

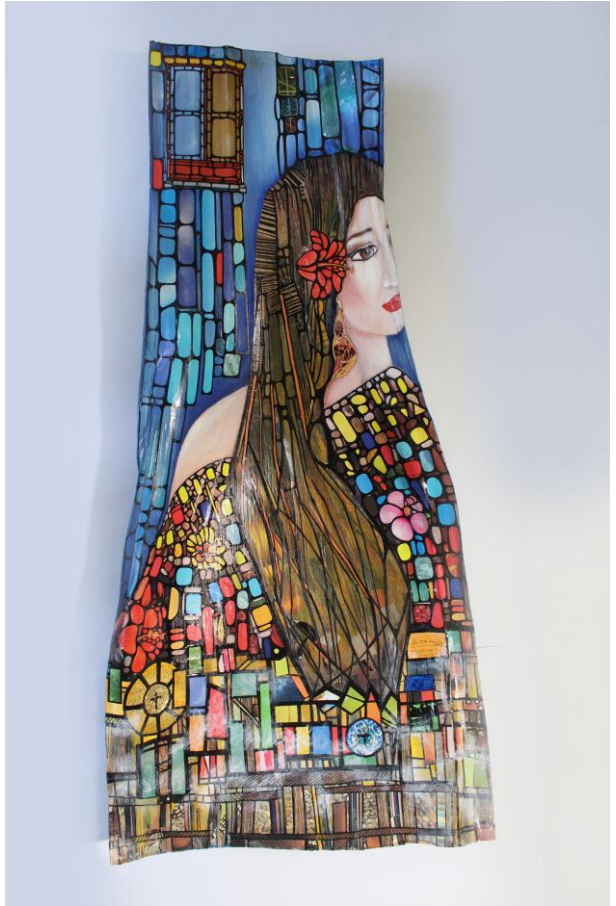
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How managers view the dividend policy: A case of UAE

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Abstract

The pre-eminent objective of the current research is to highlight the managerial view regarding the factors which affect the managerial decisions regarding the formulation of dividend policy. For this purpose, we have surveyed the managers of non-financial firms listed with Dubai financial markets. Moreover, we are also interested in highlighting that how managerial perception about the importance of these factors varies from country to country. Our next objective is to know the level of importance, managers of firms listed in Dubai financial market give to dividend processes and pattern, firm value, dividend policy and residual dividend policy. Finally, we are interested in measuring the level of support that managers of firms listed in the Dubai financial market give various explanations for paying dividends. The study has used a mail survey of managers of firms listed in the Dubai financial market that have paid at least one cash dividend during the period of 2015-2017 as a primary means of collecting data. No single pattern in rankings of factors among different countries has emerged. However, like their American, Canadian and Indonesian occupational fellows, managers of firms listed in Dubai financial market ranked, F3 (level of current earnings), F2 (pattern of past dividends), F1 (Stability of earnings) at the top. According to Managers of firms listed in the Dubai financial market, dividend decisions have a significant effect on firm value. Meanwhile, they have shown a great deal of support with all dividend theories, but most strong agreements are given to clientele and agency theory. In spite of a high response rate of almost 66.7 percent, the number of responses received has limited our ability to test statistically significant or insignificant difference among different industrial and firm characteristics.

Keywords: Dividend Policy, Firm Value, Dubai.

Cómo ven los gerentes la política de dividendos: un caso de los EAU

Resumen

El objetivo principal de la investigación actual es resaltar la visión gerencial con respecto a los factores que afectan las decisiones gerenciales con respecto a la formulación de la política de dividendos. Para este propósito, hemos encuestado a los gerentes de firmas no financieras que cotizan en los mercados financieros de Dubai. Además, también nos interesa resaltar que la forma en que la percepción gerencial sobre la importancia de estos factores varía de un país a otro. Nuestro siguiente objetivo es conocer el nivel de importancia que los gerentes de las empresas que cotizan en el mercado financiero de Dubai otorgan a los procesos y patrones de dividendos, el valor de la empresa. Política de dividendos y política de dividendos residuales. Finalmente, estamos interesados en medir el nivel de apoyo que los gerentes de las firmas que cotizan en el mercado financiero de Dubai dan varias explicaciones para pagar dividendos. El estudio utilizó una encuesta por correo de los gerentes de firmas que cotizan en el mercado financiero de Dubai que pagaron al menos un dividendo en efectivo durante el período 2015-2017 como medio principal de recopilación de datos. No ha surgido un patrón único en la clasificación de factores entre los diferentes países. Sin embargo, al igual que sus becarios ocupacionales estadounidenses, canadienses e indonesios, los gerentes de las empresas que cotizan en el mercado financiero de Dubai se clasificaron, F3 (nivel de ganancias actuales), F2 (patrón de dividendos pasados), F1 (Estabilidad de ganancias) en la parte superior. Según los gerentes de las empresas que cotizan en el mercado financiero de Dubai, las decisiones de dividendos tienen un efecto significativo en el valor de la empresa. Mientras tanto, han demostrado un gran apoyo con todas las teorías de dividendos, pero los acuerdos más firmes se otorgan a la clientela y la teoría de la agencia. A pesar de una alta tasa de respuesta de casi el 66.7 por ciento, el número de respuestas recibidas ha limitado nuestra capacidad para probar diferencias estadísticamente significativas o insignificantes entre diferentes características industriales y de empresas.

1. INTRODUCTION

The dividend payment, leverage, and cash holding decisions are at the heart of agency theory from almost last century every investigation of corporate finance tried to answer the question ,that how this principle-agent problem can be mitigated , how alignment of

interest is possible but despite of more than a century work scientist are unable to give a single solution . They have used the different theoretical model to answer this question but among them, there is no consensus on how board composition, leadership, ownership structure and entrenched managers with other firm characteristics affect cash holding decisions and in turn firm value. According to agency theory, entrenched managers prefer cash holding than dividend distribution and these cash holdings cause agency problem of free cash flow. Level of Cash holding is a subject of managerial discretion because conversion of cash to private benefits is much easier than any other asset. Weak corporate governance leads to excessive cash holdings. Dividend policy is one of the most important issues in modern financial literature. It is one of the topics that has created the most interest and thus has been extensively researched. Dividend policy is regarded as one of the most controversial subjects in finance among researchers. This situation has led to the emergence of a number of researchers who competed to write out the theoretical explanations about dividend policy. In previous studies, the majority of the empirical work did not have sufficient explanations regarding the dividend policy matters and corporate values in firms. Dividend policy can be defined as a company's policy which determines the amount of dividend payment and also the amount of retained earnings a firm wish to invest back in a new business project.

From almost a century dividend policy has been an unsolved conundrum. Because of its significant impact on corporate finance decisions and subsequently on firm value, it has remained a center of

attention for corporate finance research. Researchers from across the world with different theoretical models have highlighted various factors which affect dividend policy. However, still no universally accepted explanation exists, and the conundrum of the dividend is an unsolved dilemma (Baker & Jabbouri, 2017). This indicates that the academic community has been unable to solve this enigma. So, some researchers decided to involve policymakers such that firm's managers in research and they surveyed corporate managers. However, yet firms' dividend policy is a puzzle with parts that do not seem to be fixed (Baker & Kapoor, 2004; Black, 1976).

In 1961, Miller and Modigliani proposed dividend irrelevance hypothesis and states that in a perfect capital market dividend decision have no impact on firm value. In a perfect capital market where there is no cost associated with market imperfections such as information asymmetries, agency problem, and transaction cost, firm value is a measure of asset productivity and has nothing to do with managerial decisions. This specifies that regardless of intensive care in formulating financial policies such that dividend, capital structure and level of corporate cash, it has no impact on firm value. However later many researchers deserted MM perfect market and found that market cost arose from market imperfections such as agency cost, differential tax rates, transaction costs, flotation costs, information asymmetries, and irrational investor behavior in the real market, dividend decisions have an impact on firm value. Consequently, they concluded that there are certain factors which have an impact on these financial decisions.

While solving the puzzle of dividend policy, researchers have taken different theoretical models, statistical techniques, and research approaches. A group of researchers followed the normative approach and used the audited data of companies to analyze the factors which affect their dividend decisions, while another group Baker et al. (2017) of researchers have followed the behavioral approach and surveyed the corporate managers of companies to know their level of agreement or disagreement with different factors which affect the dividend policy

Most of the studies on the issue of determinants of dividend policy using behavioral model are carried out on the sample of developed countries and little or no attention has been given to know the views of UAEi managers regarding determinants of dividend policy. Therefore to bridge this gap the current study has employed an instrument developed by Baker et al., (2000) and then used by Baker et al., (2001) for US firms, Baker et al., (2007) for Canadian firms, Baker et al., (2002) Indian firms and Baker et al., (2017) Turkish firms and surveyed the manager of UAEi manufacturing firms to know how they view dividend policy and to what level they are agreed with different explanation of dividend payment and also which factors according to them are most important while making dividend decisions. Firms with at least two annual dividends in the last three years (2013) are part of our final sample. Previous studies have already covered many aspects of dividend such as the effects of dividend payout on firm value, reasons for firms paying dividends, the determinants of dividend policy and dividend trends and many other aspects. In addition, there were various characteristics in firms and

markets that have been used in previous research and have become important factors which have high potential in determining the dividend policy of a firm. These attempts by the researchers to study the dividend policy have added useful information in a large modern literature review. However, there is no study in UAE, which has used a survey instrument to determine factors which affect the dividend policy in UAE.

The prime objective of this paper is to survey the managers of managers of firms listed in Dubai financial market and to divulge their views about the importance of different factors which affect dividend decisions or which they consider most or less important while making dividend decisions. In addition to that, we are also interested in highlighting that how managerial perception about the importance of these factors varies from country to country. Our next objective is to know the level of importance, Managers of firms listed in the Dubai financial market give to dividend processes and pattern, firm value. Dividend policy and residual dividend policy. Finally, we are interested in measuring the level of support that Managers of firms listed in the Dubai financial market give various explanations for paying dividends.

2. LITERATURE REVIEW

The dividend payment, leverage, and cash holding decisions are at the heart of agency theory from almost last century every

investigation of corporate finance tried to answer the question ,that how this principle-agent problem can be mitigated , how alignment of interest is possible but despite of more than a century work scientist are unable to give a single solution. Dividend policy is one of the most important issues in modern financial literature. It is one of the topics that has created the most interest and thus has been extensively researched. Dividend policy is regarded as one of the most controversial subjects in finance among researchers. This situation has led to the emergence of a number of researchers who competed to write out the theoretical explanations about dividend policy. In previous studies, the majority of the empirical work did not have sufficient explanations regarding the dividend policy matters and corporate values in firms. Dividend policy can be defined as a company's policy which determines the amount of dividend payment and also the amount of retained earnings a firm wish to invest back in a new business project. Though researchers have used a variety of theoretical models such as bird in hand theory, signaling theory, tax and clientele effect, and agency theory and employed different normative and idiosyncratic approaches to determine the factors which affect the dividend policy. However, still, they are unable to answer how firms decide between highly taxed capital gains and cash distributions.

The contretemps started with the proposition of irrelevance hypothesis by of (Miller and Modigliani, 1961). In irrelevance hypothesis, they have argued that in the perfect capital market with no cost such as opportunity cost, transaction cost, agency cost etc. firm

financial decisions have no impact on firm value. However, later many researchers Basheer et al. (2014) and Shi et al. (2017) have left the MM ideal world and start arguing that in the real market the market imperfections have a significant impact on financial decisions, thus on firm value. They argued that irrelevance assumption is not possible in the reading world as a rational investor can never be indifference between the cost and benefits of different financial decisions such as between highly taxed dividends than lower-taxed capital gains. Thus there are certain factors which have a significant impact on financial decisions which in turn affect the firm value. Over the course of the last seven decades, many researchers have tried to explore the distinctive factors which are determining the dividend policy of any firms. Linter is among the pioneering researchers who tried to find the determination of the dividend policy. It was the first study which used behavioral model and surveyed the managers to answer the above questions. In his study, he found that dividend pattern and current earning as strong determinates of dividend policy. Meanwhile, he also argued that managers of US firms prefer smooth dividend payments. Later, Baker et al., (2010) carried out a postal survey of 562 US firms and their results are consistent with the findings of Linter.

Recently Baker et al., (2017) survey studies carried out on different samples. In these studies, they have used a survey instrument and found the level of agreement which managers of these countries show with a different explanation of dividend payment. In addition to that, they have also compared the responses of managers in different countries. Meanwhile, from their studies, they have concluded that

over the course of 70 years the determinants of the dividend are the same. However, the level of importance of these determinants may vary from country to country as dividend pattern and future earning appeared as highly rated determinates (Baker et al., 2002, Baker & Jabbouri, 2004). Baker et al. (2017) following behavioral approach aimed to investigate the determinants of dividend policy. In doing so they interviewed the corporate managers of UAE listed firms and found that views of UAE mangers are constant with the prior findings. However, in UAE liquidity appears as the first-order determinant of dividend policy, whereas the past dividend and dividend cut appear as last order determinants. In answer to the question, which factors affect the dividend policy, the corporate finance literature developed and used different theories. The detail of these theories is given in the next section.

2.1. Dividend Theories

As discussed in the previous section that, from the last section decades the researchers have used different theoretical models in explaining the different factors which explain the firm dividend decisions. Notwithstanding, there are many theoretical models used to answer these questions. However, we have discussed the four widely used theories which are bird in hand theory, agency theory, signaling theory, and tax preference theory.

2.1.1. Bird-in-Hand Theory

The theory is titled in the light of famous proverb that a bird in hand is worth more than two in bushes, argue that a speculator prefers cash dividend than capital gain (Baker et al., 2017; Gordon, 1962). This theory is postulated as an opposition MM perfect market hypothesis in which they have claimed that the dividend decisions has so effect on firm value. Under the bird-in-hand theory, stocks with high dividend payouts are sought by investors and, consequently, command a higher market price.

2.1.2. The Signaling Explanation

The signaling theory argues that continuous dividend payment reduces information asymmetry and give an impression to the investor that firm's financial health is increasing (Baker et al., 2007, Baker et al., 2000; Bhattacharya, 1979). The signaling theory argues that dividend is a proxy signal of firm growth and advice managers to continuously pay the dividends (Baker et al., 2017).

2.1.3. Tax and Clientele Effects

The tax and clientele effect argue that tax-sensitive investors prefer capital gain than highly taxed dividend payout. The tax and clientele effect consider the stock price as a function investors perception about tax and demand (Baker et al., 2017; Saadi et al.,

2007). As a matter of fact, this theory argues that investors are tax sensitive and organization adjusts their dividend policy in accordance with a change in tax rates.

2.1.4. Agency Theory

Modern organization is characterized by a separation of ownership and control, in which owners hire professional agents (managers) to maximize the owner's wealth (Corten et al., 2017). However, there exists a conflict of interest between chief controlling authority (chairman of the board of directors) and chief decisional authority (chief executive officer), the earlier wants from later to maximize his wealth, whereas later prefer to peruse self-interest at the cost of owner's wealth (Basheer, 2014). Agency theory views dividend as a solution of agency cost as firms which pay regular dividend hold a lower level of cash (Basheer, 2014). Through Literature has shown greater support for agency costs and signaling explanations and lesser to tax preference none of them can be considered as a clear solution to puzzle (Baker et al., 2002).

3. RESEARCH DESIGN

3.1. Survey Instrument

The survey instrument used in this study is adapted from the study of (Baker et al., 2001). The survey instrument consists of three sections. In the first section, respondents are asked to present their view about the

significance (none 0, low 1, moderate 2, and high 3) of 22 factors which affect the formulation of dividend policy. The second section is managers of UAE firms are requested to presents their level of agreement on issues such as dividend process, dividend pattern, dividend, and firm value and residual dividend policy involving dividend policy. In the third and final section, the managers of UAE manufacturing firms have shown their level of agreement with the different theoretical explanation given for dividend payment policy. For the sake of the collection of data, we have used the mail survey.

3.2. Sample and Response Rate

Initially, all manufacturing firms listed on the Dubai financial market exchange were chosen as a sample of the study. However, a later firm with at least two dividends in the last three years are selected as the final sample of the study, so the final sample is comprised of 150 firms. The data of dividend payment is collected from the firm's annual reports of the firms. The survey instrument including a cover letter was mailed to chief finance officers (CFO) and finance managers of 10 listed firms in January 2018. In the cover letter, it was requested to all respondent that if they are not actively involved in dividend decision than they must give it to someone involved in dividend decisions. The response rate of the current study is 66.7 percent (100 out of 150 firms).

3.3 Statistical tests

To achieve our research objective, we have used several statistical tools. To check how significance given to 22 factors by managers of firms listed in Dubai financial market is in line with their occupational community of different countries (Canada, US, Indonesia) we have used Spearman rank correlation coefficient. The t-test is used to measure the means difference.

4. Results and Discussion

4.1 Respondents and firm profile

To know the profile of respondents and their firm's six background questions were asked. When asked about the most influential personality in firm's dividend policy formulation, 89 percent replied he is CEO .73 percent of the firms are paying dividend annually.34 percent firms has an explicit payout ratio.74 percent of the respondent are actively involved in dividend policy development and 74 percent respondent are finance managers.

4.2 Factors influencing dividend policy

The first objective of this study deals with the identification of factors, which for Managers of firms listed in Dubai financial market are most important in formulation firm's dividend policy. The results are shown in table 1. Results indicate that UAE manager has shown a great deal of agreement with the academic community.

	Level of Importance				
	None	Low	Moderate	High	Mean
No	0	1	2	3	
3	0	2	17	70	2.67
2	0	2	23	65	2.63
1	1	3	23	63	2.58
9	1	1	39	49	2.46
14	1	2	42	45	2.39
18	3	03	37	47	2.38
4	2	08	33	47	2.35
8	0	08	45	37	2.29
5	1	07	48	34	2.24
6	1	07	48	33	2.21
13	2	09	49	30	2.20
17	1	19	42	30	2.11
16	1	22	41	26	2.02
11	4	23	39	29	1.93
12	4	30	40	26	1.85
10	3	34	38	25	1.82
7	11	32	35	22	1.65
20	0	48	18	13	1.47
15	12	42	20	17	1.38
21	10	49	14	18	1.29
22	12	41	22	16	1.23
19	21	39	20	10	0.96

The three top-ranked factors are the Level of current earnings (F3) past dividends (F2) and, the stability of earning (F1), results are consistent with recent of (Baker et al., 2010; Baker et al., 2017). Needs of current shareholders such as the desire for current income(F14),

Liquidity constraints such as the availability of cash (F11) and Projections about the future state of the economy(F10) are given secondary importance and are ranked fourth, fifth and sixth respectively. These results confirming a common view that UAE manager liquidity and economic uncertainty as important deterrent of the dividend. The sub-objectives of our first objective is to find the consistency of responses by managers of firms listed in the Dubai financial market with their internal counter occupational fellow. To explore whether the level of managerial importance given to 22 factors given by Managers of firms listed in Dubai financial market differs from US, Canadian and Indonesian Managers, we calculate the Spearman rank order correlation coefficient, r_s . The value of r_s for DFM-IDX is 0.682(Significant at 0.05 level) and for DFM-IDX is 0.236 and insignificant (Table 2). As expected, no single pattern in ranking emerges, like there American, Canadian and Indonesian occupational fellows managers of firms listed in the Dubai financial market ranked F1, F3, and F2 at the top. But the ranking of F4 and F9 is lower i.e UAE manager consider expected future earning and target capital structure less important in determining dividend policy. Moreover, Ranking of F14, F11, and F10 is significantly higher than other financial markets which indicates that for UAE manufacturing firms factors such as needs of current shareholders, availability of cash and the future state of the economy are of great importance.

Table 2 : consistency of responses among mangers of different countries				
Rank				
DFM	IDX	NYSE	NASDAQ	TSX
1	1	6	2	2
2	2	1.5	3	4
3	7	3	1	3
4	6	10	9	9
5	4	8	14	5
6	8	18	18	17
7	3	1.5	4	1
8	18	13	11	10
9	5	4	5	7
9	13.5	NA	10	8
9	10	9	7	6
12	21.5	5	8	12
13	13.5	19	20	21
14	19	11	6	13
14	17	14	13	18
16	20	16	12	19
17	12	NA	17	15
18	9	7	15	11
19	15	15	21	20
19	11	NA	16	16
19	21.5	17	22	22
22	16	12	19	14

4.3 Issues Related to Dividend

Our third research objective is to highlight the Managers of firms listed in the Dubai financial market views on dividend processes, dividend patterns, dividend policy, firm value, and residual dividend policy. Basing on Linter's behavioral model five statements S4, S5, S6, S7, and S8 are describing corporate dividend setting. In our findings reported in Panel 1, views expressed by managers of firms listed in the Dubai financial market seem to be consistent with Linter's behavioral model. 77 % respondent is agreed upon a fact that rational investors prefer stable dividends on the stable payout ratio. The same level of emphasis is placed on a relevant issue that the firm should manage a stream flow of dividends. Managers of firms listed in the Dubai financial market showed a greater deal of agreement with the argument that a firm should go with stable dividends unless any sustainable shift in earnings. Meanwhile, 64% managers of UAE firms are in strong agreement with the view that the firm should have a target payout ratio.

Panel B depicts the results of the historic dividend pattern. Most of the respondents have shown a great deal of agreement with S1 and S2 and the results are significant at 0.00 level. Modigliani and Miller (1961) theoretically proof that in perfect market firm dividend decisions has no impact on firm value. But when we relaxed this assumption our results show that firm dividend has an effect on firm value. Overall results of Panel c Indicate that Managers of firms listed in the Dubai financial market are agreed upon a fact that firm dividend

decisions have a significant impact on firm value. Results of Panel D indicate that in view of UAE Management investment opportunity effect firm's dividend decisions and firm prefer to use internally generated funds than external sourcing.

Table 3: Level of Agreement by Managers of UAE Firms on Issues Involving Dividend Policy		
Sr. no	T-VALUE	Mean
Panel 1 Dividend Process		
I7	5.438***	1.3300
I6	5.332***	1.4300
I8	5.394***	1.1700
I4	4.456***	0.7100
I5	3.236***	0.6300
Panel 2 Dividend Pattern		
I2	5.432***	1.4400
I1	5.325***	1.3600
Panel 3 Dividend policy and firm value		
I9	5.964***	1.4200
I10	5.376***	1.2800
I13	4.326***	1.0300
I15	3.486***	0.8300
I11	1.512***	0.3600
Panel 4 Residual dividend policy		
I14	6.090***	1.4500
I12	2.142***	0.5100

4.4. Why Firms pay dividends

The final objective of this research is to know how Managers of firms listed in the Dubai financial market view different dividend

theories. Table 4 is reporting results about the level of agreement that Managers of firms listed in the Dubai financial marketplace on eleven statements involving 4 dividend theories. Bird in hand theory states that an investor prefers cash dividend than the stock dividend. Managers of firms listed in the Dubai financial market have shown agreement with this notion and the results are significant at 0.000 level. Signaling theory state that dividend decisions act as a signal about managerial performance. The investor uses these signals to distinguish between a performing and non-performing firm. Managers of firms listed in Dubai financial market consider dividend as an important determinant of stock price. UAE managers are strongly agreed that dividend decision effect by information asymmetry (I21, I22). Though Managers of firms listed in the Dubai financial market are not strongly agreed most of them are agreed with the notion that dividend decisions act as a signal about firms’ future decision (I18, I17). The results of I19 and I20 indicates that Managers of firms listed in the Dubai financial market have placed moderate importance on stock price.

Table 4: level of support that managers of firms listed in Dubai financial market give to various explanations for paying dividends		
	t-Value	Mean
Panel A	Bird in Hand Theory	
I16	5.998***	1.1900
Panel B	Signaling Theory	
I22	4.712***	1.3600
I21	4.250***	1.2500

I19	3.864***	0.9200
I20	4.944***	1.3900
I18	2.898***	0.8500
I17	2.462***	0.8100
Panel C	Tax and Clientel affect	
I25	4.662***	1.1100
I24	2.100***	0.8700
Panel D	Agency Theory	
I26	5.208***	1.2400
I27	2.840***	0.8200

Responses of I24 show that Managers of firms listed in the Dubai financial market consider a tax on cash dividend as important deterrents of dividend policy. Managers of firms listed in the Dubai financial market have placed a moderate agreement with I25 which means that UAE investors generally prefer to invest in the firm whose dividend policies support their tax preferences. Overall results (I24, I25) indicate that managers of KSE firms are aware of the clientele effect, and the significant results are consistent with (Baker et al., 2017). The results reported in panel D (I27) showing the agreement with agency theory which states dividend as a mean to overcome agency problem, as it reduces firm cash level which reduces managerial discretion meanwhile it also asks managers for continuance in performance. However, disagreement has been shown with the notion that dividend payments force managers to increase external financing (debt or equity). Overall, we can say that most of the respondent are agreed with all dividend theories but most strong agreements are given to clientele and agency theory. These results

indicate that managers of UAE firms view multiple explanations for paying dividends as being credible.

5. CONCLUSION

In author knowledge, this is the first study to explore the managerial view of dividend policy. The first objective of this study deals with the identification of factors, which for Managers of firms listed in the Dubai financial market are most important in formulation firm's dividend policy. Secondly, we compared the level of agreement of Managers of firms listed in the Dubai financial market with those of Canadian, American and Indonesian firms. Finally, we answered why firms pay dividends and what theoretical explanation they support while formulating any dividend policy. The results are shown in table 1, 2, 3 and 4. Results indicate that the managers of UAE firms have shown a great deal of agreement with the academic community. The study has used a mail survey of managers of firms listed in the Dubai financial market that have paid at least one cash dividend during the period of 2015-2017 as a primary means of collecting data. No single pattern in rankings of factors among different countries has emerged. However, like their American, Canadian and Indonesian occupational fellows, managers of firms listed in Dubai financial market ranked, F3 (level of current earnings), F2 (pattern of past dividends), F1 (Stability of earnings) at the top. According to Managers of firms listed in the Dubai financial market, dividend decisions have a significant effect on firm value. Meanwhile, they have shown a great deal of support with

all dividend theories, but most strong agreements are given to clientele and agency theory. In spite of a high response rate of almost 66.7 percent, the number of responses received has limited our ability to test statistically significant or insignificant difference among different industrial and firm characteristics. In author knowledge, this is the first study designed to explore the views of Managers of firms listed in the Dubai financial market about dividend policy in UAE.

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