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Determinants of Dividend Payouts in Financial Sector of Pakistan

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ABSTRACT

The rationale of this study is to conduct an empirical analysis of determinants of dividend payouts of financial sector firms of Pakistan listed at Karachi Stock Exchange. The study has applied a panel data methodology. Different variables related to the firms, operations i.e. Profitability, Liquidity, Size, Cash Flow, Asset tangibility and Earnings per share and their impact was analyzed on the dividend payouts of the firm. Data was collected from 21 financial sector firms listed at Karachi Stock Exchange. Results Show that cash flow have significant negative relationship and earnings per share have a significant positive association with the dividend payout of the company, while asset tangibility, profitability and size have in-significant negative relationship and liquidity has insignificant positive relationship with dividend payouts.
KEY WORDS: dividend payouts, panel data methodology, liquidity.

INTRODUCTION

This paper aims at defining and analyzing the determinants of dividend payouts. Dividend is a portion of a firm's earnings, distributed to the shareholders of the firm. The amount of dividend is decided by the Board of Directors. Dividend can have any form such as cash, stock or property. Dividend policy determines the amount of dividend that it will pay to its stockholders out of its earnings and this proportion of the earnings is called the dividend payout. For lots of companies, dividend amount is not fixing and depends on the growth rate of the company and some companies follow a constant growth rate for paying dividend. There is also the case, where many companies follow the zero growth rate dividend policy Phillips [1].

The central phenomenon or the question is that, what are the determinants that decide or affect the dividend payouts of the firms in the financial sector of Pakistan. The variables related to the firms characteristics and its operations that the study has selected are the dividend payout as dependent variable and profitability, asset tangibility, earnings per share, firm size, cash flow and liquidity as independent variables. The sources of data collection are the companies' websites, SBP website, and Securities and SECP website. Tool used for the data analysis is Eviews and multiple regressions are applied on the panel data to obtain the results.

In context of Pakistan we have found no research in the financial sector of Pakistan showing the impact of different factors on the dividend payouts of the firm. The dividend payout is considered the most important and debatable topic in the area of finance a lot of research is conducted to find the determinants of dividend payouts in different contexts using different combinations of variables. In Pakistani context, research on this issue is conducted on non financial as well as oil and gas sector of Pakistan. (Roomi M. A., Chaudhry N. I., and Azeem M. 2011)

LITERATURE REVIEW

Dividend policy is one of the most central and vital topic in finance. Many researchers have worked on it and provided pragmatic evidences based upon their theories, depicting the determinants of dividend policy. In spite of a large volume of literature and research work there is no one clear established formula or rule to determine the dividend policy. As the studies have mentioned earlier a lot of researches have been conducted on this topic, but the results vary from industry to industry.

Since 1956, dividend has gained importance and dividend strategy is considered mainly interesting matter especially in commercial business. In 1956 a researcher analyzed how the corporation income is distributed among several important dimensions such as dividends, retained earnings and taxes. He used the data from 1918 to 1951. Through this study he found that two important determinants of dividend payouts are net income and past year dividends. In his model it is assumed that firms have a desired dividend level and this level is based on the firms' expected earnings. When variations occur in earnings, the firms will show these changes in earnings by changing their dividend payouts. Current dividend decisions are followed by the previous year patterns of dividends distributions. Dividends participate as an important function in the success of the firm and are helpful

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into reducing and sometimes even eliminating the investors' negative reactions, therefore investment and saving decisions are dependent on dividend policy and a by-product of the dividends. This model states that investors or shareholders prefer stable and smooth dividends. He analyzed the data of 28 firms and analyzed that the firms follow a stable dividend payouts by keeping in mind the target payout ratios and make partial adjustment to achieve these target payout ratios. Current earnings are also considered very important while deciding the dividend distribution patterns. To determine the current year dividend, past year dividend patterns are followed instead of making a fresh dividend decision each time.

The second most prominent study that appeared some fifty years ago in the finance literature, focusing on dividend policy was presented by the two economists Merton Miller and Franco Modigliani (M&M) in (1961).They wrote very important article about the firm's optimal dividend policy and showed that choice of a dividend policy and particular capital structure are not the concern of the shareholder and management should pay attention to other important issues such as where the firm should invest to gain maximum returns. According to Merton Miller and Franco Modigliani theorem, the entirety market worth of all the possessions held by the firm is not affected by dividend policy moreover in this manner it is independent from the procedure through which cash is distributed among the shareholders. In this way the theorem states that dividend does not affect the firm value in perfect market case. This is a remarkable effort for choosing the best capital structure and dividend policy.

According to Modigliani & Miller (1958), value of the firm is autonomous of the capital composition so the business should not spend too much time on the decisions regarding the capital structure. Modigliani & Miller theorem states that menace and return of the firm's actual property determine the overall market worth of all the assets issued by the company, not through the mix of the issued securities or the capital structure of the firm. Modigliani & Miller (1958) explained also that dividend policy or the cash distributed to the shareholders has no influence on the entire market worth of all the possessions issued by the company and thus this value is independent of dividend policy. The idea behind this statement is that the shareholders can simulate the dividend payout policy on their own so the firm should focus on the other important issues of the firm. This theorem provided the basis in support of further researchers to discover the dividend strategy phenomenon.

Bhattacharya (1980) and John Williams (1985) presented the signaling theory. According to the theory managers as compared to investors, have more information about the firm's real worth. The managers use the dividends as a source to convey this information to the market. Thus this theory says that there is a positive relationship between the information asymmetry and dividend payouts also that the dividends should be paid according to the stock prices. Fama and French (2001) presented the life cycle theory**.** This theory explains that firms should follow a life cycle and should care about different factors relevant to the firm such as market imperfections, taxes, agency cost problems, asymmetric information and transactions costs before deciding the dividend policy. Baker and Wurgler (2004) presented the catering theory. This theory describes that mangers should pay incentives to the shareholders according to their needs and wants and in this manner caters the investors by paying attractive and smooth dividends when investors put stock price premium and by not paying dividend when investors prefer non payers. Gordon and Walter (1963) presented the bird in hand theory. This theory states that investors always prefer the cash in hand instead of a future promise of capital gain in the form of dividend to minimize the future risk. Jensen and Meckling (1976) presented the agency theory based on the conflicts among the shareholders and management of the firm and states that the percentage of the equity controlled by insider owners should influence the dividend payout policy. Easterbrook (1984) gave further explanation about this agency problem and stated the two forms of the agency problem: one is the cost of monitoring the internal operations of the firm and the other is the cost of risk avoidance on the part of the management.

Among various researches conducted, some researchers pay attention on productivity and firm size, several on firm expansion, leverage and agency issues, some on liquidity, cash flow, asset tangibility, earnings per share, market capitalization, corporate governance, debt ratio, net profit, taxation and some used a combination of these variables in determining the dividend policy.

Gupta & Banga [2] explored the components of dividend strategy. The variables used within this research were the dividend policy as dependent variable and dividend rate, current ratio, net profit ratio, debt equity ratio, return on investment, cash from operations, annual sales growth, corporate sale tax/profit after tax, PBIT/total assets, EPS growth, ratio of retained earnings to equity, return on net worth, promoters' shareholding, institutional shareholding and foreign institutional investors' shareholdings as the independent variables. Data has been collected from the Prowess catalog of CMIE. In this research a two-step multivariate procedure was used. Results showed that leverage has a negative impact on dividend payout while the remaining four factors have the positive relationship with the dividend payout.

Afza & Mirza [3] conducted a research in Pakistan. Variables used in this research were the dividend payout as dependent variable and Insurance companies' ownership, mudarbah ownership, national investment trust ownership, misc institutional ownership, growth opportunities, size, leverage and profitability as independent variables. Statistics have been composed from available monetary statements, publications of the SBP, annual reports and by every day quotations of KSE. Ordinary least square method has been used as a

primary tool for data analysis. Statistical software STATA is also used to analyze the data. Results show that among the chosen factors leverage and growth opportunities are negatively related with dividend payout while all other factors affect the dividend payout in a positive manner. Mudaraba business is not well established in Pakistan that's why it contributes very little to the determination of the dividend policy or we can say that Mudaraba does not have any significant impact on dividend policy.

ALAM & Hossain [4] conducted this research to analyze the dividend payout determinants. Data have been gathered from the yearly description of the sample firms in UK and Bangladesh, explicitly TESCO plc, BP plc and BT plc, registered in London Stock Exchange. Statistical package SPSS 17 and econometrics models have been used for the analysis of data. In this study the reliant variable is the dividend rate and autonomous variables are liquidity, leverage, productivity, market capitalization and growth. Results have shown that in UK based companies, dividend rate is positively influenced by leverage; profitability; market capitalization and negatively by liquidity and growth. In case of Bangladeshi companies, liquidity; leverage; productivity and market capitalization manipulate the dividend price pessimistically whereas expansion has a positive effect on dividend policy.

Dilawer & Dr. [5] conducted a research to find the collision of earning administration on dividend strategy data intended for this research have been composed from the firms registered in KSE. The data were gathered from the annual balance sheets collected from the State Bank of Pakistan. Reliant variable engaged in this study is the dividend payout and autonomous variable is earning management. Whereas three control variables are also used: return on equity (ROE), size of the firm (SF) and self finance ratio (SFR).Multiple regression analysis has been performed to examine the relationship among variables. Results of the regression analysis show that in Pakistani Textile industry, earning management has a negative impact on the dividend payout ratio.

Baba [6] conducted a research to analyze the effect on Chinese firms' dividend policy due to increase in foreign investor presence. Data was collected from 847 listed firms on Tokyo stock exchange using the consolidated financial statements of selected companies registered on Tokyo stock exchange. Dependent variable was dividend paid while independent variables were foreign investor control, profit, company volume expansion velocity of total property and market to book proportion. Data was analyzed using Random-effects binary profit method. Outcome showed a positive relationship among dividend payment and foreign possession as here is significantly higher probability of dividend payouts with higher level of foreign ownership.

Li & Zhao [7] conducted a research to examine the effect of information asymmetries on dividend policy. Data has been collected from unbalanced panel comprising 22,413 firm-years observations using Compustat/ CRSP merged file. Dependent variable was dividend payout and independent variables were productivity, market to book proportion, asset expansion, business volume and firm risk. Regression model was used for the analysis of data. Results showed that the information asymmetry affects the dividend policy in the negative way. Results also suggested that firms' earnings have a positive relationship with dividend payout.

Brockman & Unlu [8] conducted a research to examine the collision of agency costs and credit ratings on dividend policy. Data was collected from 120,507 firms from 52 countries from 1990-2006 using yearly monetary secretarial variables, market statistics, and each month exchange rates from Compustat Global Industrial, Global Issues, and Global Currency files, correspondingly Dependent variable was dividend to sales ratio and independent variables were creditor right index, shareholder right index. Controlled variables are undistributed income, equity percentage, sales expansion and market value. Data was analyzed using multivariate logit and tobin model and regression model. Outcome showed a optimistic association among creditor rights and dividend payment. So, a country will pay a high dividend to gain the higher creditor ratings and agency costs also have a significant impact on dividend policy.

Ferris, Jayaraman, & Sabherwal [9] conducted the research to analyze that to which extent the differences in levels of the shareholders' protection might influence the dividends. Data is collected from 23 countries using the Compustat Global databases for annual monetary and secretarial statistics. Other data such as property, equity and dividends remunerated are collected through Compustat Global Industrial catalog. Dependent variable was dividend paid and independent variables were firm size, growth opportunities and market capitalization. Results showed that businesses with superior productivity and enlargement opportunities and businesses that remunerated dividends formerly have the better tendency to compensate dividends. It was also concluded from the results that precedent dividend and firm size are significant determinants of the dividend payout.

Asif, Rasool, & Kamal [10] conducted a research to examine the effect of financial leverage on dividend policy. Statistics is composed from 403 companies registered on KSE, through Analysis reports, yearly news of scheduled companies, SBP website, Business Recorder website and joint stock companies. Private visits to SECP and Islamabad Stock Exchange were prepared for assortment of facts for the years 2002 and 2003. Reliant variable was dividend for each share and autonomous variables were dividend acquiesce, obligation proportion and alteration in earnings. Regression and correlation analysis was used to examine the data. Results showed that dividend payout is negatively affected by financial leverage while alteration in income has no momentous contact with dividend strategy of Pakistani businesses. It was also concluded that debt ratios and dividend yield are highly significant determinants of dividend policy.

Fidrmuc & Jacob [11] conducted the research to explain the reasons for the discrimination in the dividend payment strategies all over the world. Data was collected from 5797 firms in 41 countries using standard & Poor's Capital IQ directory Dependent variable was dividend to income proportion and autonomous variables were individualism, power distance, uncertainty avoidance, size, return on assets, leverage, mandatory dividend, sales growth, share repurchases, corporate debt ratios, ownership structure, dividend to sales ratio, anti-director rights, anti-self-dealing index and tax advantage. Data was analyzed using regression model. Results show that high distinctiveness, low power detachment and low insecurity evasion have noteworthy association with superior dividend payments. Culture also performs a vital function in the decision of the dividend policy as it is a social aspect.

Shah, Ullah, & Hasnain [12] conducted a research to discover the effect of possession constitution on dividend policy. Data was collected from the Pakistani firms listed in KSE using yearly intelligence, balance sheets, investigation of SBP and KSE's website. Dependent variable was dividend payout and independent variable was ownership structure. Control variables were firm size and return on equity. Data was analyzed using common effect model. Results showed that dividend policy is significantly influenced by managerial possession. It was in addition found that dividend payout is optimistically allied with owners' presence in board of directors. When the presence is high the dividend payout is also high and when the presence is low the dividend payout is also low. Minority shareholders don't have the power to insist the management to increase the dividend payments whereas the controlling managerial shareholders have the power to influence the dividend decisions of the firm.

Murekefu & Ouma [13] conducted a research to analyze the association among dividend disbursement and firm performance. Data is collected from the listed firms of Nairobi Securities Exchange using firms' annual reports. Dividends remunerated, entire possessions and profits were the autonomous variables whereas the disposable earnings margin was the reliant variable. Multiple regression analysis has been applied for data analysis. Results showed that dividend payout policy was negatively affected by earnings management in the textile sector.

Amidu & Abor [14] conducted a research to analyze the dividend payout determinants in firms listed in Ghana. Data was collected from firms listed in Ghana stock exchange using monetary statements of companies registered on Ghana Stock Exchange. Dependent variable was dividend payout and independent variables were productivity, hazard, expansion, money, tariff, institutional shareholdings and market to book worth ratio. Data was analyzed using Ordinary least square method. Findings show that dividend disbursement ratio has a optimistic relation along with productivity, cash stream and tax. The findings also showed pessimistic association among dividend disbursement and hazard, institutional investment, expansion and market-to-book worth.

A contradictory finding exists about the relationship between firm magnitude and dividend disbursement. Some researchers have proved an optimistic association among firm volume and dividend disbursement. The argument that as the size of the firm increases it pays more dividends to its shareholders.

Eriotis [15] conducted a research to analyze the effect of the size and distributed earnings of the firm on its dividend policy. Data was collected from 149 companies registered on the Athens Stock Exchange market using financial database of the Athens Stock Exchange. Dependent variable was the measure of the dividend and independent variables were distributed earnings and sales. Data was analyzed using the panel data models. Results showed that dividend policy has a positive relation with the distributed earnings of the firm, such that an increase in retained earnings increases the dividend payments also. Size of the firm is also optimistically correlated with the dividend payout. Size point out that the larger businesses have the high capacity to disburse additional dividends as compare to small firms.

El Essa, Hameedat, Altaraireh, & Nofal [16] conducted a research to examine the factors effecting the decisions regarding the dividend payouts. The objective of this research was to find the impact happening on dividends strategy in industrialized enterprises registered on Amman stock exchange, with alterations in net cash streams, income prior to interest and income tax, earning for each share, price to book worth proportion, dividends yield, business volume and money owing proportion. The data has been collected from 25 companies listed in Amman Stock Exchange, which covers all industrial sectors. Reliant variable was dividend for every share and autonomous variables were EBIT, EPS, net cash flows, price to book worth proportion, dividend yield, debt ratio and business volume. Multivariate regression model and SPSS is used to examine the data. The results show that all the factors have positive effect on dividend policy except debt ratio. EPS has the highest effect on dividend payouts.

Al Shabibi & Ramesh [17] conducted a research in UK. This research was conducted in UK to analyze the impact of business dominance and distinctiveness of the firm, on the dividend strategy decisions. Dependent variable was the dividend payout and independent variables were classified into two categories: One was business dominance factors such as board independence, board size and assessment form and second was characteristics of the firm such as business volume, growth, productivity, hazard, obligation level, business type and asset tangibility. Data has been collected from forecasting analysis and modeling environment. Annual reports of the selected firms were also a source of data collection. For the data analysis purpose multiple

regression models was used. Results of the study were that among the firm characteristics factors, all the factors contain pathetic optimistic and not worth mentioning association with the dividend disbursement except the debt ratio which has a weak pessimistic insignificant connection along with the firm, while among the corporate governance factors, assessment form has a pathetic optimistic significant association with the reliant variable whereas the board independence and board type have an optimistic not worth mentioning relation with the dividend payout.

Some researchers have proved a pessimistic association among firm volume and dividend payouts of the firm supporting the argument that as the size of firm increases, it retains earnings to support its operations and thus negatively influences the dividend payouts.

Afza & Mirza [18] carried out a research to investigate the consequence of possession structure and cash stream on the dividend payout. Data has been collected of 100 firms registered on KSE. Dependent variables were dividend payout and dividend intensity and independent variables were administrative possession, entity possession, working cash stream, cash flow sensitivity, volume, capital structure and profitability. Data was evaluated with Ordinary Least Square (OLS) regression. Consequences showed that cash dividend is optimistically connected to productivity and operating cash flows and pessimistically connected to administrative and entity ownership, cash flow compassion, volume and leverage. Leverage and cash flow compassion have not worth mentioning association with dividend payout whereas administrative possession; entity possession and working cash stream are significantly related to dividend payout. Size has the significant negative relation with the dividend payouts.

Ahmed & Javid [18] carried out a research to analyze the components of dividend policy in Pakistan. For this study 320 non financial firms registered on KSE were selected from the period of 2001-2006. Data was collected from Karachi Stock Exchange (KSE), SBP and SECP. Dynamic panel regression was performed for the analysis of data. The results of the research show that lagged dividend yield that is the previous year dividend has an optimistic and extremely considerable linkage with the current year dividend yield. Net earnings have a significant optimistic association with the dividend yield. The number of majority shareholders has a constructive and noteworthy connection which means positive association exists between dividend yield and possession composition. Results show the unconstructive association among dividend payout and volume of the business which means larger firms pay fewer dividends. Firm’s liquidity and dividend payout has a constructive connection as firms with more market liquidity disburse extra dividends. The association among the speculation opportunity and the dividend disbursement is also unconstructive as the firms having more speculation chances pay fewer dividends. Findings furthermore specify that leverage and sales expansion don’t contribute towards the determination of dividend payout for the companies registered on KSE.

Different data collection methods used in these previous researches are companies websites, Karachi stock exchange, Compustat Global Industrial database, State Bank of Pakistan website, Standard & Poor’s Capital IQ database, IMF'S international financial statistics, CMIE (Centre for the Monitoring of the Indian Economy) Prowess database, DataStream, which is provided by Thomson Financial, Ghana Stock Exchange, Athens Stock Exchange, Compustat /CRSP merged file

Data Analysis tools used in the previous researches are Regression model, Panel data model, Ordinary Least Square Method, Pooled and Panel Tobit Model, Mann Whitney Test, Maximum Likelihood Estimation Method, SPSS17 statistical package, Modified Jones model, Random-effects binary probit method and Common Effect model.

Results in the previous researches show that dividend payout is optimistically associated to administrative rights major determinant of dividend is profitability. Operating cash flow, credit rights, liquidity and stock price is positively related to dividend policy. Leverage, managerial and individual ownership, growth, debt ratio and retention ratio has a negative association with dividend payout while size has both positive and negative relation with dividend payout depending upon the nature of data.

My area of research is the financial sector and the determinants that the study has chosen for dividend policy are profitability, firm size, cash flow, earnings per share, asset tangibility and liquidity. The method for data analysis that this study will use is multiple regressions analysis. The data collection sources for this study will be the companies’ websites, SBP website, and KSE website. Reason for choosing the financial sector for the research purpose is that a lot of work has been done on non financial sectors but in financial sector a very little research is conducted and that also has become obsolete now, so this study will try to provide updated results regarding the determinants of dividend policy in financial sector till 2013.

RESEARCH BACKGROUN:

Dividend payout is considered the most debated issue in finance. In 1956, for the first time John Lintner analyzed how the firms earning is distributed among shareholders and other operations of the firm such as taxes and depreciation etc.

Dividends are the earnings of the shareholders and used to minimize the conflicts or the agency problem among the management and shareholders. For this reason the dividend determination is considered the most

important issue and a number of researchers have found the relation of different factors of the firms operations with the dividend payouts and analyzed whether these factors affect the dividend payouts positively or negatively. This study aims at defining the determinants of dividend payouts in financial sector of Pakistan.

PROBLEM STATEMENT:

In Pakistani context no research is found to determine the factors affecting the dividend payouts in the financial sector. This study aims at defining the relation of different factors (profitability, liquidity, and size, earnings per share, asset tangibility and cash flow) that can affect the firm's dividend payouts positively or negatively in financial sector of Pakistan.

RESEARCH OBJECTIVES:

The objectives of this study are as follows:

- To discover the effect of profitability on dividend payout in financial sector of Pakistan.
- To explore the relationship of asset tangibility and dividend payout as this relationship is analyzed by only a few researchers.
- To determine the association between size of the firm and dividend payout in financial sector of Pakistan because a dual association has been proved in the previous researches (positive as well as negative).
- To describe the relation of liquidity and dividend payout in financial sector of Pakistan.
- To identify the relationship between earnings per share and dividend payouts.
- To explore the relationship between cash flows and dividend payouts in financial sector of Pakistan.
- To make some recommendations that can help the firms in financial sector of Pakistan to determine their dividend payouts effectively.

RESEARCH QUESTIONS:

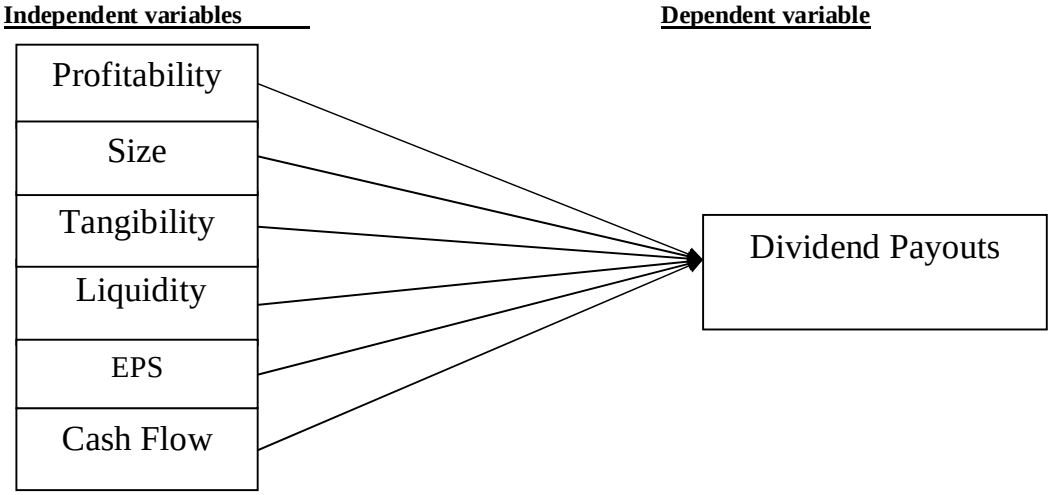
- How profitability does affect the dividend payouts in financial sector of Pakistan?
- To what extent the asset tangibility affects the dividend payouts in financial sector of Pakistan?
- What is the nature of association among size of the firm and dividend payout?
- How liquidity and dividend payouts can be linked in financial sector of Pakistan?
- To what extent earnings per share can affect the dividend payout in financial sector of Pakistan?
- How the cash flows affect the dividend payouts in financial sector of Pakistan?

SIGNIFICANCE OF THE STUDY:

In Pakistani context this study would be the first to analyze the determinants of dividend payouts in financial sector of Pakistan. This study will help the firms in the financial sector to determine their dividend policy in such manner that can increase the worth of the firm and diminish the agency conflicts among the shareholders and management. This study will determine the nature of relation between size of the firm and dividend payouts because the size has both positive and negative relation with the dividend payouts proved by earlier researches. The study will in addition, will contribute the on hand literature on the determinants of dividend payouts in Pakistani context.

THEORETICAL FRAMEWORK:

Research Model



This theoretical framework shows the relationship of dependent and independent variables used in this study. As the figure clearly shows, dependent variable is the dividend payout and independent variables are profitability, size, asset tangibility, liquidity, earnings per share (EPS) and cash flow are independent variables.

Description and Expected Sign of Variables

Variable	Description	Expected Sign
Profitability	ROA = Net profit / Total Asset	+
Size	Natural log of Total Assets	+ / -
Liquidity	Current Ratio = Current Assets / Current Liabilities	+
Asset Tangibility	Fixed Assets / Total Assets	-
Earnings per Share	(Net profit – Preferred dividend)/ Number of shares outstanding	+
Cash Flow	Cash Flow from operating activities	+

This table shows the variables used in the study with their expected signs either positive, negative or both for some variables.

HYPOTHESES DEVELOPMENT:

Previous researches have shown positive relationship between profitability and the dividend payouts. It indicates that firms with higher profitability ratios pay higher dividends while firm with lower profitability ratios pay lesser dividends or sometimes reluctant to pay dividends. Profitability is a measure of the earning power of a firm. ROI and ROE are major indicators of the profitability which influences the firm's dividend payout decisions. On the basis of prior researches this study hypothesizes that:

H1= There is a positive relationship between firm profitability and dividend payouts in financial sector of Pakistan.

Firm size has a negative and significant impact on the dividend payout. Firms with larger size prefer to pay fewer dividends as they have to spend larger amount of funds on the firms operations. While small size firm's show more willingness to pay dividends. Few researchers through their research found a negative relationship between dividend payouts and firm size. But some researches support the positive association between the firm size and the dividend payouts. Al Shabibi, G Ramesh [16] through his research proved a positive relationship between firm size and its dividend payouts. It is calculated as the log of the total assets and expected to have a positive relationship with dividend payout as larger and more diversified firms have fewer chances of bankruptcy and can afford the higher dividends to attract more investors. Further a researcher through his research found the evidence that is in the favor of this argument: a positive relationship exists among firm size and profitability. Dr. Mohammad Salim El Essa, Mr. Mohammad Mahmoud Hameedat, Dr. Jamal Ali Altaraireh and Mr. Mousa Abdelhadi Nofal [15] also supported this relation through their research. On the basis of prior researches this study hypothesizes that:

H2= There is a significant positive relationship between firm size and dividend payouts in financial sector of Pakistan.

Liquidity is measured by current ratio, which is current assets divided by current liabilities as CA / CL. Liquidity is also an important determinant of dividend policy. Liquidity has a positive relationship with dividend payouts as the firms with higher liquidity have greater availability of cash to pay stockholder as dividends while firms with poor liquidity have fewer chances of paying dividends due to the shortage of cash. Hafeez Ahmed and Attiya Y. Javid [18] also found that dividend policy is positively related with liquidity. On the basis of prior researches this study hypothesizes that:

H3= There is a significant positive relationship between liquidity and dividend payouts in financial sector of Pakistan.

Earnings per share is calculated as net profit less preferred dividends and dividng this by number of equity shares outstanding. Many researchers have used EPS as a determinant of dividend payout and found a positive relationship between them. Gupta & Banga [1], El Essa, Hameedat, Altaraireh, & Nofal [15] have proved that earnings per share have the highest impact on dividend payout than any other factor. It shows that as the earnings per share increases the firm's value increases and ultimately it increases the dividend payouts.

H4= There is relationship between earnings per share and dividend payouts in financial sector of Pakistan.

Cash flow is calculated as net cash generated from operating activities. Many researchers have proved a positive relationship between cash flow and dividend payouts. Gupta & Banga [1], El Essa, Hameedat,

Altaraireh, & Nofal [15], Afza & Mirza [2] have supported this positive relationship between cash flow and dividend payouts. The results show that cash flows are the significant determinants of dividend payouts.

H5=There is relationship between Cash flow and dividend payouts in financial sector of Pakistan.

Many researchers have proved a negative relationship between asset tangibility and dividend payouts. Al Shabibi & Ramesh [16], Al-Ajmi & Hussain [19], Al-Najjar [20] have supported this negative relationship between asset tangibility and dividend payout.It is calculated as fixed asset divided by toatal assets.The relusts show that with an increase in fixed asset or a decrease in total assets will reduce the dividend payouts.

H6=There is relationship between asset tangibility and dividend payouts in financial sector of Pakistan.

These hypotheses are supported by the prior studies as the researches show that there is a positive relationship between profitability and dividend payouts; liquidity also has a positive relationship with dividend payouts while firm growth and firm size have both effects sometimes positive and sometimes negative. Very little work has been done on market capitalization regarding dividend payout so our hypothesis is to find this relationship.

RESEARCH METHODOLOGY

As this research work is on the financial sector, so the study has selected the quantitative method for data collection such as websites and other secondary data available on internet. Tool for the data analysis is Eviews and Probit model test is applied on data. A dummy variable is used to differentiate the dividend paying and non paying firms with 1 representing the dividend paying firms while 0 represents the firms which don't pay dividends. All the firms listed at KSE in the financial sector of Pakistan are the population.

Sample size for this research is 21 companies of the financial sector listed in the Karachi Stock Exchange. This sample is reasonable because all the firms are from the same sector and will have almost the same structure with little changes. The results based on this sample can be applied to the whole population.

Securities and Exchange Commission of Pakistan, State Bank of Pakistan and Karachi Stock Exchange is the sample frame that can provide information about the population. Time frame is the period of 5 years from 2007 to 2012.

For relational hypothesis testing this study has used multiple regression analysis, because these analyses show the relation between dependent variable and independent variables in an easy and clearly understandable manner.

equation model

Equation model based on the dependent and independent variables of this study can be stated as:

$$DP=\beta_0+\beta_1(Pr)+\beta_2(EPS)+\beta_3(FS)+\beta_4(Liq)+\beta_5(CF)+\beta_6(AT)$$

In this equation,

- DP=Dividend Payout
- Pr =Profitability
- EPS=Earnings per share
- FS=Firm Size
- Liq=Liquidity
- CF=Cash flow
- AT=Asset Tangibility

FINDINGS AND RESULTS

This section includes the results generated from the regression analysis. Data used in this study is panel data. Using EViews a probit model test is applied on the data to obtain the results. The reason for selecting this test is the use of dummy variable with the value of 1 representing the dividend paying firms and value of 0 representing the non paying firms. A table below provides the results of this probit model test.

The results show a positive relationship of earnings per share and liquidity with dividend payout while asset tangibility, cash flow, ROA and size have negative relationship with dividend payout.

A positive coefficient sign was expected with all variables expects the size which has both positive and negative relationship with dividend payout from the previous literature.

A negative coefficient sign with the size is supported from the literature that as the size of the firm increase the firm retains more earnings and pays fewer dividends.

A negative coefficient sign with asset tangibility is also confirmed to the previous literature supporting the argument that with an increase in fixed assets the dividend payout is decreased as the firm has less cash in hand available to pay as dividends.

A positive coefficient sign with liquidity is also supported from the literature that if a firm has higher liquidity it has more cash in hand available to pay as dividends.

A positive coefficient sign with EPS also has support from the previous literature that as the earnings of the firm increases its value increases and also the dividends.

A negative coefficient sign with ROA is contradictory to the literature as the previous researchers have found a positive relationship between profitability and dividend payouts.

P value from the table shows that cash flow and EPS are statistically significant at 5% significance level while all other variables are statistically insignificant at 5% significance level. These results show that KSE listed firms in financial sector don't show smooth behaviour in paying dividends.

Dependent Variable: DUMMY				
Method: ML - Binary Probit (Quadratic hill climbing)				
Date: 05/06/13 Time: 11:10				
Sample: 1 105				
Included observations: 105				
Convergence achieved after 17 iterations				
Covariance matrix computed using second derivatives				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.451425	1.228731	0.367391	0.7133
ASSET_TANG	-0.593097	1.003533	-0.591009	0.5545
CF	-3.49E-10	1.76E-10	-1.986901	0.0469
EPS	0.037517	0.019071	1.967244	0.0492
ROA	-0.004672	0.016531	-0.282616	0.7775
LIQUIDITY	0.052973	0.049677	1.066353	0.2863
SIZE	-0.049851	0.057059	-0.873666	0.3823
McFadden R-squared	0.077138	Mean dependent var		0.295238
S.D. dependent var	0.458337	S.E. of regression		0.454401
Akaike info criterion	1.253274	Sum squared resid		20.23503
Schwarz criterion	1.430204	Log likelihood		-58.79686
Hannan-Quinn criter.	1.324969	Restr. log likelihood		-63.71142
LR statistic	9.829106	Avg. log likelihood		-0.559970
Prob(LR statistic)	0.132036			
Obs with Dep=0	74	Total obs		105
Obs with Dep=1	31			

CONCLUSION

This study is an endeavor to find the determinants of dividend payouts in financial sector of Pakistan for the firms listed at KSE. One more objective of this study was to find out whether the firms listed in KSE are stable in paying dividends. Data was collected from21 companies for a five year period from 2007-2011.

Dependent variable is the dividend payout and a dummy variable is used to differentiate the dividend paying and non paying firms and the 6 dependent variables were used such as profitability, liquidity, size, cash flow, asset tangibility and EPS. Probit Model test is applied on the panel data. A 5% significance level was used for the data analysis.

Results show that KSE listed firm rely more on their EPS and cash flows as cash flow and EPS are statistically significant at a 5% significance level and are a source of the maximization of the shareholders' wealth. All other variable which are profitability, liquidity, asset tangibility and size are statistically insignificant at 5% level of significance and does not have a good impact on the value of the firm.

IMPLICATION AND LIMITATIONS OF THE STUDY

This study has been conducted on the companies listed in the financial sector of Pakistan. The limitations and implications of this study are as follows:

- This study is limited only to firms listed in the Karachi Stock Exchange in the financial sector of Pakistan and the results may vary with the studies in other sectors with companies listed at Karachi Stock Exchange.
- The implication is that the cash flow and earnings per share is associated with the value maximization of shareholders in the financial sector of Pakistan.
- Dividend payout affects the performance of the firm so managers should devote adequate time in designing the dividend policy to increase the shareholders' wealth.

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