of questionnaire. Study has used mixed methodology approach to get more accurate and precise findings about the signaling effect of dividend payout in Pakistan Stock Exchange. Study has used interview schedule from qualitative and closed ended questionnaire from quantitative methods after evaluating the previous studies conducted in the different parts of the world. Regression model was used for the answer of research questions posted. The results of regression model states that Current earnings, past dividend, liquidity, taxation, managerial perception, and investor perception and share prices have significant effects on the dividend payout. The findings of interview schedule show that the investors are always interested in getting dividend all the time but to avoid the taxes, they prefer capital gain. It also concluded that previous dividend ratio cannot or sometimes it has minimal role in the estimation of dividend ratio for the present year. Consistent payment of dividend can be taken as the best managerial performance and will transmit a 'good signal' to the market.

Keywords: Managerial Perception, Dividend Payout, Signaling Effects, Dividend Policy, Pakistan Stock Exchange

INTRODUCTION

The firm's payment to their shareholders as a part in their profit is called as dividend. The amounts of dividend received by the shareholders depend on the shares held by the shareholders. The interested firm issues equity in the shape of stock (i.e. preferred stock or common stock). Every preferred shareholder is being paid on the preference and they are also paid some type of fixed dividend as well. On the contrary, dividend paid to common stockholders is not fixed, i.e. it may vary from time to time depending upon the profitability of the firm. The process where a firm decides amount to be paid to the shareholders as a share of a profit is known dividend policy (Khan et al., 2011; Ahmed & Javid, 2009).

In corporate finance, dividend policy has been considered as the most significant issue for both the firm and their shareholders. The finance researchers have discussed many theories to explain the phenomena that why firms pay dividends to their shareholders. Some of the finance researchers have testified multiple models to analyze the behavior of dividends. Some of the researchers have studied the managers and investors to conclude their perception about dividends. After extensive discussion by various researchers and evaluation of literature, the motivation of paying dividend is still puzzle (Ranaje et al., 2018; Farukh et al., 2017).

The study of Black (1976) did not found any reasonable justification for paying dividends to shareholders by the firm. He was the first researcher who analyzed "dividend puzzle". After him many

[1] Ph.D Scholar, Qurtuba University of Science and IT, Peshawar. Email: liaqatlecturer@gmail.com

[2] Associate Professor, Qurtuba University of Science and IT, Peshawar.

[3] MS Scholar, IBMS, Agriculture University, Peshawar.

many researchers have studied the same problem but the evaluation has not come to any conclusion. As per the results of Baker et al, (2002), "despite a voluminous amount of research, we still do not have all the answers to the dividend puzzle." (p. 255). That is why no researcher can answer the puzzle that why firms pay dividend to their shareholders and why shareholders always expect handsome amount of dividend. Nonetheless, the study of theoretical models and empirical evidences shows many significant views of the dividend policy. Although multiple studies have used the approach of "one-size-fit-all", the empirical results suggest that the dividend policy differ from one another. The statement can be justified from the results of Frankfurter and Wood (2003), who argued that the dividend policy cannot be modeled mathematically and it can vary from firm to firm.

The most comprehensive explanation for the irrelevance of dividend includes taxation, agency cost and signaling (asymmetric information). Baker and Wurgler (2004) forward the new path of dividend puzzle by the name of "catering theory of dividends". As per this proposition, investors had different preferences for dividend over time. If investors are expecting any dividends, managers then prefer to pay them dividends but they do not bother if the investors are not expecting anything. Every theory has its own assumptions but no theory has either explained the issues or answered the questions.

The dividend signaling concludes that the increase or decrease in the dividend reflects both positive and negative signs about the future earning, therefore, these factors have significant effects on the firm share prices and management always looks at these factors while making dividend decisions. Insufficient literature about signaling effect available in the developing markets, especially in Pakistan. In Pakistan, the market has been affected by war against terror. Even massive sum of US aids are going against this war (Husain, 2008 and 2010). Till 2010, the tax system of Pakistan was unusual as the capital gains were exempted from taxation so the dividend payments were exposed to tax liable investors to costs that are not emerge were returns offered as an alternative in the shape of share price growth. The findings of the study from market suggested that the market reactions for the dividends vary from market to market, and it has been observed in both developed and developing nations (Khan et al, 2011).

PROBLEM STATEMENT

The dividend signaling concludes that the increase or decrease in the dividend reflects both positive and negative signs about the future earning, therefore, these factors have significant effects on the firm share prices and the management always looks at these factors while making dividend decisions. There is a lack of signaling literature in the developing markets, this fact true in the developing markets even in Pakistan. The study is unique in the sense that it has checked the signaling effects by collecting data from managers of the firms. The previous studies were based on the numerical data and they neglect the emotions, perceptions and experiences of managers. The reason of selecting the managers is to select the person who is managing the firm for data collection. Majority of the studies argued that in Pakistani market there is a dual policy of taxation due to which the investors always prefer to bonus shares or share dividend to get tax benefit. So majority of the previous argued that there should be a study that only focus on the primary side of data i.e. questionnaire and interview methods. So by taking this gap from the above mentioned studies, the present study has adopted the mix methodology to fill the gap.

RESEARCH OBJECTIVES

- To check various factors affecting the signaling behavior of dividend payout in Pakistani market.
- To check the implementation of signaling theory in the developing markets i.e Pakistan.

RESEARCH QUESTIONS

- What are the effects of different factors on the signaling behavior of dividend payout in Pakistan's non financial sector?
- Does the signaling theory is significant in implementation in the non financial sector of Pakistan Stock Exchange.

LITERATURE REVIEW

On the basis of beliefs about the dividend policy, the finance researchers can be categorized into three groups. The first group considers the dividends as significant information content; the firm value has the positive relationship with the dividend, when it is increasing the firm value will be increasing (Pettit, 1972; McCluskey et al, 2006 & Lonie et al, 1996). The second group considered as the share prices will be decreasing when the dividend is increasing due to the fact that it suggests that the organization shortage of positive NPV projects which needs investment (Woolridge and Ghosh, 1985) or due to the tax on dividends (Bell & Jenkinson, 2002). The 3rd group of researchers argued that dividend policy has no concern with the firm value (Miller & Modiagliani, 1961).

As per the study of Miller and Modigliani (1961) for the dividend policy and firm value, concludes that the firm value has been affected by the firm's investment opportunities and earning power and not due to their dividend policy. Though, the information of dividend was alluded to by Miller and Modigliani (1961 concluded that 1) the changes in the dividend policy may lead to change the market price, this was referred as “information content” of dividends, where the organization has used the policy of dividend stability with a stable and appreciated “target payout ratio” that the investors are willing to and they interpret the variation in the dividend payout ratio considered as the view of the management about the firm's profit. The variation in dividends shows the changes in price which is not its cause, the changes in price shows the future earnings and the firm's growth opportunities.

The study conducted by Khan et al., (2011) in which he surveyed the perception of financial analyst of foreign firms working in Pakistan Stock Exchange in order to evaluate their opinions regarding the dividend payout decisions. The findings of the study argued that the firms are giving significant attention to their dividend payout and the firm growth has been considered at the time of dividend announcement. Adding more that the decision of dividend is also related to the competitor policy and also fear of signaling of less profitable investment. The findings conclude that the foreign listed firms are giving more attention to their dividend policy.

The study of John (2013) evaluated the managerial perception to find out the effect of factors on the firm dividend payout in the Nigerian market. The findings of study revealed that the level of current earning, past dividends, alternative sources of capital, financial leverage, the constraints in liquidity i.e. growth, cash and investment have significant effects on the firm dividend payout. The study of Naser et al., (2013) evaluated the firm's managers of listed firms in Abu Dhabi Securities Exchange. The findings exhibits that the external factors of economic conditions along with the state of capital market and the lending conditions are find out as significant factors which are helpful in formulating dividend policy, the limitation given by the debt sources together with the economic crises are the significant factors influencing the firm dividend policy.

As per the statement of signaling theory, the firm's management always uses dividend policy to signal information to the local markets and create value of the firm. The study of Lintner (1956) showed that dividend policy always gives signal and the local markets used them for the announcements of the dividend to create value of the firm. Actually, the investors are not paying attention to the dividends but they always care about the variations in the dividend policy of the firm.

The firm's investors perceived the variations in the payout ratio as the signals of firm's prospects. If the firm increases their dividend, the investors consider it as good news and the market reacts positively. While the decrease in the dividend signals as the bad news and then negative reaction received from the market. So the variation in the dividends signals the perceptions of the firm's prospects. The respondents in the study of Lintner (1956) were totally agreed that the dividend policy of the firm always singles and the firm used them for the announcement and value their shares.

The studies of Miller and Rock (1985); Bhattacharya (1979) and John & Williams (1985) showed that the firm's dividend policy is always designed to shows the earning perceptions of the firms to the investors. The study of Brook et al (1998) explained that the firm's dividend policy has been used as the signal to increase the firm's cash flow.

Some of the previous studies are in favor of dividend information content hypotheses which concludes that the increase in the dividend is the positive sign which reflect the future earnings which can lead to increase the share price. While in some cases the share prices will be lower with the decrease in the dividend (McCluskey et al., 2006; &Pettit, 1972). Some of the studies included Woolridge and Ghosh (1985) argued the alternative information hypothesis which has concerns with the dividend which is dependent on the positive signals of dividend. Increase in the dividend might signal a low profitable investment while the cut in dividend sometimes signals the growth prospects.

Hypotheses

Hypothesis H1: Current Earnings have significant effects on the dividend payout.

Hypothesis H2: Past dividend has significant effects on the current dividend payout.

Hypothesis H3: Liquidity has significant effects on the dividend payout.

Hypothesis H4: Taxation has significant effects on the dividend payout.

Hypothesis H5: Managerial perception has significant effects on the current dividend payout.

Hypothesis H6: Investor Perception has significant effects on the dividend payout.

Hypothesis H7: Share price have significant effects on the dividend payout.

RESEARCH METHODOLOGY

Study Nature

The present study has adopted mix methodology in the data collection and analysis. This study involves quantitative data which has been collected from managers of the firms as a first signaling effect of dividend policy in Pakistani market by closed ended questionnaire.

Data Collection Tools

The data were collected by a closed ended questionnaire. The closed ended questionnaire consisted of multiple questions regarding the signaling effects of dividend policy to uncover the answers of the questions. The interview schedule has been used in the present to reach the root of the issue of dividend announcement in the firms. The interview schedule was conducted with the head of the finance department or head of the organization in some cases due to the fact that they are the most knowledgeable persons for the dividend policy.

Sample Design

The study has adopted the sample selection procedure as mentioned in the study of Krejcie & Morgan (1970) which concludes the selection of 217 firms as a sample of the study. The study takes the Finance Manager, Accounts Managers, Finance Officer, General Manager from the sample firms for the data collection. 217 managers were given questionnaires for data collection. The interview schedule was conducted with the head of the finance department or head of the organization in some cases due to the fact that they are the most knowledgeable persons for the dividend policy. Khan et al., (2011 and 2013) have been used to take help from the items needs to be included in the pattern. Visits were paid to the managers in Islamabad market and data were collected from managers regarding the signaling effects of dividend policy. The purpose of personal visit is to understand the setting of data collection and to guide the managers if they find any doubts in understanding the questions.

Response Rate

The data in the present study regarding the managerial perception and dividend policy were collected with the help of closed ended questionnaire. The using the sample determining formula, the study has used 217 firms for the data collection. The study initially distributed and emailed 238 questionnaires to the representatives of the non financial firms. In return the study got 221 questionnaires, out of which 217 were selected for the data analysis.

Research Strategy

The research strategy for the present study is survey method and cross sectional study with deductive approach. The study has used independent and dependent variables for the cause and effect objective and used regression model to check the variance explained by the independent variables in the dependent variable.

RESULTS & DISCUSSIONS

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
DividendPayout	2.80	4.00	3.5705	.30945
CurrentEarnings	2.83	4.17	3.8167	.31392
PastDividend	2.80	4.40	3.5960	.46677
Liquidity	2.80	4.00	3.6110	.28581
Taxation	3.20	4.40	3.7680	.28668
ManagerPerception	2.67	4.33	3.7000	.40100
InvestorPerception	2.29	4.29	3.6514	.43924
SharePrice	2.25	4.25	3.6600	.46420

The table is the findings of descriptive statistics which has been used to check the features of data used in the analysis and collected from the respondents. The findings of minimum show that the majority of the respondent's replies are closer to neutral scale. The maximum values column shows that the larger replies were on agree. The significant point is that the mean values in the table are near to agree scale.

Table 2: Demographics

No	Designation	Education	Experience
A1	Finance Manager	MS (Finance)	17 Years
A2	General Manager	CA	22
A3	Operations Manager	BBA/CFA	15
A4	Finance Manager	M.Com	18
A5	Manager	MBA	20
A6	General Manager	CA	26
A7	Board Member	M.Sc (Economics)	23
A8	Finance & Accounts Manager	M.Com/MBA	20
A9	Manager	MBA	19
A10	General Manager	CA(Trainee)	08
A11	Finance Manager	MS (Finance)	18
A12	General Manager	MBA	14
A13	Finance Manager	B.Com(H)	15
A14	Finance Manager	BBA(H)	20
A15	Finance Manager	MBA	28

Questionnaire and interview schedule items were mailed to the concern office before taking appointment for the interview. All the interviewees were selected from those firms who operations or head offices are Islamabad based. The interviews were not recorded due to the no-permission from the respondents. The design of the table for the information of interviewees was adopted from Khan et al., (2011). The list of the selected financial mangers along with the designation, education and years of experience is given below:

Table 3: Reliability Statistics

S.No	Variable	Items	Cronbach Alpha	Remarks
1	Current Earnings	06	.901	Reliable
2	Past Dividend	05	.887	Reliable
3	Liquidity	05	.917	Reliable
4	Taxation	05	.871	Reliable
5	Manager Perception	06	.923	Reliable
6	Investor Perception	07	.942	Reliable
7	Share Price	04	.982	Reliable
8	Dividend Payout	10	.928	Reliable

The study used the cronbach alpha coefficient to find out the reliability of the variables on the scale used in the study. This is the most common technique used by the studies to measure the internal consistency as reliability. The reliability of the variables can be taken as the internal consistency of the variables which is taken as the reliability. The variables will be more reliable when the responses have higher consistency. The range of alpha score is from 0 to 1. As per the standard set by the study of Cronbach (1951) that the variable can be considered as reliable when the value is greater than .70. Some other studies which includes Hair et al, (2003) that the scale more than .70 will be treated as reliable. The findings of the alpha score for the variables shows that the variables are reliable.

Table 4: Correlation

Correlations

		DP	CE	PD	LQ	TX	MP	IP	SP
Dividend Payout	Pearson Correlation	1							
	Sig. (2-tailed)								
Current Earnings	Pearson Correlation	.384**	1						
	Sig. (2-tailed)	.000							
Past Dividend	Pearson Correlation	.526**	-.014	1					
	Sig. (2-tailed)	.000	.839						
Liquidity	Pearson Correlation	.549**	.769**	.418**	1				
	Sig. (2-tailed)	.000	.000	.000					
Taxation	Pearson Correlation	-.443**	.607**	-.323**	.326**	1			
	Sig. (2-tailed)	.000	.000	.000	.000				
Manager Perception	Pearson Correlation	.881**	.167*	.386**	.327**	.419**	1		
	Sig. (2-tailed)	.000	.014	.000	.000	.000			
Investor Perception	Pearson Correlation	.834**	.325**	.092	.421**	.606**	.817**	1	
	Sig. (2-tailed)	.000	.000	.179	.000	.000	.000		
Share Price	Pearson Correlation	.840**	.175*	.282**	.405**	.404**	.851**	.959**	1
	Sig. (2-tailed)	.000	.010	.000	.000	.000	.000	.000	

Table shows the findings of correlation test which has been used in the prevailing study to check the relationship among the independent and dependent variable of the study. The model is significant in the estimation of strength of correlation which can in range from 0 to 1. The value will reflect the relationship in terms of percentage. The model is significant that it can estimate the relationship in both ways i.e. two tailed correlation.

The findings of table exhibit that dividend payout and current earnings are positively correlated about 38 percent and this relationship can be seen in the .38 value of current earnings. The p-value of the correlation is .00 which means that these two variables are having positive and significant correlation with each other.

The positive relationship between the dividend payment and firm current year earnings can be traced with the results of Farzad et al., (2004) who consider this issue as the most controversial issue from the investor perspective. Some of the studies have argued the positive relationship among the firm earnings and their dividend payment. The findings of the study suggested that in the present condition the firm will always prefer to pay more when they are having more earnings.

The correlation of past dividend is .526 with the dividend payout which means that the current year dividend payout and past dividend are related about 52 percent. This correlation is found as significant.

The findings of Khan et al., (2011) argued that the theoretical model of Lintner which concludes that the firm present year dividend is totally based on the previous year dividend and current year earnings. Nonetheless, the present year earning is the significant and prime factor. The past dividend of the firm is the main factor for the present year dividend payout. According to Naeem and Nasr (2007) who confirms that the previous dividend is the main factor which can affect the firm present dividend payout. The both studies conclusion supports the implications of Linter's Model, especially as regards their perception for the constant dividend payments.

The correlation of liquidity is .549 with the dividend payout which means that the liquidity of the firm are found to be correlated about 54 percent with dividend payout. This correlation is found as significant.

The study of Khan et al., (2013) argued that the after the present year earnings, the next significant effect on the dividend is the firm's liquidity, especially for those firms who are constantly paying cash dividends. The result supports the study of Baker et al., (1985), but not in favor of implication of Linter's Model. The study of Baker et al., (1999) evaluated the firm decisions not paying cash dividend and concluded that the repurchases of stock are not the substitutes for the firm's dividend and also that the taxation is not a prime determinant of firm dividend payout.

The correlation of taxation is -.443 with the dividend payout which means that the when the taxation in the market has been increasing then the dividend payout of the firm will be decreasing. The negative relationship of taxation with dividend payout can been seen by the negative correlation. The negative correlation among the taxation and dividend payout is found significant.

Previous studies conducted on the taxation and dividend payment in the Pakistani market includes Hassan et al., (2013), Arif and Akbar (2013). The prominent study conducted by Khan et al., (2017) who evaluated the capital gain taxation and firm dividend payment among the firms listed at Pakistan Stock Exchange. The study has used the Pakistani market is to adopt the idiosyncratic taxation technique for the capital gain and dividend payment. The study has used different variables i.e. profitability, leverage, liquidity, taxation and dividend payout ratio on the annual data for the sample firms. the findings of the study suggested that along with other significant factors, capital gain taxation (CGT) is the significant tool which can be helpful in determining the firm dividend payout ratio.

The correlation of manager perception is .681 with the dividend payout which means that the non financial firm's mangers are having positive strong perception for the dividend payout and this relationship is about 68 percent. This correlation is found as significant.

According to Rahman, (2015) who conducted on the managerial perception for the dividend policy Concluded that the study of Baker and Powell (1999) who evaluated the management perception for the stock dividend. The findings suggested that the managerial perception is bending towards the paying of stock dividend and having psychological impact. The managers concluded that the stock dividend can express the confidence on the firm's future prospect and also the paying stock dividend might have advantage of having appropriate liquidity.

The correlation of investor perception is .634 with the dividend payout which means that the non financial firm's market investors are having positive strong perception for receiving higher ratio of dividend and this relationship is about 63 percent. This correlation is found as significant.

The positive relationship of investor perception with the firm dividend payment can be seen in the study conducted by Akhter et al., (2012) who evaluated the individual investor perception for the receiving of dividend in cash for bonus shares. The study has used different behavioral theories on the investors of Pakistani market. The findings of the study suggested that the investors in Pakistani market are interested in getting dividend both in cash or stock form. The findings extended that the investors are having stronger preference for the dividend even if the company is going to debt financing.

The correlation of share price is .540 with the dividend payout which means that the firm having increasing share price are found to be correlated about 54 percent with dividend payout. This correlation is found as significant.

Table 5: Regression

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.139	.057		2.433	.016
Current Earnings	.145	.023	.145	6.385	.000
Past Dividend	.421	.012	.641	35.742	.000
Liquidity	-.160	.024	-.147	-6.684	.000
Taxation	-.156	.022	-.145	-7.138	.000
Manager Perception	.215	.016	.278	13.126	.000
Investor Perception	1.417	.056	1.988	25.376	.000
Share Price	.940	.050	1.393	18.739	.000

R: 0.661; R-square: 0.583, F-value: 169.7; P-value: 0.000

The findings of table show that the value of R is 0.661 which suggests that the managerial perception, current earnings, past dividend, liquidity, taxation, investor perception, share price and dividend payout are 66 percent related with each other. Managerial perception, current earnings, past dividend, liquidity, taxation, investor perception, share price are having 58 percent effects on the firm dividend payout.The t-values of current earning, past dividend, liquidity, taxation, managerial perception, investors perception and share prices concludes that they have significant effect on the dividend payout. The findings are in-line with the Agency Theory which posits that the firm dividend policy give the incentives to the managers to lower the cost related to principal-agent relationship. Significant way to reduce the agency cost is to increase the dividends. The findings of Khan et al., (2011) argued that the theoretical model of Lintner which concludes that the firm present year dividend is totally based on the previous year dividend and current year earnings. Nonetheless, the present year earning is the significant and prime factor. The past dividend of the firm is the main factor for the present year dividend payout. According to Naeem and Nasr (2007) who confirms that the previous dividend is the main factor which can affect the firm present dividend payout. The both studies conclusion supports the implications of Linter's Model, especially as regards their perception for the constant dividend payments.

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dividend can express the confidence on the firm's future prospect and also the paying stock dividend might have advantage of having appropriate liquidity. Previous studies conducted on the taxation and dividend payment in the Pakistani market includes Hassan et al., (2013), Arif and Akbar (2013). The prominent study conducted by Khan et al., (2017) who evaluated the capital gain taxation and firm dividend payment among the firms listed at Pakistan Stock Exchange. The study has used the Pakistani market is to adopt the idiosyncratic taxation technique for the capital gain and dividend payment. The study has used different variables i.e. profitability, leverage, liquidity, taxation and dividend payout ratio on the annual data for the sample firms.
The positive relationship of investor perception with the firm dividend payment can be seen in the study conducted by Akhter et al., (2012) who evaluated the individual investor perception for the receiving of dividend in cash for bonus shares. The study has used different behavioral theories on the investors of Pakistani market. The findings of the study suggested that the investors in Pakistani market are interested in getting dividend both in cash or stock form.

INTERVIEW ANALYSIS

Present study was conducted to check the managerial perception for the signaling effect of dividend payout ratio in the non financial firms at Pakistan Stock Exchange. The study has selected 15 finance managers as a sample size of interview method. The mixed methodology was adopted with hope to get most precise findings and not to skip any significant method which can be helpful for getting solution of study problem. Questionnaire and interview schedule items were mailed to the concern office before taking appointment for the interview. All the interviewees were selected from those firms who operations or head offices are Islamabad based.

Past Dividend and Earnings

Khan et al., (2011) stated that both dividend and earnings have been announced at the same time and therefore the relationship among these two factors sometimes transmit most accurate information to the market. Respondent A3 argued that "the ratio of firm dividend is totally based on the present year's earnings and also the important part if the past year dividend".The statement has been supported by the Lintner model of dividend policy which stated that the present earning and past dividends are the main drivers of firm payout ratio. Respondent A7 argued that *"when we have higher amount of earnings then board will in favor of paying more dividend to the shareholders"*.

Taxation and Payout

According to the Debt Irrelevance Theory (DIT) stated by Miller and Modigliani argued that the shareholder's wealth is the not the objective of the firm in the distribution of dividend but on other hand the Bird-in-Hand theory recommends the payment of regular dividend. Respondent A10 argued that "when the speculation in the market were find as true, the firm dividend payout level might see constant changes when the tax policy of the country is changing". It is hard to deny that taxes are important to investors". Some of the interviewees are agreed to the statement that the tax is the factor which is significant part but it is related to the shareholder and not the firm. While some of the respondents are fixed on the statement that *"it is the factor which is related with the investor and the firms are completely unaware of this rate and this not the firm's liability"*.

Liquidity and Dividend Payout

In case of stock liquidity, if an investor needs cash he can simply convert the stocks into cash by selling them in markets. Without incurring any cost because markets are frictionless an indication of Miller and Modigliani work is that, else factors remains constant, companies with high stock liquidity pay less dividends (Akhtar, 2018). The respondent A8 argued that *"the stock liquidity reduces the information asymmetry to both management and the investor by transmitting new updated information".* The liquidity of the firm is the most significant factor which has influence on the firm dividend especially those firms who are paying cash dividends, this argument is in favor of Baker et al., (1985) but contradiction with the Lintner model(1956).

Respondent A3 argued that *"when we face unstable cash inflow and not in a position to pay cash dividend then the managers are in favor to pay bonus share or share dividend".* The issuance of share dividend has another advantage that the firm will increase their paid-up capital. According to Khan et al., (2011) in Pakistan the share dividend is not taxable and that is the reason which leads to the larger firms to demand share dividend instead of cash dividend.

Managerial Perception and Dividend Payout

The dividend payment in every type of firm is the most critical duty of the managers to take. As per the statement of efficient hypotheses, the mangers of the firm are the party which can be considered as the most knowledgeable as compared to the outside parties. Respondent A12 argued that *"the river of information in the firm from every perspective, is the manager of the firm".* The statement is in contrast to the finding of Khan et al., (2011) and free cash flow hypothesis. The finding of Baker and Powell (1999) concluded that the respondents are not agreed to the concept that the dividend policy8 is the best mechanism for monitoring the performance of the managers. Respondent A2 and A9 argued that the *"consistent payment of dividend can be taken as the best managerial performance and will transmit a 'good signal' to the market".*

Investor Perception and Dividend Payout

The theory of Clientele argued that the investors might have multiple reasons for getting and favoring the dividends as a result of institutional feature like tax differentials, behavior preference and regularity requirements. Majority of the respondents are agreed to the statement that the investors are always willing to receive ore dividends but in some conditions they prefer bonus shares and share dividends. Respondent A7 argued that the *"individual investors are always happy when they get cash dividend but when the firm is facing liquidity or negative cash inflow the management is not in a position to pay cash dividend".* The findings show that 80 percent of the respondents are agreed that *"there is no doubt that the investors always want dividend".*

Share Price and Dividend Payout

The respondent A6 argued that *"the dividend payout and share price has no relationship with each other, the share price is totally related with the firm's future activities".* The statement can be supported by the MM irreverence in 1961 that the share prices of the firm are not related with the dividend announcements. Respondent A1 and A4 argued that *"the dividend payout can makes variation in the firm share price as the investors in the market always prefer to get dividend payment as compared to the capital gain".* The result is in favor of bird-in-hand theory who is also in favor of paying consistent dividend can increase the share prices.

Signaling Effects & Payout

The respondent A2 and 13 argued that *"the leakage of information is the bad both morally and ethically and can be every dangerous for both firm and individual. The changes in the firm share prices are not dependent on the dividend payout only but the financial analysts are making guess work who are monitoring the markets on minute basis".* Respondent A13 and A15 argued that *"leakage of information regarding the dividends before announcement can have negative effects on the goodwill of the firm".* According to Khan et al., (2013) argued that the dividend is basically the disclosure of information to the market and the investors are always desperately wait for these information but this is also the stated rule of Securities and Exchange Commission of Pakistan that the management should get ensured that the information should not be leaked in advance. Khan et al., (2013) further added that there is a rule that the board members cannot trade his or her shares in the market seven days before the meeting for the dividend.

According to signaling theory proposed by Ross (1977). They argued on the basis of empirical studies, when the firm is increasing the dividend payment, a corresponding increase effect will be seen in the share price while the firm will see lower share prices when they lower the dividend payment.

CONCLUSION

The present study is contributing a useful portion of literature in the field of corporate finance especially in the dividend policy when there is mix methodology. When the country has a complex tax system then the investors in those markets will prefer capital gain. The present study was based on mixed methodology (both questionnaire and interview methods) for the data analysis. Majority of the previous studies have been used single method i.e. some have used market model (Khan et al., 2011, 2013), regression model (Nishat & Irfan, 2001) etc while some used questionnaire methods (Rahman, 2015). The statement is in contrast to the finding of Khan et al., (2011) and free cash flow hypothesis. The finding of Baker and Powell (1999) concluded that the respondents are not agreed to the concept that the dividend policy8 is the best mechanism for monitoring the performance of the managers. The issuance of share dividend has another advantage that the firm will increase their paid-up capital. According to Khan et al., (2011) in Pakistan the share dividend is not taxable and that is the reason which leads to the larger firms to demand share dividend instead of cash dividend.

Generally present has many contributions in the literature of corporate finance in Pakistani context. First, the present study has used to test the signaling effect of dividend payout with support of signaling theory. The findings suggested that the dividend payout can be influence by the positive or negative information to the market which support the effectiveness of signaling theory in Pakistani market. Secondly, majority of the studies on signaling theory and other theories have been conducted in US and European markets so majority of the studies who have used quantitative methodology rejected the model to be adopted in the developing markets due to the market structure. But the present study have used questionnaire and interview methods to get the perception of the managers for the signaling effect and majority of the arguments support this theory. Thus the findings of the study strengthen the adaptation of signaling theory irrespective of the market structure.

A comprehensive study should be conducted on the taxation system in Pakistan and its effects on the investors perception and dividend payout. The study should be conducted by taking large number of interviewees to better understand the market structure, theoretical implementations and variation in the dividend payout.

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