INVESTOR'S BEHAVIOR TOWARDS DIVIDEND PAYING OUT FIRMS

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ABSTRACT

Purpose: The purpose of doing this research is to examine to see the behavior of investors towards the dividend payouts. It also helps the firms to target their investors according to their demographics and investors behavior as well.

Methodology: Purposive sampling technique is used to collect the data of 75 investors. Out of the total of 75 responses, 66 responses are used for the analysis purpose because 9 are categorized themselves as non-investors in the stock market. Among all the investors of stock market, 82 percent of the respondents are male while 18 percent are females. Cross tabulation technique is used to see the behavior of investors towards the dividend payouts.

Findings: The results of the research supporting the fact that investors love to receive a dividend regular or irregular basis and whether it is in the form of cash or a share. The behavior of investors toward the firm who provide dividends are strong and they also trust those firms who are acting so as well. Investors also believe that the firms providing high dividend are less risky firms and another reason they are providing high dividends is due to their higher growth and they wanted to share the profit with their shareholders as well.

Practical implications/Originality/Value: The research is very much practical in nature and it will help the investors towards the dividend payout of their stocks. Moreover, this research is giving us a path to analyze which age group is interested in investing in a stock and their reasons of investing in a stock as well.

Limitations: The data in our research is too less and we cannot generalize to other countries but it gives a direction about the behavior of an investor while investing in a stock market.

Keywords: Investors' behavior, dividend, payout, stock market, Pakistan Stock Exchange

1. Introduction

Dividend refers to a bonus in the form of cash, reinvestment or otherwise, that a company gives to its shareholders. The decision of giving a dividend and how frequently and how much it will be given is decided by the board of directors of the firm and it also requires the shareholders' approval. It is a type of a profile which a firm share with its shareholders (The Economic Times, 2018).

There are several advantages of paying dividends to their investors. The investors always try to invest in a firm which pays dividend on a regular basis. Even if the market is not performing well, dividend helps the investors to get some earning on a frequent basis. The announcement of dividend payment gives a strong signal about the future prospect of the firm and a firm can do publicity to get extra advantage from that (eFinanceManagement.com, 2018).

Firms may have policy of paying regular dividend or occasionally. The decision is based on certain outcomes such as Uncertainty of earnings, Unsuccessful business operations, Lack of liquid resources and Fear of adverse effects of dividends on the financial standing of the company (Rajendran & Nedelea, 2017).

In this research, we want to see that if investors are interested in dividend paying firms or otherwise. In addition to that we are also interested in looking at the decision making of investors with respect to experience of investor.

1.1. Identification of Problem

Firms are announcing dividend payout on regular and otherwise and few firms do not pay the dividend. The problem we have identify is the influence of dividend payout on the behavior of an investor.

1.2. Purpose Statement

The purpose of doing this research is to examine to see the behavior of investors towards the dividend payouts. It also helps the firms to target their investors according to their demographics and investors behavior as well.

1.3. Objectives

The objective of this research is to examine the behavior of an investor on a dividend payout.

1.4. Research Question

- What is the impact of dividend payout on the behavior of an investor?

1.5. Assumption

We are assuming that there are two types of firms listed in a stock market. Those who pays dividends according to their dividend policy and on a regular basis and second, those firms who pay the dividends irregularly and do not pay.

1.6. Limitation

To get a survey filled from the investor is a difficult job as the data of the investor's is not readily available and brokerage houses are willing to provide an information of their investors due to security and privacy concern. To get the data, frequent visits to stock market and brokerage houses are required and which is very time consuming job. This leads to a big limitation of the research study.

1.7. Significance

The results of the study will help the investors to select the stock which provides the dividend of regular/irregular basis and also helps the firms to target their investors according to their demographics and otherwise.

2. Literature Review

Dividends, one of the important factor when we talk about when an investor wants to invest in a stock and they also look for the dividend-paying stocks which pays the dividend on a regular basis (Baker & Wurgler, 2004). In general, investors like dividends because they treat it as a bonus. Previous studies identify that investors like to receive the same amount of dividends or growth in a dividend over time. Tse (2005) suggests that dividends are given to investors to show the continuous growth in the firm and also show its future prospects. Dividend payout patterns have been examined in some international business context and managers' behavioral aspects.

Lintner (1956) conducted interviews of different managers of companies found out that before announcing a dividend, managers first decide whether to change the level of dividend given to shareholders. Managers do change the level of dividend by reducing or increasing the dividend only if it is required. This shows that managers setup the dividend policy first and later they adjust other cash-related decisions to the chosen dividend level.

There are researchers who examine payout levels e.g. Fama and Babiak (1968); Brav, Grahama, Harvey and Michaely (2005); Aivazian, Booth, and Cleary (2006); Khan (2006), who not only talked about previous researches but also quoted Lintner (1956) which is still the baseline model for both dividends and total payout. Results of the researchers supported the views of Lintner (1956) that managers prefer paying a stable dividend and are reluctant to increase dividends to a level that the firm cannot sustain.

Abor and Bokpin (2010) investigate the effects of investment opportunities and corporate finance on dividend payout policy. They have found that there is a significantly negative relationship between investment opportunity set and dividend payout policy. Various measures of corporate finance i.e. financial leverage, external financing and debt maturity has no effect on dividend payout policy. There are few other important variables which influences dividend payout policy such as Profitability and stock market capitalization. Profitable firms usually support and give high dividend payments to their shareholders but well developed firms usually pay low dividends.

Palmer (1994) in his research focus on the behavior of individual investors and their views on a dividend. The focus of the study was on private investors in which a survey of 280 private investors were collected and concluded that private investors are of the opinion that dividends do effect the value of share and the dividends are the safer form of income which an investor can earn without any fear on a regular interval. The behavior of investors is best described by Lintner (1956) on a dividend policy where they believe that dividends are the safest form of income and it also effect the value of a share as well.

Dong, Robinson and Veld (2003) tried to answer the question of why individual investors want dividends is investigated. With the help of a questionnaire, they got the responses from the respondents indicating that investors want dividends mainly because the transaction costs of cashing in dividends are lower than the transaction costs involved in selling shares. The behavioral finance theory of Shefrin and Statman (1984) is not confirmed for cash dividends but is confirmed for stock dividends. Finally, our results indicate that individual investors do not tend to consume a large part of their dividends. This raises some doubt on the effectiveness of the elimination of dividend taxes in order to stimulate the economy. This also implies that individual investor may not look at the dividend paying firms.

Dividend paying on share is one the most important and significant topic of behavioral finance. Dewri, Islam and Arifuzzaman (2015) attempted to fill the gap and find out the perceptions of investors in developing as well as developed countries. They conducted a survey of 250 investors from Bangladesh according to stratified random sampling. The research support that there is negative association between stipulate for dividend paying stocks and investors demographic attributes in the Bangladesh Capital Market. They have revealed that the managers of stock do not consider the expectations of investors while paying the dividend but investors always focus on the stock providing dividends on a regular basis.

Aroni, Namusonge and Sakwa (2014) conducted a research in Kenya to see the effect of dividend payout on investment in shares by applying the behavioral finance theory. With a collection of data of 311 respondents from the investors of Nairobi Security Exchange, they have find out that there is a significant influence on decisions to invest in shares. The finding of the research suggested and recommended policy makers to enhance make structure strategies aiming to increase profitability and consequently guarantee dividend payout to bolster investor confidence.

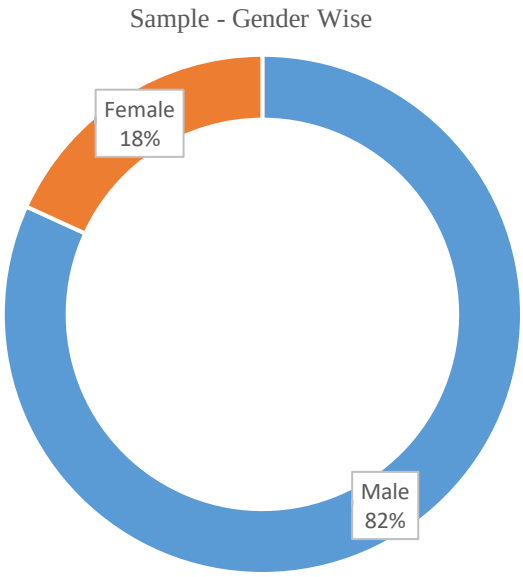
Akhtar, Hunjra, Andleeb and Butt (2012) also emphasizes on a strong preference for dividends among investors. The main objective of conduction a research is to find the behavior of investors whether they want dividend in the form of cash or a stock. The findings of the research were quite mixed and it shows that investors want dividends and preferably in the form of cash and others want in the form of stock as well but at least they want a dividend.

Ahmad (2017) in their research on determining the factors that influence individual investor behavior in the Pakistani financial market by conducting a survey of 102 investors. The study finds out two factors influences the investors behavior are influence of family members and religious factors. Other than that dividend also influences the decision making of an investor.

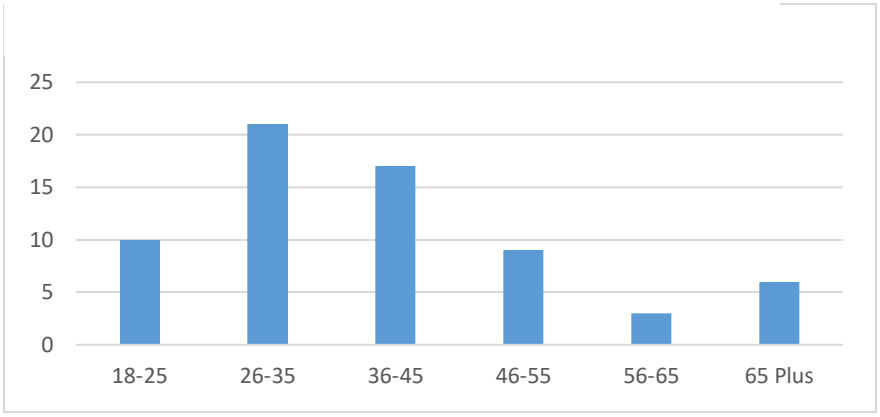
Jory, Thanh and Hamid (2017) also talked about the large and stable firms and their policy on dividend payout ratio and they also agree that large and stable firms do favor dividends to their investors. They also added that the presence of pressure sensitive institutional investors (i.e. investors that also hold business ties with the investee firm) is significantly linked to dividend payout policy. Conversely, pressure-insensitive investors use alternative forms of monitoring instead of requiring investee firms to pay dividends, which serve to reduce agency conflicts.

3. Research Design

The answer the research questions, there was a need to develop or adopt/adapt a questionnaire. So the questionnaire was developed to get the responses from the investors of Pakistan Stock Exchange (PSX). The questionnaire includes some dichotomous questions as well as likert scale questions to get clear picture of the behavior of investors towards the dividends. Purposive sampling strategy was used to collected the responses from the investors. We visited brokerage houses and Islamabad Stock Exchange building to get the required information. However, we also floated online questionnaires to get the responses from the investors of stock. Out of the total of 75 responses, 66 responses are used for the analysis purpose because 9 are categorized themselves as non-investors in the stock market. Among all the investors of stock market, 82 percent of the respondents are male while 18 percent are females. Moreover, most of the investor respondents belong to middle age group, i.e., between 26-45, which shows the age bias of the analysis. Since we do not have prior information of age distribution of investors, thus we cannot measure the actual bias of the sample, if there is any.



3. 1 Sample - Age Distribution



4. Data Analysis

*4. 1 Gender * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
Gender	male	36	18	54
	Female	6	6	12
Total		42	24	66

The above table in a cross tabulation between the gender and the investors who want a dividend on a regular or irregular basis. The data shows that out of the total responses from males, 66% of the males want a dividend on regular basis according of the dividend policy defined by the firm. But females on the other hand having mixed response as 50% of them agree to receive the dividend on regular and irregular basis.

*4. 2 Age * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
Age	18-25	8	2	10
	26-35	12	9	21
	36-45	7	10	17
	46-55	6	3	9
	56-65	3	0	3
	65 Plus	6	0	6
Total		42	24	66

The above table talks about the cross tabulation between an age and dividend payment pattern and out of all the responses, approx. 64% of the people wants a dividend on regular basis out of which 57% are of the age between 26 to 35. Almost 59% of the investors of the age between 36 to 45 said that they can afford to get a dividend irregularly. Investors above 56 years old loves to get a dividend on regular basis and the reason of having this pattern is due to an extra income they can enjoy after their retirement.

*4. 3 Education * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
Education	Graduate	21	12	33
	Post Graduate	12	12	24
	Other Degree	9	0	9
Total		42	24	66

The above table is about the cross tabulation between dividend payout pattern and the education level of the investors. The table shows that only graduate and above level are investing in a stock which is something new and was never tested before. 64% of the investors who are graduated to doing their graduation wants a dividend on a regular basis and those who are having PhD of other degrees only want a dividend regularly.

*4. 4 What is your current job status? * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
What is your current job status?	Student	6	0	6
	Self-Employed	15	3	18
	Govt. Employed	8	10	18
	Pvt. Job	7	11	18
	Others	6	0	6
Total		42	24	66

The above cross tabulation table shows the current job status of the investors and their behavior todays payout dividend. The data shows that students and other investors including house wives wants a dividend on regular basis. Approximately 60% of the private and government jobbers can afford to get a dividend on irregular basis. 83% of the investors who are running their own business or are self-employed want a dividend on a regular basis.

*4. 5 What is your income level other than investing in stocks? * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
What is your income level other than investing in stocks?	less than 40,000	3	12	15
	41,000-80,000	12	3	15
	81,000-100,000	8	3	11
	101,000-150,000	3	0	3
	150,000 Plus	16	6	22
Total		42	24	66

The above table talks about the cross tabulation between the income level of the investor and the dividend pattern. 80% of the investors from the income level between Rs. 41,000 to 80,000 are of the opinion to get a dividend on a regular basis. Investors having income of less than Rs. 40,000 a month can afford to get a dividend on irregular basis which is quite surprising.

*4. 6 when did you start investing in stocks * Would you invest in a stock paying a dividend?*

		Would you invest in a stock paying a dividend?		
		Regular basis	Irregular Basis	Total
when did you start investing in stocks	1990	2	0	2
	1993	1	0	1
	1994	2	0	2
	1997	1	0	1
	1998	4	0	4
	2005	2	0	2
	2006	0	3	3
	2007	1	0	1
	2008	2	0	2
	2010	3	0	3
	2011	0	3	3
	2012	0	3	3
	2013	3	3	6
	2014	3	3	6
	2015	12	0	12
	2016	0	7	7
	2017	6	2	8
Total		42	24	66

The above table talks about the investors' dividend pattern and the start of investment year and the data shows that almost 70% of the respondent started their investment in a stock market after 2010. One of the reasons is the information technology which is helping the investors to sit back and invest from anywhere and no need to visit the stock exchange anymore.

*4. 7 Gender * Would you like to invest in a dividend paying stock?*

		Would you like to invest in a dividend paying stock?			
		Yes	No	Not Necessary	Total
Gender	male	40	5	9	54
	Female	8	4	0	12
Total		48	9	9	66

The above table shows the cross tabulation between the gender and investors behavioral pattern about investing in a dividend paying stock or not. The result shows that approximately 75% of the males and 66% of the females wants to invest in a stock which pays dividend.

*4. 8 Age * Would you like to invest in a dividend paying stock?*

		Would you like to invest in a dividend paying stock?			
		Yes	No	Not Necessary	Total
Age	18-25	7	0	3	10
	26-35	18	3	0	21
	36-45	11	3	3	17
	46-55	3	3	3	9
	56-65	3	0	0	3
	65 Plus	6	0	0	6
Total		48	9	9	66

Approximately 73% investors want a dividend and that is one of the reason they invest in a stock. Investors of the age 56 and above invest in a stock due to an extra income and so they want a dividend.

*4. 9 What is your current status? * Would you like to invest in a dividend paying stock?*

		Would you like to invest in a dividend paying stock?			
		Yes	No	Not Necessary	Total
What is your current status?	Student	3	0	3	6
	Self-Employed	15	0	3	18
	Govt. Employed	11	5	2	18
	Pvt. Job	13	4	1	18
	Others	6	0	0	6
Total		48	9	9	66

The above table shows the cross tabulation between the job status and investors behavior towards dividend payout and the result shows that students, self-employed, and those who are retired or house wives want a dividend and that is why they have invested in a stock.

*4. 10 Gender * Investing in dividend paying stock is preferable*

		Investing in dividend paying stock is preferable					
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Gender	male	0	5	15	24	10	54
	Female	3	1	6	0	2	12
Total		3	6	21	24	12	66

The above table shows the cross tabulation between the behavior of gender towards the investment towards dividend paying stock and the result shows that majority of the males as well as the females agree with the statement that they prefer to invest in a dividend paying stock.

*4. 11 Age * Investing in dividend paying stock is preferable*

		Investing in dividend paying stock is preferable					
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Age	18-25	0	0	0	8	2	10
	26-35	0	3	15	3	0	21
	36-45	0	3	0	10	4	17
	46-55	3	0	6	0	0	9
	56-65	0	0	0	3	0	3
	65 Plus	0	0	0	0	6	6
Total		3	6	21	24	12	66

The table showing the results of the cross tabulation between the age of the investors and investing in a dividend paying stock and the result showing that only the age group between 46 to 55 not agreeing with a statement about their behavior towards investing in a dividend paying stock but result of the age groups prefers to invest in a dividend paying stock.

*4. 12 What is your current status? * Investing in dividend paying stock is preferable*

		Investing in dividend paying stock is preferable					
		SD	Disagree	Neutral	Agree	SA	Total
What is your current status?	Student	0	0	0	6	0	6
	Self-Employed	0	0	9	3	6	18
	Govt. Employed	3	2	3	10	0	18
	Pvt. Job	0	4	9	5	0	18
	Others	0	0	0	0	6	6
Total		3	6	21	24	12	66

The above table talks about the job status of the investors and their behavior towards dividend payout. Approximately half of the respondents including students, businessmen, government/private employees and retired/house wives agree that they want to invest in a firm paying dividends.

*4. 13 Gender * Shares that pay relatively higher dividends are less risky.*

		Shares that pay relatively higher dividends are less risky.				
		Disagree	Neutral	Agree	Strongly Agree	Total
Gender	male	9	15	20	10	54
	Female	3	3	4	2	12
Total		12	18	24	12	66

The above table talks about the gender and their relation with the behavior on shares paying higher the dividend are less risky. The result shows that more than 50% males are of the opinion that the

statement is true, on the other hand 50% of the females believe that the statement is true and rest of the females are confused or didn't care about the riskiness of the shares.

*4. 14 Age * Shares that pay relatively higher dividends are less risky.*

		Shares that pay relatively higher dividends are less risky.				
		Disagree	Neutral	Agree	Strongly Agree	Total
Age	18-25	0	3	4	3	10
	26-35	9	3	9	0	21
	36-45	3	3	8	3	17
	46-55	0	6	3	0	9
	56-65	0	3	0	0	3
	65 Plus	0	0	0	6	6
Total		12	18	24	12	66

The above table shows the cross tabulation between the age and firm who are paying higher dividend on their shares are less risky stocks. Only less than 43% of the investors of the age bracket between 26 to 35 agree with this statement and rest of the age brackets mostly agree that firms are less risky and doing better if they pays higher the dividend which also shows their stability in the market.

*4. 15 What is your current status? * Shares that pay relatively higher dividends are less risky.*

		Shares that pay relatively higher dividends are less risky.				
		Disagree	Neutral	Agree	SA	Total
What is your current status?	Student	0	3	0	3	6
	Self-Employed	3	0	15	0	18
	Govt. Employed	3	8	4	3	18
	Pvt. Job	6	7	5	0	18
	Others	0	0	0	6	6
Total		12	18	24	12	66

The above table shows the results of the relationship between the current job status and the shares paying higher prices with having the level of riskiness. The result shows that only government and private job holders are somewhat disagreeing and are of the opinion that firms are paying higher dividends because of their riskiness and wanted to attach with their shareholders.

*4. 16 Gender * Do you think that dividend-paying stocks offer more certainty about the companies' future earnings perspectives compared to stocks that do not pay dividends?*

		Do you think that dividend-paying stocks offer more certainty about the companies' future earnings perspectives compared to stocks that do not pay dividends?					Total
		SD	Disagree	Neutral	Agree	SA	
Gender	male	5	3	20	19	7	54
	Female	1	0	4	5	2	12
Total		6	3	24	24	9	66

Almost 15% of the males and 8% of the females disagree with the statement that dividend paying stocks offer more certainty about the companies' future earnings perspective compared to the stocks that do not pay dividends. That shows the level of trust towards their invested stock.

*4. 17 Gender * Do you buy dividend-paying stocks because these companies generate real earnings and are less likely to "cook the books"*

		Do you buy dividend-paying stocks because these companies generate real earnings and are less likely to "cook the books"					
		SD	Disagree	Neutral	Agree	Strongly Agree	Total
Gender	male	8	3	5	34	4	54
	Female	1	0	7	2	2	12
Total		9	3	12	36	6	66

Again in the cross tabulation between the gender and about the trust of firm towards their shareholder, approximately 20% of the males and 8% females disagree and supporting the argument that they do buy the shares of those firms which generate real earnings and are also less likely to do illegal acts.

5. Conclusion

In the research, our objective was to see how the dividends are changing the behavior of the investors in respect gender, age, job education, their interest towards receiving dividend on regular or irregular basis, level of risk they are taking, image of the firm and their trust. To answer all these questions, we have used cross tabulation to see the relationship among these variables. Furthermore, we have used a sample of those investors who have/had actually invested in a stock market and/or having at least a know-how of dividends as well.

The results of the research supporting the fact that investors love to receive a dividend regular or irregular basis and whether it is in the form of cash or a share. The behavior of investors toward the firm who provide dividends are strong and they also trust those firms who are acting so as well. Investors also believe that the firms providing high dividend are less risky firms and another reason they are providing high dividends is due to their higher growth and they wanted to share the profit with their shareholders as well. Our analysis also shows that females are also investing in a stock and their main reason of the invest is to receive a dividend every now and then. There are few aged and retired people in the sample who make the investment in a stock market due to an extra money they can generate due to dividends. Our results also show that in the last once decade or so, more people are into stock investment and on inquiry we got to know that it is due to the availability of the information and resources provided to the investors

as well as the easiness provided to investors so they can invest in a stock even while sitting back at home or other places and even from a mobile phone.

6. Recommendations

It is recommended that to attract the investors, firms should provide dividend on regular/irregular basis to see the behavioral shift in the investors. Investors wants to invest and if everyone loves to get an extra money so firms should focus on the age bracket between 25 to 45, as these investors are young and also wants to play with a stock. If the firm provides them a dividend, investors will feel the firm is less risky and it will also encourage other investors to invest in their stock.

In the future research, it is recommended to focus on more investors and add more variables like dividend policy and investors' sentiments to see how the firms providing dividends to their investors. Are they actually following the policy or not and if they are not following, what are the reasons of doing so? The data in our research is too less and we cannot generalize our conclusion but it gives a direction about the behavior of an investor while investing in a stock market.

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