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Original Research Paper

Managers' perception of dividend policy: Evidence from companies listed on Abu Dhabi Securities Exchange

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The aim of the current study is to explore the perception of managers of companies listed on Abu Dhabi exchange about dividend policy. Thirty-four out of fify-nine managers of companies listed on Abu Dhabi Securities Exchange were asked to reflect their experience about different aspects of dividend policy. The bird- in- hand theory received the highest support. The current study extends limited previous research based on questionnaire and survey related dividend policy. It thus provides new evidence from an emerging and fast growing economy.

Key words: Dividends, emerging markets, survey, Abu Dhabi

INTRODUCTION

One of the most challenging issues in modern corporate finance is identifying the determinants of corporate dividend policy. This reality has been expressed by Black (1976) who described the identification of factors that underline dividend policy as being a puzzle. Similar conclusion has been reached by Allen and Michaely (1995) who indicated that the more you explore corporate dividend policy, the more it looks like a puzzle. They contended that more empirical research needs to be undertaken before reaching consensus on the determinants of corporate dividend policy.

One of the main features that characterizes previous research is the use of secondary data, published mainly in corporate annual report, to explain dividend policy. Several researchers attempted to establish a relationship between dividend payout and companies attributes[1].

A limited number of studies, however, attempted to explore what motivate managers in formulating their dividend policy[2]. Saxena (1999) believes that dividend policy is an important issue in corporate finance and it can be used as a mechanism to signal information that reflects firm's prospects of stability and growth. Dividend policy plays a vital role in the capital structure and investment decisions of the company. This in turn can be used by management as well as shareholders to minimize agency cost[3]. Management success is measured by its ability to maximize shareholders' wealth and this cannot be achieved without fully understanding the dividend policy mechanism.

In this study, the attempt will be made to explore the views of corporate managers of companies listed on Abu Dhabi Securities Exchange about different aspects of corporate dividend policy including various theories of dividend policy, factors that affect dividend policy, dividend setting process, dividend policy and firm value and whether dividend policy varies according to industry. Although a significant number of surveys explored managers' perception of dividends policy, no significant research has been undertaken in emerging economies in general and Abu Dhabi in particular.

Abu Dhabi hosts one of the youngest stock exchanges in the region. Abu Dhabi Securities Exchange was established on 15 November 2000 with limited number of listed companies. Currently, 65 companies representing 9 sectors of the economy are listed on the Exchange.

Despite the financial crisis experienced by most countries in the world, at the end of September 2008, the market

[1] See for example: Aharony and Swary (1980); Ambarish et al (1987); Bar-Yosef, and Venezia (1991); Bernheim and Wantz (1995), Bhattacharyya (1979); Brav et al (2005); Easterbrook (1984); Gaver and Gaver (1993); Kao and Wu (1994).
[2] See for example: Baker, et al (2007).

[3]Some managers tend to increase the dividend payout and force themselves to borrow. This move will subject management to the scrutiny of a third party (lender) to assure shareholders and minimize agency costs.

capitalization of Abu Dhabi Securities Exchange reached USD109.5 billion[4].

Since Abu Dhabi Securities Exchange shares the same characteristics with other regional stock exchanges and allows foreign investors to invest in companies listed on the Securities Exchange, it is fair to say that a study that explores managers' views of factors that impact dividends policy can be generalized to regional stock exchanges. This will add an important dimension to the dividend policy literature.

The remainder of this study is organized as follows. Section 2 identifies factors appeared in the literature to influence corporate dividend policy. While section 3 presents study's methodology, section 4 summarizes the finding of the analysis. The conclusion is offered in the final section.

PREVIOUS RELATED RESEARCH

Different theories and different factors have been advanced in the literature to explain corporate dividend policy. According to Anil and Kapoor (2008), factors identified in the literature to explain corporate dividend policy have been increasing overtime. The succeeding sections summarize the main theories and factors used in the literature to explain dividend policy.

THEORIES EMPLOYED TO EXPLAIN CORPORATE DIVIDEND POLICY

Dividend relevance theories

Dividend relevance theory goes back to the early part of the nineteenth century when Williams (1938) claimed that share value is determined by the present value of future dividend and the selling price of the share. This claim has been supported by Graham and Dodd (1951) and Gordon (1959) who emphasized that a share price is influenced by dividend and earnings. According to the theory, investors view dividend payout as a sign of management capabilities and they take dividend policy as an important factor in assessing the certainty of a company's profit. Hence, frequent and high corporate dividend policy indicates that the company is very likely to perform well. Therefore, more dividend payout is a sign of overall financial health of the company. In the same contents, Baker and Powell (2005) demonstrated that corporate financial decisions are mainly classified into investment and financing decisions. Investment decisions are concerned with which type and amount of assets that the company intends to maintain. Whereas, financing decisions are concerned with how to obtain the required funds to finance these assets, financing assets can be through either equity or debt. Since dividend decisions impact the amount of earnings that a firm distributes to shareholders and the amount of earnings retained for reinvestment, the decisions are viewed as being financing decision. Dividend payout involves decisions on how much and when earnings should be paid as dividends. Hence, dividend payout is likely to influence shareholders' wealth and the firm's ability to retain profit to invest in future profitable investment opportunities. Pruitt and Gitman (1991) strongly believe that dividend and financing decisions are interrelated and cannot be separated. For example, if a company decides to pay dividends, this means that less earnings are available to invest in profitable projects. This move might force the company to raise funds externally. Consequently, it is not surprising to see some managers viewing dividend policy as a factor that would influence shareholders' wealth and corporate value (Baker et al, 1985; Baker and Powell, 1999). Thus, dividend policy is relevant to the value of the company.Relevance dividend theory has been empirically tested by a significant number of surveys conducted in the USA, including Lintner (1956), Baker, Farrelly, and Edelman (1985), Farrelly, Baker and Edelman (1986), Baker and Farrelly (1988), Farrelly and Baker (1989), Pruitt and Gitman (1991), Baker and Powell (1999, 2000), Baker, Veit, and Powell (2001), and Baker, Powell, Veit (2002b) and Baker et al. (2007) and most participants in these surveys indicated that dividend policy affects corporate value. According to Carlson (2001) dividends constitute the primary cash payment to stockholders. The greater the expected future streams of dividends, the greater the value of the stockholder's share.

Signalling theory

According to the signalling theory, corporate management may use dividends payout to signal information to the markets to value their firms. Lintner (1956) indicated that dividends provide a signalling device and the market uses dividend announcements to value firm's share. In fact, investors might not pay attention to dividends in particular, they, however, might look at changes in a company's dividend policy.

Investors consider changes in dividends payout as signals of company's prospects. In case management increased dividend payout, it is viewed as good news and the stock market reacts positively.

Whereas, reduction in dividend payout signals bad news, the stock market might react negatively. Hence, changes in dividend payout signal information about the company's prospects. Respondents to a survey conducted by Lintner (1956) strongly agreed that dividends provide a signalling device and the market uses dividend announcements to value firm shares. Bhattacharya (1979), Miller and Rock

[4] This figure is reported on the Abu Dhabi Securities Exchange website. Industries represented on the ADSE are: Banks, construction, consumer, energy, health care, industrial, insurance, real estate and telecommunication.

(1985) and John and Williams (1985) suggest that corporate dividend policy is designed to signal earnings prospects to investors. Brook *et al* (1998) showed that dividend policy is used to signal increase in future cash flow.

Myers and Bacon (2004) referred to the importance of dividend cash flow as a signalling device to shareholders. It was also evident in their sample that even with high growth the firm is willing to increase debt to fund increasing dividends. The firms covered in Myers and Bacon (2004) sample desire to "put their money where their mouth is" by sending a strong positive signal to institutional owners to enhance reputation and maintain access to capital. In Baker et al (2007) survey, they reported signalling as one of the important factors that affect dividend policy employed by Canadian managers.

Agency theory

The relationship between stockholders (principals) and management (agent) is viewed as an agency one. Agency costs arise as a result of the conflict of interest between stockholders and management. It is argued that management tends to reduce agency costs by making high dividend payments to secure external funding in order to subject itself to the scrutiny of the market. According to *agency theory*, the optimum level of dividend payout is one that minimizes the agency cost structure in relation to the cost of raising external funds. In this respect, Moh'd *et al.* (1995) test agency theory and show validity to the tenets of agency theory.

They found that managers adjust their dividend payout in accordance with the agency cost/ transaction cost structure through time and across firms. La Porta (2000) tested two different models of agency theory in 4,000 companies operating in 33 different countries. In the first model, dividends viewed as an outcome of effective legal protection to shareholders. In the second model, dividends employed as a substitute for effective legal protection. They concluded that the agency theory assists in understanding corporate dividend policies around the countries covered in their study. They found consistent support for the outcome agency model of dividends. Manos (2002) examined agency theory by studying 661 non-financial companies listed on the Bombay Stock Exchange. His findings supported the cost minimization model and the agency theory rationale for dividend policy. Mahadwartha (2003) examined the relationship between dividend policy and agency theory in a sample of Indonesian companies. He concluded that dividend policy is used as a monitoring mechanism to control agency conflict. On the other hand, Mollah et al (2007) examined the agency costs effect on dividend policy in Bangladesh. They concluded that in an emerging market like Bangladesh with an unusually high degree of ownership concentration dominated by families, the explanatory power of agency costs on dividend is low and insignificant. On the other hand, Baker et al (2007) survey of Canadian managers' perception of dividend policy showed that they do not express strong support to agency theory as a factor the influence their dividend policy.

Bird-in-hand theory

The main thrust of the *bird in hand* theory is that investors care about dividends and tend to invest in dividend shares. The fact that a company is paying dividends means that the company is making money. Whereas reporting profits means that the company is telling the investors that it is making money, investors prefer dividends received as cash in their hands over the hope of future profits. Future earnings are less predictable and uncertain. Shares with dividends are less risky than shares without dividends. This will motivate the investors to invest more; hence, boosting share prices. In this respect, Lintner (1956) and Gordon (1959) revealed that stockholders prefer current dividends and this causes a positive relationship between dividends and market value. After all, who guarantees that future earnings are attainable? Lintner (1956) and Gordon (1959) demonstrated that due to uncertainty, investors prefer to receive dividends today rather than receiving dividends in the future. Preference for current dividends results in a positive relationship between dividend payout and firm's market value. In all cases, Baker et al (2007) showed that the Canadian managers in their study exert little support to the bird- in- hand- theory.

Dividends irrelevance theory

Dividends irrelevant theory reveals that dividend policy is irrelevant in determining the value of the firm. The theory is advocated by a group of financial theorists (Miller and Modigliani, 1961; Miller, 1986; and Martin, Petty, Keown, and Scott, 1991). Modigliani and Miller (1958) contended that dividends policy has no effect on corporate value. They believe that firm's value is dependent on the income produced from its assets rather than from the income distribution between dividends and retained earnings. They showed that investors can affect the return on their shares regardless of the share's dividend. For example, if an investor expects high dividend payout, he/ she could buy more shares from the dividends received above his/ her expectation. Conversely, if the investor expects the company to have small dividend payout, the investor could sell some of the company's shares to compensate for the shortage in cash he/ she expects to receive. Consequently, dividend is irrelevant to investors, since they can formulate their own.

FACTORS AFFECTING CORPORATE DIVIDEND PAYOUT

Pattern of past dividends

A company tends to maintain dividends per share at least at

the previous year's level unless it had low dividend cover or the company has warned that it is possible to make cut in dividend payout. If dividend payout has been maintained at a constant level in the past, the same will be done in the future. Any significant changes in dividend pattern will continue as long as the dividend cover does not witness significant fall. Companies tend not to increase dividend payout unless they are confident that they can sustain such increase. Increasing dividend payout is used by corporate management to signal to the market that management is confident. On the other hand, cut in dividend payout is viewed by investors as deterioration in a company's business. Yet, in specific cases, cut in corporate dividend reflects a need to keep cash for future capital expenditures. Lintner (1956) indicated that companies avoid changing dividend rates and prefer to reserve them and attempt to maintain an uninterrupted record of dividend payout. Baker et al (1985), Baker and Powell (1999) and Baker et al. (2001) showed that managers pay more attention to change in dividend payouts than the level and they tend to smooth the pattern of dividend growth. *NASDAQ* managers surveyed by Baker et al (2002) stressed the importance of maintaining dividend continuity.

Stability of earnings

As the pattern of past dividends, profits/ earnings can be viewed as the main factor that underlines corporate decision to pay dividends. The profit/ earning factor was tested in an early research conducted by Linter (1956) who asked 28 U.S. managers how they formulate their dividend policies. He concluded that corporate dividend payout decision is affected by the current year earnings and previous year dividends. Higgins (1972) found that dividend payout varies with earnings. In the same line of research, Farrelly, Baker and Edelman (1986) surveyed chief financial officers of *NYSE* firms, to identify the major determinants of corporate dividend payout, and found that the level of future earnings and the patterns of past dividends among the main factors that influence corporate dividend payout. Similar research was undertaken by Pruitt and Gitman (1991) who explored the views of 1,000 financial managers, representing USA large firms, about factors that influence corporate their dividend payout decision. They found current and previous years profits are important factors that impact dividend payout. Similarly, Baker and Powell (2000) found in their survey of managers of companies listed on NYSE that future earnings are the main determinant of corporate payout. Baker et al (2007) survey of 290 Canadian managers indicated that the level of current and expected future earnings and stability of earnings are among the most important factors that influence dividend policy. Yet, a recent study undertaken by Anil and Kapoor (2008) found insignificant relationship between dividend payout and earnings of companies operating in the Indian information technology sector.

A considerable number of US survey studies (for example, Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999; Baker, Veit and Powell, 2001) report consistently that managers have more regard to the change in dividend payout than the levels of dividend payout and they tend to smooth the pattern of dividend growth. These surveys also report that managers generally attempt to increase dividends only when they think that increases in earnings are sustainable. Furthermore, managers think that decrease in the payout will cause an adverse price reaction. These results are broadly confirmed for the UK by the survey conducted by Dhanani (2005).

Liquidity and cash flow position

Another factor captured in the literature as a determinant of dividend payout is corporate liquidity or cash flows position. A company in shortage of cash and facing a liquidity problem is unlikely to have high dividends payout. In this respect, Alli *et al* (1993) disclose that corporate payout is dependent on the availability of cash flows rather than profit. According to them, current earnings cannot be used as an indication on corporate ability to pay dividends. In a study conducted in Japan, Kato *at al* (2002) showed that dividend changes communicate information about the firm's cash flows.

Investment and financing decisions

Dividend payout has been related to the investment-financing decisions. Companies which tend to expand are more likely to have low dividend payout. In this context, Green *et al.* (1993) investigated the relationship between the dividends and investment and financing decisions. Their study showed that dividend payout levels are not totally decided after a firm’s investment and financing decisions have been made. Dividend decision is taken along with investment and financing decisions. The results however do not support the views of Miller and Modigliani (1961). Partington (1983) revealed that firms’ use target payout ratios, firms’ motives for paying dividends and extent to which dividends are determined are independent of investment policy. Higgins (1981) pointed to a direct link between growth and financing needs: rapidly growing firms have external financing needs because working capital needs normally exceed the incremental cash flows from new sales. Higgins (1972) shows that payout ratios are negatively related to firms’ need top fund finance growth opportunities. Rozeff (1982), Lloyd *et al.* (1985) and Collins *et al* (1996) all reported a significant negative relationship between historical sales growth and dividend payout. D'Souza (1999) however shows a positive but insignificant relationship in the case of growth and negative but insignificant relationship in case of market to book value. Baker et al.(2008) indicated that the Canadian managers

surveyed in their supported the proposal that investment, financing and dividend decisions are all interrelated.

The clientele effect

Given the diversity of investors, they tend to invest in companies whose dividend matches their preferences over time. Investors who pay high tax and do not need cash are expected to invest in companies that pay low or no dividends. In the contrary, investors who pay low tax and need the cash will invest in companies that pay high dividends.

Relating different types of investors with dividend policies is referred to as the *clientele effect*. This effect has been empirically investigated by Pettit (1977) who examined portfolios of 914 investors to see whether their portfolios were affected by their tax brackets. He found that older and poorer investors were more likely to invest in high-dividend-paying companies than were younger and wealthier investors.

The study also found that safer companies, with older and poorer investors, tended to pay more in dividends than companies with wealthier and younger investors. Similarly, Zeng (2003) pointed at a relationship between liquidity clientele effect and dividend policy.

The clientele effect offers different argument for the irrelevance dividend policy. Given that investors are likely to invest in companies paying dividends that match their needs, dividend policy will have impact on corporate value. Thus, the value of the company that does not pay or pays little dividends will not be affected since investors are not looking for dividends.

Equally, high dividends payout will not affect a company's value since its investors are looking for high dividends.

Thus, according to this argument, there are enough investors in each dividend clientele to ensure that companies are fairly valued regardless of their dividend policy. In this context, Baker et al (2007) reported little support to clientele effect by a sample of Canadian managers.

Industry classification

Another factor used in the literature to explain variations in dividend policy is industry. According to Baker et al. (2008), dividend is viewed to be more important for financial firms since retaining financial health is central to the daily operations of the financial firms than the non-financial ones.

Financial firms also account for a significant proportion of the stock markets. Linter (1956) indicated that industry type may impact corporate dividend policy. Matured and well established manufacturing companies are more likely to pay more dividends than newly established services companies.

Bikhchandani and Shama (2000) used the *herding behavior* to explain dividend policy where companies follow the leader within the industry or they follow the first firm that declares dividend. Baker and Smith (2005) found evidence to support the *herding behavior*. On the other hand, studies undertaken by Rozef (1982), Dempsey et al (1993), Howe and Shen (1998), Casey et al (1999) and Frankfurter and Wood (2003) found no significant association between industry type and dividend policy.

DATA COLLECTION AND STUDY METHODOLOGY

At the end of 2008, 59 companies were listed on Abu Dhabi Securities Exchange. During the period between September and October 2008, a standard letter had been forwarded to the managers of all companies listed on the Abu Dhabi Securities Exchange. They were asked to complete a questionnaire. The questionnaire contained sections related to various theories of dividend policy and factors that impact dividend policy all of which were tested in the literature. The respondents were asked to express the level of agreement with the dividend policy theories on a scale between 1-5 where 1 denotes strongly disagree and 5 denotes strongly agree. The respondents were also asked to express the level of importance that they attach to different factors that might affect corporate dividend policy on a scale between 1-5, where 1 indicates that the factor is not important at all and 5 indicates that the factor is very important. The factors that were included in the questionnaires were mainly derived from the literature[5]. Actually, the questionnaire was designed to provide answers to the following research questions:

1. Which dividend policy theories are employed by managers of companies listed on Abu Dhabi Securities Exchange?

2. What are the mains factors that affect dividend policy of managers of companies listed on Abu Dhabi Securities Exchange?

3. How managers of companies listed on Abu Dhabi Securities Exchange view dividend setting process?

4. How managers of companies listed on Abu Dhabi Securities Exchange view dividend policy and firm value?

5. Does the perception of managers of companies listed on Abu Dhabi Securities Exchange about dividend policy vary among different sectors of the economy?

[5] The questionnaire adopted in the current study is mainly a duplicate to the survey used by Baker and Powel (2000), Baker et al (2001), Baker et al (2007) and Baker et al. (2008).

Table 1. Details of the response among different sectors of the economy.

Industry	Number of listed companies	Responded to the questionnaire	Response rate (%)
Banking	15	8	53
Services	17	10	59
Industrial	19	10	53
Insurance	8	6	75
Total	59	34	58

By the end of the year 2008, 15 out of the 59 questionnaires forwarded to the managers of all companies listed on Abu Dhabi Securities Exchange were received. In early 2009, a reminding letter was forwarded to companies which had not completed and returned the questionnaire. By the end of March 2009, an additional 19 questionnaires were received resulting in 58% response rate. The sample is a fair representation of different sectors of the economy. A breakdown of the received questionnaires among different sectors of the economy and the corresponding response rate are summarized in Table 1.

To measure the internal consistency of respondents' answers to the questionnaire, *Cronbach's Alpha* was calculated and appeared to be 0.936. This suggests that the answers have a relatively high consistency[6]. To identify whether there are differences in the response answers coming from different sectors of the economy, Kruskal Wallis test was undertaken. In addition to *Cronbach's Alpha* calculation and the Kruskal Wallis test, descriptive statistics (mean) are used to form basis to rank the respondents' answers and to measure dispersion from the mean (standard deviation).

FINDINGS

Theories of dividend policy

Managers of the companies listed on Abu Dhabi Securities Exchange were asked to express their level of agreement with various theories of dividend. A summary of the analysis of their answers is presented in Table 2.

It is clear from Table 2 that the surveyed managers support almost all dividend policy theories as reflected by the mean of the population.

The surveyed managers, however, showed a highest agreement with the proposal that investors "*generally prefer dividends today due to uncertain future price appreciation*".

This is a clear support to the bird- in- hand theory. It should be noted here that surveyed managers from three out of the four economic sectors covered in the study ranked this theory as being first as reflected by the reported mean and the relatively low standard deviation. However, the Table 2 pointed at a significant chi square (χ^2). This is mainly due to the answers of the surveyed managers from the insurance sector.

The surveyed managers also expressed high support to the proposal that dividend policy affects corporate cost of capital and corporate value. On the other hand, proposals such as dividend policy should strike a balance between current dividend and future growth than maximizing share prices and the firm should review cash dividend as a residual after funding desired investment from earning received the lowest agreement among the surveyed managers.

The reported χ^2 pointed to differences between the surveyed managers from different sectors of the economy. The difference is mainly due to those who strongly agree or agree with the use of the theories. The outcome of the analysis is not totally consistent with the results achieved by Baker et al (2007) which showed that the Canadian managers do not support the bird- in- hand theory. The moderate support to the residual theory reported in the current study seems to be consistent with that reported by Baker et al. (2007).

Factors affecting corporate dividend policy

Various factors advanced in the literature to explain dividend policy have been given to respondents and they answers is summarized in Table 3. It is evident from (Table 3) that there is high a degree of consensus among the surveyed managers on the importance that they assign to the factors that influence their decision about dividend policy. This result has been reflected by the resulted ranks of the means and χ^2. The participants attach high level of importance to all factors included in the questionnaire.

This can be clearly observed by the reported mean of the population since none of the reported means was lower than 4.0. In other words, the surveyed managers attach a certain level of importance to these factors.

However, the surveyed managers attach high level of importance to factors such as contractual

[6] A reliability coefficient of 0.70 or higher is considered acceptable in most social science research.

Table 2: Respondents views of various dividend theories.

Dividend theories	Banking (8)			Services (10)			Industrial (10)			Insurance (6)			Population (34)			χ^2	Sig
	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank		
A change in the firm's cash dividends affects its value.	4.25	0.46	4	4.4	0.692	5	4.6	0.70	4	5	0	1	4.53	0.61	4	7.30	0.06
Concern about affecting the share price	4.63	0.52	2	4.5	0.53	3	4.5	0.53	8	4.67	0.52	7	4.56	0.50	3	0.69	0.88
A firm should formulate its dividend policy to produce maximum value for its shareholders.	3.88	0.64	11	4.4	0.5164	5	4.6	0.52	4	4	0	8	4.26	0.57	9	8.95	0.03
An optimal dividend policy strikes a balance between current dividends and future growth than maximizing share prices.	4.13	0.64	9	4.2	0.63	10	4	0.47	11	4	0	8	4.09	0.51	10	1.11	0.78
A firm's investment, financing and dividend decisions are interrelated	4.25	0.71	4	4.4	0.70	5	4.1	0.57	10	5	0	1	4.38	0.65	6	8.70	0.03
A firm's dividend policy generally affects its cost of capital	4.35	0.525	3	4.5	0.53	3	4.7	0.485	3	5	0	1	4.62	0.49	2	6.39	0.09
Paying dividends forces a firm to seek more external (debt/ equity) financing, which subjects the firm to additional investor scrutiny	4.00	0.00	8	4.1	0.32	11	4.6	0.52	4	5	0	1	4.38	0.49	6	19.44	0
Paying dividends encourages a firm's managers to act in the interest of the firm's outside shareholders	4.13	0.35	7	4.4	0.52	9	4.2	0.42	9	5	0	1	4.38	0.49	6	12.96	0.005
Investors generally prefer cash dividends today due to uncertain future price appreciation	4.88	0.35	1	4.9	0.32	1	4.8	0.42	1	4	0	8	4.71	0.46	1	17.22	0.001
A firm should review cash dividend as a residual after funding desired investments from earnings	4.00	0.53	10	4.20	0.42	5	4.6	0.52	4	4.00	0	8	4.09	0.453	10	8.752	0.033
A firm's expenditures on new capital invest-ments generally affect its dividend pattern	4.25	0.463	4	4.60	0.52	2	4.7	0.48	2	5.00	0	1	4.46	0.51	5	8.34	0.039

constraints- as dividend restriction on debt contracts, financing considerations- as the cost of raising external funds (debt and equity), projection about the future state of the economy, desire to conform to the industry's dividend
payout ratio and concern about the effect on share price. Yet, the participants in the survey attach less importance to factors such as stockholders characteristics like the marginal tax rates of the firm's current shareholders, expected rate of return on the firm's assets, signalling incentives such as using dividend changes to convey information to the financial market, desire to avoid giving a false signal to investors by changing the dividend, needs of current shareholders such as desire for current income and preference to pay dividend instead of undertaking risky investment. The result of the analysis showed that external factors are more likely to influence managers, of companies listed on Abu Dhabi Securities Exchange, decision about dividend policy. The outcome of the analysis reflects the effect of the international financial crisis that struck the world at the end of 2008 and early 2009. Since that time, lending institutions became more conservative and imposed strict lending rules. It is not, however, surprising to see a factor such as the marginal tax rate of the shareholder as being the least important one since tax is not paid on dividend or capital gains in Abu Dhabi. In addition, the surveyed managers clearly indicated that they do not use tax policy to signal information about their capabilities. Part of the result of the analysis is not consistent with Baker et al (2007) who reported that Canadian managers use dividend payout as a signalling mechanism.

Historical pattern of dividend and dividend lifecycle

Baker et al (2002) indicated that you cannot understand the dividend payout puzzle unless you know the pattern of dividends payout decisions. This can be mainly achieved by directly asking the managers. It was, therefore, important to ask the managers of companies listed on Abu Stock Exchange about the pattern that they follow when they formulate their dividend policy. Analysis of their answers is summarized in (Table 4).

Table 3. Respondents views of different factors affecting corporate dividend policy.

Factor affecting corporate dividend policy	Banking (8)			Services (10)			Industrial (10)			Insurance (6)			Population (34)			χ^2	Sig.
	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank	Mean	St. Dev.	Rank		
Stability of earnings	4.375	0.51755	11	4.4	0.5164	11	4.4	0.5164	12	4.5000	0.54772	7	4.4118	0.49955	10	0.242	0.971
Patterns of past earnings	4.375	0.51755	11	4.4	0.5164	11	4.4	0.5164	12	4.5000	0.54772	7	4.4118	0.49955	10	0.242	0.971
Level of current earnings	4.250	0.88641	14	4.4	0.69921	11	4.5	0.70711	7	4.3333	0.8165	14	4.3824	0.73915	15	0.423	0.936
Level of expected future earnings	4.500	0.53452	3	4.4	0.5164	11	4.4	0.5164	12	4.5000	0.54772	7	4.4412	0.50399	10	0.324	0.955
Current degree of financial leverage	4.500	0.53452	3	4.4	0.5164	11	4.4	0.5164	12	4.5000	0.54772	7	4.4412	0.50399	10	0.324	0.955
Availability of alternative sources of capital	4.500	0.53452	3	4.5	0.52705	6	4.5	0.52705	7	4.5000	0.54772	7	4.5000	0.50752	8	0.000	1.000
Expected rate of return on the firm's assets	4.125	0.83452	16	4.3	0.67495	18	4.3	0.67495	18	4.3333	0.8165	14	4.2647	0.70962	18	0.34	0.952
Desire to maintain a target capital structure	4.500	0.53452	3	4.7	0.48305	3	4.5	0.52705	7	4.5000	0.54772	7	4.5588	0.50399	4	1.112	0.774
Projection about the future state of the economy	4.500	0.53452	3	4.7	0.48305	3	4.7	0.48305	3	4.8333	0.40825	2	4.6765	0.47486	3	1.809	0.613
Liquidity constraints such as the availability of cash	4.500	0.53452	3	4.5	0.52705	6	4.5	0.52705	7	4.6667	0.5164	3	4.5294	0.50664	6	0.535	0.911
Desire to conform to the industry's dividend payout ratio	4.625	0.51755	1	4.5	0.52705	6	4.5	0.52705	7	4.6667	0.5164	3	4.5588	0.50399	4	0.685	0.877
Desire to payout, in the long-run, a given fraction of earnings	4.375	0.51755	11	4.6	0.5164	5	4.6	0.5164	5	4.3333	0.5164	14	4.5000	0.50752	9	1.909	0.592
Needs of current shareholders such as desire for current income	4.125	0.83452	16	4.4	0.69921	11	4.4	0.69921	12	4.1667	0.75277	18	4.2941	0.71898	16	0.985	0.805
Contractual constraints such as dividend restriction on debt contracts	4.625	0.51755	1	4.9	0.31623	1	4.8	0.42164	1	4.6667	0.5164	3	4.7647	0.43056	1	2.208	0.53
Preference to pay dividend instead of undertaking risky investment	4.125	0.35355	16	4.4	0.5164	11	4.4	0.5164	12	4.1667	0.40825	18	4.2941	0.4625	16	2.574	0.462
Legal rules and constraints such as paying dividends that would impair capital	4.500	0.53452	3	4.5	0.52705	6	4.7	0.48305	3	4.3333	0.5164	14	4.5294	0.50664	6	2.093	0.553
Financing considerations such as the cost of raising external funds (debt and equity)	4.500	0.92582	3	4.8	0.63246	2	4.8	0.63246	1	4.6667	0.8165	3	4.7059	0.71898	2	1.017	0.797
Investment considerations such as the availability of profitable investment opportunities	4.250	0.46291	14	4.5	0.52705	6	4.6	0.5164	5	4.5000	0.54772	7	4.4706	0.50664	9	2.223	0.527
Stockholders characteristics such as the marginal tax rates of the firm's current shareholders	3.500	0.75593	19	3.8	0.78881	19	4.3	0.94868	19	5.0000	0.0000	1	4.0882	0.90009	19	11.488	0.009

Table 4. Respondents views of patterns of dividend and the dividend lifecycle.

Pattern of dividend and dividend lifecycle	Banking (8)			Services (10)			Industrial (10)			Insurance (6)			Population (34)			χ^2	Sig
	Mean	St. Dev.	Rank	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank		
Dividend changes generally lag behind earnings changes	4.125	0.35355	1	4.1	0.56765	1	4.5	0.70711	1	5	0	1	4.3824	0.60376	1	11.881	0.008
Dividends generally follow smoother path than earnings	4.125	0.35355	1	4.1	0.56765	1	4.5	0.70711	1	5	0	1	4.3824	0.60376	1	11.881	0.008
The pattern of cash dividends generally changes over a firm's lifecycle	4.000	0.00000	3	4	0.4714	3	3.9	0.31623	3	4	0	3	3.9706	0.30003	3	0.781	0.854

It is clear from (Table 4) that there is consensus among the surveyed managers across all sectors of the economy that a significant and positive relationship exists between earnings and dividend policy. They indicated that changes in dividend payout generally lag behind earnings and dividend payout follows smoother path than earnings. This result is similar to that reported by Baker et al (2007).

Dividend setting process

Another puzzle in dividend policy is how to set its process. Some companies may periodically adjust their dividend payout to meet a target. Other companies may need to adjust their dividend payout to reflect changes in earnings. Expectations about future dividends should be taken into account when setting the current dividend payout. Companies should also insure a stable record of dividend payout. There is a strong belief that the market places greater value to dividend rather that to dividend payout ratios. All these mechanisms used to explain dividend setting process were put for the managers of companies listed on Abu Dhabi Securities Exchange and they were asked to show the level of agreement with each of them. Analysis of their answers appears in (Table 5).

It is clear from (Table 5) that the surveyed managers agreed that they had used all processes listed in the questionnaire. The surveyed managers, however, indicated that the market places greater value on stable dividend than stable payout ratio, change in dividend is based on sustainable shift in earnings. The surveyed managers have also indicated that they take into account expenditures on new capital investment before setting their dividend policy. This is a clear indication that they support the residual theory. This result seems to emphasize results reported in (Tables 3 and 4) in that earnings play a significant role in determining dividend policy of the companies listed on Abu Dhabi Securities Exchange. Although the resulted mean of distribution to factors such as the company should set a target dividend payout ratio and periodically adjusts it payout towards this target and the company should avoid increasing its regular dividend if it expects to reverse its dividend decision in the future was around 4.0, there was less agreement among the surveyed managers about these two factors. On other hand, it is important to emphasize that the resulted standard deviation together with the χ^2 showed that there is significant differences between the answers of the surveyed managers from different sectors of the economy. This can be attributed to those who agreed and strongly agreed to the listed factors in the questionnaire.

SUMMARY AND CONCLUSION

The main objective of the current study is to provide empirical evidence from Islamic countries, about different aspects of corporate dividend policy. To achieve this objective, managers of a sample of companies representing 58% of the companies listed on Abu Dhabi Securities Exchange were surveyed. The result of the analysis indicated that companies' managers who participated in the survey take into consideration different relevance theories used in the literature to explain dividend policy. The theories include: residual, agency, corporate value, signalling and the bird- in- hand. However, the bird- in- hand theory and the relevant value theory received the highest support among the surveyed managers. It was also evident from the analysis that external factors related to the economic conditions together with the state of the capital market and lending conditions are all important factors in formulating dividend policy of managers of companies listed on Abu Dhabi Securities Exchange. Restrictions imposed on them

Table 5. Respondents views of dividend setting process.

Dividend setting process	Banking (8)			Services (10)			Industrial (10)			Insurance (6)			Population (34)			χ^2	Sig
	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank	Mean	St.Dev.	Rank	Mean	St. Dev.	Rank		
A firm should set a target dividend payout ratio and periodically adjust its current payout toward the target.	4.125	0.35355	4	3.90	0.31623	5	3.9	0.31623	6	4.000	0.0000	5	3.9706	0.30003	6	3.248	0.355
A firm should change dividends based on sustainable shifts in earnings	4.000	0.75593	6	4.50	0.52705	2	4.6	0.5164	3	5.000	0.0000	1	4.5000	0.61546	2	8.868	0.031
A firm should avoid increasing its regular dividend if it expects to reverse the dividend decision in a year or so.	4.125	0.64087	4	3.90	0.73786	5	4.4	0.84327	4	4.167	0.40825	4	4.1471	0.70205	5	2.779	0.427
A firm should strive to maintain an uninterrupted record of dividend payout	4.250	0.46291	1	4.40	0.69921	3	4.1	0.56765	5	5.000	0.0000	1	4.3824	0.60376	4	9.899	0.019
The market places greater value on stable dividend than stable payout ratio.	4.250	0.46291	1	4.40	0.5164	1	4.7	0.48305	1	5.000	0.0000	1	4.5588	0.50399	1	9.379	0.025
A firm's expenditures on new capital investments generally affect its dividend pattern	4.250	0.46291	1	4.6	0.5164	1	4.7	0.48305	1	5	0	1	4.4571	0.50543	3	8.341	0.039

by debt providers together with current financial market crises are the most important factors that affect their dividend policy. The analysis also pointed to the pattern, stability and expected earnings as being important in setting the dividend policy process. Moreover, the surveyed managers believe that the market pays more attention to the stable dividend payout rather than stable payout ratio. They also made the point that the change in dividend payout should be based on sustainable shift in earnings and the firm should strive to maintain an uninterrupted record of dividend payout.

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