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Dividend Policy of Listed Companies: The Case of Chittagong Stock Exchange

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The article examines the impact of six factors, i.e., company market value; investment decision; finance decision; signal theory; agency theory; and shareholder structure on dividend policy of a company. 57 companies have been approached among which 55 responded and filled out the questionnaires, out of which two were deemed unusable. The questionnaire was designed to identify the importance of six different factors that the management considers while setting the dividend policy of the company. The analysis highlighted the importance according to the economic sector as well. 18 questions were asked which focused on company value, investment decision, financing decision, signalling theory, agency theory, and shareholder's structure. Rotating Factor analysis is used for getting the rank order of the generated factors. The study has identified that company value is the most important factor, followed closely by shareholder's structure when confirming the dividend policy of the firm. The rest of the factors in order of importance are signalling theory, investment decision, finance decision, and agency theory. The financial position and future cash need of the Board of Directors and their wealth have a significant role in dividend decision-making. In Bangladesh, pay out culture is dominated by a particular majority shareholder's group interest. Questionnaire is used to analyse the dividend policy factors in a developing country setting, which can be applied to assess the performance of markets across multiple developing countries.

Keywords: Management Perspective, Dividend Policy, Rotating Factor Analysis, Chittagong Stock Exchange.

1. Introduction

Companies vary in the way they choose policies associated with finance, dividends and capital structure. Such variances result from multiple factors within and outside the company. These factors may not be implicit or known to shareholders, thereby emerge as a vital issue of asymmetric information between company management, investors and shareholders (Dewenter and Warther, 1998). This creates a state of uncertainty, misunderstanding, and untrustworthy assessment of management decisions on the part of investors and shareholders.

The article examines the performance of selected enlisted companies of CSE from 12 different sectors of Bangladesh by examining, if a growing company signifies an increase in dividends, and thus, an increase in shareholders' wealth. In addition, the diversity of investors and the differences in their conditions makes it difficult for management to meet several requirements, thereby generating a gap between management and shareholders. Therefore more awareness on the part of the shareholders would assist shareholders' in taking the correct investment decision proportionate with circumstances.

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The financial literature is widely split on financial policies and dividends policies. Few works examine managements' motive with regards to dividend policy through focusing on the reasons companies opt for a particular form of dividends, such as cash dividends by Baker, Farley and Edelman (1985), scrip dividends by Lasfer (1997), stock dividends by Barker (1958), share buybacks by Mitchell, Dharmawan and Clarke (2001), and residual dividend policy by Baker and Smith (2006).

The article examines the impact of six factors on dividend policy of a company: company market value; investment decision; finance decision; signal theory; agency theory; and shareholder structure. A questionnaire was sent to a number of companies via e-mail and physically to others. The number of usable responses received was 55 from a total of 57. The factors in order of significance are as follows: shareholder structure, finance decision, company market value, investment decision and agency theory. Apart from that an additional open ended questionnaire is also distributed to judge who is the real decision maker for the dividend payout. The questions are designed to check the real payout policy followed by the sample companies. The results also determined that the type of business had no effect on each of the factors with the exception of the real estate, investment, insurance and technology sectors.

The literature on dividend policy and its relation with the corporate entity is varied and voluminous. Researchers have established numerous theories on the dividend policy and while a standard consensus on the utility and applicability of the various dividend policies does not exist, it can be inferred from the research that for the most part, there is a tacit acknowledgement that in principle, dividend policies and the distribution of the dividends aim to bring positive outcomes for all the stakeholders concerned. The policy and distribution mechanisms themselves can be highly complex and diverse, but strive for a common goal, which is to state in generic terms, to produce positive financial externalities for the stakeholders involved in the financial processes.

There is a relative shortage of studies which investigate the relationship between company's management perspectives regarding dividend policy. The article has attempted to examine thoroughly the managements' perspective on dividend policies, particularly the motivating factors which leads to the selection of certain dividend policy.

The main research question is summarized as follows:

1) What are the factors that motivate the management to set their dividend policy?

The hypothesis can be stated as follows: There are statistically significant differences between finance manager's responses about the factors that are taken into account when setting dividend policy.

Management perception regarding dividend policy of the firm, especially which components of the company organizational structure might affect dividend policy the most, are also explored by the article. This article analyzes the factors that affect the management perspective in setting their dividend policy and ranks them according to importance.

The organization of the article has been established in the following manner. Section 1 deals with Introduction while Section 2 focuses on Literature Review and Section 3 contains the Methodology. Results are provided in Section 4 and the Conclusion is in Section 5.

2. Literature Review

Companies which are in growth phase tend not to pay a lot of dividends, in comparison to mature companies as demonstrated by a study on 1995-2005 on the PT Jakarta Stock Exchange (Murhadi, 2008). Dividend policy in Jordan, as a developing country, is predisposed by factors similar to those involved in developed countries. Likewise the factors affecting the prospect of paying dividends are analogous to those affecting the dividend policy (Al-Najjar, 2009). A study on 180 listed companies of the Karachi Stock Exchange demonstrated that companies pay dividends after an assured level of growth, prior to which they focus on retained earnings (Mehar, 2002). In Japan, emerging firms choose further dividend upsurges compared to mature firms as such rises by the growing firms are valued by the market more than those by the mature firms (Ishikawa, 2011). A study scrutinizing the factors determining the dividend outgoing decisions in case of Pakistani engineering sector using data of thirty-six firms listed on Karachi Stock Exchange from 1996 to 2008 recommends that the previous dividend per share, earnings per share, profitability, cash flow, sales growth, and size of the firm are the factors that determine dividend policy in the Pakistani engineering sector (Imran, 2011). High payment and low insider holdings make prior payers more likely and prior non payers less likely to pay (Twu, 2010).

Dividend policies are primarily of two types, cash dividend and stock dividend (Besley and Brigham, 2007). Baker, Farrelly and Edelman (1985) undertook a survey of financial managers functioning in the New York Stock Exchange (NYSE). Those surveyed were asked about the considerations they take into account when they govern their company‘s dividends policy. The study determined that in order of significance the level of expected future earnings of the company, the kind of previous dividends, the readiness of cash, and maintaining or else increasing the share price are important aspects in determining dividends policy. Allen (1992) attempted to examine the extent of usage of categorical target payouts, the range of target payouts accepted and frequency of change in such targets and the aspects that stimulate the company’s choice of these targets. The paper reaches the following findings: 52% of the respondents’ organizations reported target payout, 6% reported that their dividend policy is a percentage payment on the par value of their stock and 51% of respondent reported that they had reformed their target payout at least once during 1980 to 1990 and 36% more than once.

Baker and Powell (2000) conducted a survey to verify managements’ vision in US firms on the factors that impact the dividend policy. The study found that the factors that affect the dividends policy in terms of importance were: level of current and future expected earnings, persistence in dividend levels, and consideration of the continuing increase in the share price. An Australian study conducted by Mitchell, Dharmawan and Clarke (2001) using survey method examines management considerations as to the appropriate and pertinent motivations for buy back and if management in general considers buy-back activity to be merited. The paper finds that improving financial performance and financial position are the most appropriate motivations, followed by signaling of future expectations or under pricing. Australian managers assumed that they are familiar with the potential benefits and legislative necessities of buy back, but their shareholders often do not understand or are not favorably disposed towards buy back.

Baker, Powell and Veit (2002) examine the views of managers in Nasdaq firms that steadily pay cash dividend in order to determine their views about dividend policy, the link between dividend policy and market value and four common explanations: signaling, tax-preference, agency cost and the bird in hand for paying dividends. The paper determined that managers stress the importance of maintaining dividend continuity and widely agree that changes in dividend affect firm value. Managers also gave the strongest support to the signaling explanation for paying dividends and weak to little support for tax and agency explanations, and no support to the bird in the hand explanation. The study conducted by Baker and Smith (2006) is predominantly devoted to companies that follow a residual dividend policy. The study finds that levels of former dividends, the constancy of earnings, and the desire for a long-term persistence of the dividends ratio were the most important factors for the companies that follow a residual dividend policy.

Baker et al (2007) investigate the perception of dividends by managers of dividend-paying firms listed on the Toronto Stock Exchange (TSX). According to this paper the most important factors influencing dividend policy are levels of current and expected future earnings, the stability of earnings and the pattern of previous dividends. Brav et al (2005) conducted a survey to identify factors that monitor dividends and repurchasing decisions in the US. The paper determined that maintaining the dividend level is important and the stability of future earnings affects the dividends policy. In addition, the study identified that many managers favor repurchases because they are viewed as being more flexible than dividends and believe that institutions differentiate between dividends and repurchases and that the payout policy has little impact on the investor clientele. Huda and Abdullah (2014) examine the relationship between ownership structure and dividend policy in the context of the Chittagong Stock Exchange, and determine that director’s ownership has a significantly positive influence on dividends per share, whereas there is a significantly negative influence on dividends per share in case of institutional ownership.

Dhanani (2005) examined UK finance managers’ views on dividend policy. The paper covered the general dividend relevance/irrelevance hypotheses along with the specific dividend hypotheses relating to finance and investment decisions, signaling implications, agency issues and ownership structure. The study result supports the general hypothesis in which dividend policy serves to enhance corporate market value. In addition, managers prefer to support the specific hypotheses relating to signaling and ownership structure, rather than those about capital structure, investment decisions and agency issues.

The article seeks to investigate the importance of the factors that affects the perspectives of the management when setting their dividend policy and determine if there is any effect of the nature of company business on these factors. The study tests the importance of six factors: company market value, investment decision, finance decision, signal theory; agency theory and shareholder structure. The questionnaire method has been used as it is stated to reflect the strength of opinions, perceptions, attitudes and views (Black, 1999). In finance, accounting and economics research, as a part of the social sciences, the questionnaire method is useful for both describing and explaining managerial behavior (Abernethy et al., 1999).

The external validity and reliability of a research work such as the undertaken study is dependent on two key factors, first one is the relevance of the topic under examination by the study, and the second one is the methodology applied for the analysis of the dependent and independent variables related to the topic. Dividend policy in a developing country setting is an important issue in the backdrop of the current global scenario in which economies around the world are undergoing a paradigm shift as living standards grow and financial management issues reach the forefront of development. The methodology followed by the study is unique in the sense that it has rigorously examined the market scenario of a developing nation such as Bangladesh, and also incorporates features which can be fitted for research in other developing country settings as well in future.

3. Methodology

This paper examines the relationship between dividend declaration practice and its impact on shares market price of the companies from different sectors enlisted in the Chittagong Stock Exchange (CSE). The impact of dividend policy on company performance of CSE is tested by panel data methodology. The panel data methodology has certain benefits like the assumption that the selected companies are heterogeneous, more variability, less co linearity between variables, more informative data, more degree of freedom and more efficient. The following sections of the study will discuss the variables included in the study, the distribution patterns of data and applied statistical techniques in investigating the relationship between dividend declaration policy and market price of the shares.

The econometric model Includes Principal Component Analysis with reliability and validity tests to compress the size of the data set by keeping only the important information; simplify the description of the data set; and analyze the structure of the observations and the variables. Rank order and F test is used to find out the significance of the factor as well as to check their variance. To check the compatibility of the Likert Scale data the model employs open ended questionnaires to justify the ANOVA result management opinion. The main aim of the econometric model is to check whether there is relation to check the management's perspective regarding factors to set the dividend policy. How important those factors are in management decision in line with dividend policy.

The questionnaire method has been widely used in the social sciences because it measures the strength of opinions, insights, attitudes and views (Black, 1999). In finance, accounting and economics research, the questionnaire method has the benefit of providing direct evidence of management's motives and reasons for engaging in certain activities (Mitchell, Dharmawan and Clarke, 2001) and is useful for both describing and elucidation managerial behavior (Abernethy et al, 1999). The model used in this study depends mainly on a questionnaire adapted for management, which was sent through email and delivered physically to financial managers or directors of the selected companies listed on the Chittagong Stock Exchange (CSE).

Questionnaire Design and Administration: The questionnaire method is not free from limitations. These limitations were minimized by following the techniques prescribed for good questionnaire design (Roberts, 1999). These techniques are related to the improvement of the measurement instrument as well as to the design and administration of the questionnaire. The key features are as follows:

- Firstly, the focus was on the development of the factors affecting management when they set their dividend policy by reviewing the academic literature.

- The first draft of the questionnaire was prepared by the researcher, and in the second stage presented to two PhD students and colleagues in order to obtain feedback on its clarity, validity and fitness of the questions and questionnaire design.

- Next a number of changes in accordance with the expert's opinion and their suggestions consisted of both technical matters and practical issues such as the size, visual appearance and layout, were applied.

- Lastly, the questionnaire was pilot tested to identify problems with the research design and to rectify them prior to implementation, which is often costly and time-consuming. Pilot studies are conducted on a small group of respondents who are similar to the target population and can be performed for a number of different drives, from assessing the likely feat of a research approach, to test the internal validity of a questionnaire (Holloway, 1997). This can assist in the identification of ambiguous or unnecessary questions, as well as items which do not exhibit internal validity and should therefore be discarded.

Variables: Dhanani (2005) designed a questionnaire which examined five sections using 26 questions. The first section dealt with dividends policy and market value in general through three questions. The second section focused on finance and investment decisions by asking eight questions. The third section dealt with the signaling theory through seven questions. The fourth section dealt with the agency theory by raising three questions, while the last section was about the structure of the shareholders through five questions. However, we have reasons to believe that Dhanani's questionnaire has the following drawbacks:

- Length of the questionnaire (26 questions).
- Integrating investment and financing decisions in one section.
- Disparity of the number of questions in each section.
- The lack of any reference to management's visions and their preferences for a particular type of dividend.

The questionnaire model of the study chapter did not follow the model as proposed by Dhanani (2005). The study questionnaire was based on the format as developed by Salih (2010). An additional open ended questionnaire is also distributed to examine the payout policy and management attitude towards payout policy of sample companies.

Data Collection and Description: The sample used in the previous chapters was chosen. 57 companies were reached among which 55 responded. It took 3 months (from February 2014 to May 2014) to collect the data. All the questionnaires were filled out, barring two which were deemed unusable. The response rate was 96.49% and was received from various economic sectors as shown in Table 6.1 as follows:

Table 1: Questionnaire Response Rate by Sectors

This table presents the close ended questionnaire sample response percentages by sector collected from Bangladesh companies between February 2014 and April 2014.

	Sector	No. of Co.	Respond	Percentage
1	Banks	11	11	19.30%
2	Ceramics	2	2	3.51%
3	Consumer Goods	6	6	10.53%
4	Finance & Leasing	8	7	12.28%
5	Industrial	6	5	8.77%
6	Information Technology	5	5	8.77%
7	Insurance	6	6	10.53%
8	Mutual Funds	4	4	7.02%
9	Pharmaceuticals	2	2	3.51%
10	Textile	2	2	3.51%
11	Unclassified	4	4	7.02%
12	Utilities	1	1	1.75%
Total		57	55	96.49%

Judging from the response rate and assuming the questionnaires were answered in good faith, the results may be accurately generalized to reflect the pattern and behavior of the market.

4. Findings and Discussion

Validity is the “extent to which a concept, conclusion or measurement is well-founded and corresponds accurately to the real world” (Manheim et al, 2008). Validity can be divided into convergent and discriminate validity. Convergent validity measures which two of the same constructs are correlated and discriminate validity measures which two similar constructs are distinct from each other. These can be evaluated by the use of exploratory factor analyses. Factor analysis is used to reduce a large number of related items to a small number to make it more helpful. This is achieved through grouping together similar items (Hair et al, 2006). Factor analyses can be grouped into two types: exploratory factor analyses which seek to assemble information about the relationship among variables; and confirmatory factor analyses which is used to confirm relationships among variables that are already specified (Hair et al, 2006).

Two tests are required to measure the validity of the data for factor analysis. First is the Kaiser-Meyer-Olkin Measure of sampling adequacy which should be 0.6 or above. Second is Bartlett’s test of specificity which should be 0.05 or below. The KMO result was 0.729 and the significant value of Bartlett’s test was 0.000. Therefore the data is valid for factor analysis. Table 2 shows the result as follows:

Table 2: KMO and Bartlett Test

This table presents the results of KMO and Bartlett's Test for the sample of 55questionnaires collected from Bangladeshi companies between February 2014 and April 2014.

KMO and Bartlett Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.729
Bartlett's Test of Sphericity	Approx. Chi-Square	413.502
	Df	153
	Sig.	.000

The principal component analysis (PCA) showed five components with a value greater than 1, with it being 32.505%, 10.238%, 9.389%, 7.296%, 6.626% of the variance respectively (see Appendix 2.2). Furthermore the rotated component matrix was used to clarify the five components that have factor loading above 0.50; see Table 6.3 below.

Table 3: Rotated Component Matrix

This table presents the results of the rotated component matrix in relation to the company value, investment decision, finance decision, signaling theory, agency theory and shareholder's structure for the same of 55 questionnaires which were collected from the selected Bangladeshi companies in the period between February 2014 and April 2014.

Component Matrix

	Component				
	1	2	3	4	5
CV1	.657	.187	-.357	.021	-.064
CV2	.488	-.217	-.638	-.052	.081
CV3	.572	-.316	-.288	-.085	-.378
ID1	.461	-.110	.566	-.145	.125
ID2	.628	-.117	.386	-.347	-.267
ID3	.670	-.076	.055	-.445	.111
FD1	.287	.683	-.017	-.276	.263
FD2	.468	.452	-.210	-.057	.264
FD3	.377	.377	.184	.335	-.122
ST1	.593	-.118	.116	-.240	.157
ST2	.578	-.270	.199	.337	.432
ST3	.526	-.451	-.034	.094	.472
AT1	.615	-.084	-.044	.547	-.119
AT2	.480	.529	-.377	.034	.127
AT3	.506	.402	.569	.202	-.050
SS1	.674	.134	-.017	-.044	-.559
SS2	.703	-.107	-.020	.423	-.082
SS3	.761	-.222	-.022	-.265	-.023

Extraction Method: Principal Component Analysis.

Reliability Analysis: Reliability is measured by Cronbach's Coefficient Alpha. It was used to verify the constancy of the results. The value of Cronbach's Alpha coefficient is 87.00% indicating the acceptability of the result. This is shown in Table 4 below.

Table 4: Cronbach's Alpha

This table presents the results of Cronbach's Alpha Test for the sample of 55 questionnaires collected from Bangladeshi companies in the period between February 2014 and April 2014.

Cronbach's Alpha	N of Items
.870	18

Questionnaire Analysis: The questionnaire was designed to identify the importance of six different factors that the management considers while setting the dividend policy of the company. The analysis highlighted the importance according to the economic sector as well. 18 questions were asked which focused on company value, investment decision, signaling theory, agency theory, and shareholder's structure. The results are presented below in Table 5 as follows:

Table 5: Importance of the Factors

The table presents the ranking according to the importance of the factors that affect management when deciding the dividend policy for the 55 questionnaires which were collected from Bangladeshi companies between February 2014 and April 2014:

	N	Min	Max	Mean	Percentage per Question	Percentage per Factor	Rank
CV1	55	1	5	3.73	74.60%		
CV2	55	1	5	3.91	78.20%	73.33%	First
CV3	55	1	5	3.36	67.20%		
ID1	55	1	5	3.05	61.00%		
ID2	55	1	5	3.25	65.00%	67.93%	Fourth
ID3	55	1	5	3.89	77.80%		
FD1	55	1	5	3.53	70.60%		
FD2	55	1	5	2.73	54.60%	63.53%	Fifth
FD3	55	1	5	3.27	65.40%		
ST1	55	1	5	3.64	72.80%		
ST2	55	1	5	3.20	64.00%	69.27%	Third
ST3	55	1	5	3.55	71.00%		
AT1	55	1	5	3.49	69.80%		
AT2	55	1	5	3.09	61.80%	60.73%	Sixth
AT3	55	1	5	2.53	50.60%		
SS1	55	1	5	3.42	68.40%		
SS2	55	1	5	3.42	68.40%	70.47%	Second
SS3	55	1	5	3.73	74.60%		

According to the rankings, company value is the most important factor, followed by shareholder's structure, signaling theory, investment decision, finance decision and the agency theory being the least important. The results above examined the business sector as a whole and did not take into account the differences across different sectors. Therefore the ANOVA Test was used by comparing the value of the calculated F with the value of critical F at the confidence level of 95%. If the calculated F is less than critical F then there is no variation according to sectors. But if the calculated F is greater than the critical value then variation of the factors from sector to sector will be significant. Table 6 displays the results below as follows:

Table 6: The Sector F Test

		Sum of Squares	df	Mean Square	F	Sig
Company Value (CV)	Between Groups	114.667	54	2.123	6.067	0.003
	Within Groups	84	110	0.764		
	Total	198.667	164			
Investment Decision (ID)	Between Groups	163.6	54	3.03	11.443	0.000
	Within Groups	120	110	1.091		
	Total	283.6	164			
Finance Decision (FD)	Between Groups	115.236	54	2.134	9.701	0.000
	Within Groups	120.667	110	1.097		
	Total	235.903	164			
Signaling Theory (ST)	Between Groups	122.994	54	2.278	3.927	0.023
	Within Groups	86	110	0.782		
	Total	208.994	164			
Agency Theory (AT)	Between Groups	104.448	54	1.934	13.709	0.000
	Within Groups	127.333	110	1.158		
	Total	231.782	164			
Shareholder's Structure (SS)	Between Groups	137.842	54	2.553	2.633	0.076
	Within Groups	75.333	110	0.685		
	Total	213.176	164			

Comparing the values of calculated F in Table 6 with the critical value of F with the 95% confidence level, investment decision (11.443), finance decision (9.701) and agency theory (13.709) are larger than the value of critical F (7.741). This implies that the importance of the investment decision, finance decision and agency theory differs across the economic sectors.

Investment Decision: In order to determine which sector is most responsive to the investment decision when setting their dividend policy, mean and percentage ratios were calculated for each sector as show in Table 7 below:

Table 7: The Investment Decision Factor by Sector

Sector	Mean	Percentage	Rank	N
Bank	3.21	64.20%	9	11
Ceramics	4.17	83.40%	2	2
Consumer Goods	3.44	68.80%	8	6
Finance & Leasing	3.57	71.40%	5	7
Industrial	3.47	69.40%	7	5
Information Technology	2.53	50.60%	10	5
Insurance	3.72	74.40%	4	6
Mutual Funds	2.42	48.40%	11	4
Pharmaceuticals	4.17	83.40%	2	2
Textiles	4.50	90.00%	1	2
Unclassified	3.50	70.00%	6	4
Utilities	2.00	40.00%	12	1
Total	3.39	67.83%		55

From Table 7, it is observed that that the textile sector is more concerned with their investment decision when deciding their dividend policy than other sectors. This in turn will indicate to the public their desire to further invest in the company or not.

Finance Decision: To determine which economic sector considers finance decision most important while setting their dividend policy the mean and percentage ratios were computed. The results are presented in Table 8 below:

Table 8: The Finance Decision Factor by Sector

Sector	Mean	Percentage	Rank	N
Bank	2.67	53.40%	11	11
Ceramics	4.17	83.40%	2	2
Consumer Goods	3.05	61.00%	9	6
Finance & Leasing	4.05	81.00%	3	7
Industrial	3.07	61.40%	8	5
Information Technology	3.13	62.60%	7	5
Insurance	3.39	67.80%	4	6
Mutual Funds	3.25	65.00%	5	4
Pharmaceuticals	2.50	50.00%	12	2
Textiles	3.17	63.40%	6	2
Unclassified	3.00	60.00%	10	4
Utilities	4.67	93.40%	1	1
Total	3.34	66.87%		55

From the table it emerges that the utilities sector considers financial decisions to be the most important factor in setting the dividend policy.

Agency Theory: Mean and percentage ratio have been applied to determine which sector focuses most on the agency theory. The results are shown below in Table 9:

Table 9: The Agency Theory Factor by Sector

Sector	Mean	Percentage	Rank	N
Bank	3.03	60.60%	6	11
Ceramics	4.00	80.00%	1	2
Consumer Goods	2.67	53.40%	8	6
Finance & Leasing	3.29	65.80%	2	7
Industrial	3.13	62.60%	5	5
Information Technology	2.93	58.60%	7	5
Insurance	3.28	65.60%	3	6
Mutual Funds	2.67	53.40%	8	4
Pharmaceuticals	2.67	53.40%	8	2
Textiles	3.17	63.40%	4	2
Unclassified	2.58	51.60%	12	4
Utilities	2.67	53.40%	8	1
Total	3.01	60.15%		55

The agency theory is found to be the most important factor for the ceramics industry when setting its dividend policy.

Management Perspective regarding Dividend Policy: An additional survey is conducted of a sample of 56 enlisted companies of Chittagong Stock Exchange (CSE) based on an open-ended questionnaire. The survey highlights the company's dividend distribution policy and the management perspective that affects the dividend distribution policy. The summary is given as follows:

Dividend Policy: The survey finds that most of the companies prefer stock dividend. However it is also true that some companies also give cash dividends regularly. Regarding pay out (cash dividend) it is found that 59% of the companies follow a specific dividend policy whereas 41% of the companies do not follow any specific dividend policy. With reference to a specific policy, 88% of the companies follow residual dividend policy. So, most of the companies' dividend payout is unstable. Most of the companies rate payout after meeting financial need.

Dividend Stability: Regarding dividend stability researcher has found there are only 8 companies (14%) which follow a stable dividend policy over the years. There are 10 companies (18%) which do not give any cash dividend but give only stock dividend.

Dividends and Signaling: All of the companies believe that an increase in dividend will give a positive signal about their company's future earnings. They believe that even just after the announcement of the increase in dividend, it gives a positive signal about their earnings.

Company Maturity and Dividends: Most of the companies in this sample are running for 16 to 30 years. The companies running their businesses for more than 25 years mostly give a constant or regular dividend payout. The survey has found that growth of a firm can influence its dividend policy. Companies in the growth phase tend not to pay a lot of dividends. There are some extraordinary high dividend payout companies. For example: Bata Shoe Company Bangladesh Ltd. is running their business for 43 years gives a dividend of 280% in 2014. British American Tobacco is running for 43 years in Bangladesh and gives a 550% dividend in 2014. ICB Mutual Fund is running in this country for 20 years gives a 140% dividend.

Payout Decision and Top Management: Most of the companies' dividend payout is determined by the Board of Directors. Chief Financial Officer (CFO) generally gives suggestions for dividend decisions but ultimate decisions are taken by Board of Directors. All designated CFOs of the companies have postgraduate degree. In addition, many of them have professional qualification like CA, FCA, and FCMA etc. Every CFO has minimum 10 years' experience. It is found that EBL and IDLC have no separate CFO for their company. Dividend decisions are taken by top management and Board of Directors.

5. Conclusion

The results and analysis satisfy the following aspects of the decision making process when setting the dividend policy of firm:

a. The importance of factors that affect management when deciding the dividend policy.
b. The extent of importance of factors is not same for all sectors.

The study has identified that company value is the most important factor, followed closely by shareholder's structure when confirming the dividend policy of the firm. The rest of the factors in order of importance are signaling theory, investment decision, finance decision, and agency theory. With reference to the above mentioned aspects, the following statements serve to clarify the findings:

1. Management's first goal is to increase the value of the company followed by adhering to the shareholder's wishes. The dividend policy can go a long way towards keeping the main shareholders' in good rapport with the management. Both issues are complementary to each other. The dividend amount can also serve to increase the wealth of the main shareholders.

2. In the Bangladesh context, the dividend policy is considered to be an indicator of the well being of the firm. The general investor will be drawn to a particular company if he believes it will provide a good dividend. This in turn increases the company value, particularly close to the record date.

3. The investment decision is important since it is an important indicator of the financial management goals of the company.

4. According to the critical F Test, importance of the investment decision, finance decision and agency theory differs across economic sectors. For investment decision the textile sector is more concerned. Utility sector is most concerned with their financing decisions when contemplating their dividend policy, whereas the Agency Theory is found to be important for the ceramic

industry. Company value and shareholder structure are the dominant factors that influence management when setting the dividend policy.

5. The financial position and future cash need of the Board of Directors and their wealth have a significant role in dividend decision-making. In Bangladesh pay out culture is dominated by a particular majority shareholder's group interest.

Therefore the paper can reject the null hypothesis. There are statistically significant differences between finance manager's responses about the factors that are taken into account when setting dividend policy. The study provides a significant opportunity to examine the validity of Dividend Irrelevance Theory in the context of Bangladesh. It is a part of a holistic approach to check the dividend policy relevancy. According to management perspective considering some factors we can reject dividend irrelevance proposition. This is the first attempt to check the factors that can influence management decision regarding dividend policy in Bangladesh. According to the rotating factor analysis rankings, company value is the most important factor, followed by shareholder structure, signaling theory, investment decision, and finance decision. The Agency Theory is the least important.

Detailed analytical studies in the context of the Chittagong Stock Market have not been previously undertaken. It assesses management perception regarding dividend policy of the firm. The article also explores which components of the company organizational structure might affect dividend policy the most. The external validity and reliability of a research work such as the undertaken paper is dependent on two key factors, first one is the relevance of the topic under examination by the study, and the second one is the methodology applied for the analysis of the dependent and independent variables related to the topic. Dividend policy in a developing country setting is an important issue in the backdrop of the current global scenario in which economies around the world are undergoing a paradigm shift as living standards grow and financial management issues reach the forefront of development. The methodology followed by the article is unique in the sense that it has rigorously examined the market scenario of a developing nation such as Bangladesh, and also incorporates features which can be fitted for research in other developing country settings as well in future.

In general previous study shows managers prefer to support the specific hypotheses relating to signaling and ownership structure, rather than those about capital structure, investment decisions and agency issues. This study reveals that in Bangladesh the companies try to avoid reducing dividends, seeking to make them stable. However, the companies only tend to increase dividends after covering all investment and liquidity requirements. In addition, the study finds that the financial position and future cash needs has got significant influence on dividend policy which is different from other studies. This is the first study to explore that importance of the investment decision, finance decision and agency theory differs across economic sectors.

This study seeks to investigate the importance of the factors that affects the perspectives of the management when setting their dividend policy and determine if there is any effect of the nature of company business on these factors. The study will serve to contribute interpretive ideas linking the theory related to stock market and dividend policy of a firm. The capital market of Bangladesh is growing. Even though corporate financing is still bank based, increasing adoption of corporate culture and a stable middle class will change the scenario in coming decades. To adopt the current dividend policy that might maximize the shareholder's wealth, management should forecast the current dividend policy and implement the same. From the point of view of investors they should understand the dividend policy and its impact on share price to make the investment portfolio safe and sound.

Further research on the topic related to the study can focus on the following areas of scrutiny:

1. Researchers can retest the models using the same methodology by increasing the size of the sample in order to attain more statistically robust results that can have a higher degree of external validity.
2. Instead of the application of close-ended questionnaires with one group of respondents, comprehensive interviews with management and a defined pool of shareholders will increase the comprehensiveness of the statistical models.
3. Cross country samples will help in establishing comparative models among emerging and developing markets. Researchers can easily apply the models to South East Asian countries and obtain a more holistic assessment of dividend policy at the regional level.

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