

Corporate Dividend Policies: Survey Evidence from Finance Directors in the UK and Portugal

by

Dr Stuart Archbold

Kingston University, London

S.Archbold@kingston.ac.uk

and

Dra Elisabete Fátima Simões Vieira

ISCA - Universidade de Aveiro, Portugal

elisabete.vieira@ua.pt

ABSTRACT

This paper reports the empirical results of a questionnaire survey about corporate dividend policy addressed to finance directors of UK and Portuguese listed firms. Similar to other studies (for example, Brav et al., 2005 in the US and Dhanani, 2005 in the UK), we survey 313 finance directors in the UK and 48 in Portugal to examine their views of and understanding about the dividend decision in order to compare practice with theoretical propositions to be found in the literature. Our survey results demonstrate similarities in the responses from the UK and Portugal, but also substantive differences, particularly in respect of the interaction between dividend and investment decisions and views about the signalling consequences of dividends.

Key Words: *Cash Dividends, Signalling Hypothesis*

EFMA Classification: 170

1 Introduction

This paper reports the empirical results of a questionnaire survey about corporate dividend policy addressed to finance directors of UK and Portuguese listed firms. Similar to other studies, (for example, Brav *et al.*, 2005 in the US and Dhanani, 2005 in the UK), we survey 313 finance directors in the UK and 48 in Portugal to examine their views of and understanding about the dividend decision in order to compare practice with theoretical propositions to be found in the literature. But in addition, we use this cross-country study to investigate whether corporate views about the dividend decision are country dependent. We know of only one other study that compares dividend policy in two countries (Norway and the US by Baker *et al.*, 2005). The comparison between the UK and Portugal is of interest because they differ in terms of size, economic development and structure, and also in terms of the scale and sophistication of their respective capital markets. The study reported represents the initial findings from a larger, ongoing, pan-European study.

The corporate finance literature contains a conundrum known to its readers as the ‘dividend puzzle’ (Black, 1976). Summarising what finance academics understood about corporate dividend policy at the time, Fisher Black posed the well-known question and answer: “What should corporations do about dividend policy? We don’t know!” (Black, 1976:5). Despite three decades of theorising and empirical research since then, Black’s observation seems as germane today as it was in 1976. For example, Brealey and Myers (2003) in their widely used corporate finance textbook observe that, despite the abundance of academic research, we still face a ‘dividend controversy’ which they identify as one of the ten ‘unsolved problems in finance’ (Brealey and Myers, 2003: 1001-2). That controversy or puzzle stems from the seminal contribution of Miller and Modigliani (1961) and their demonstration that in a world of perfect markets, the pattern of dividend payments should not matter. The fact that they seem to, even in a world where tax regimes discriminate against dividends, clearly warrants further empirical investigation. The purpose of this study is to make a modest investigative contribution.

The rest of this paper is organised as follows. The next section presents a brief summary of the major theoretical positions and explanations for dividends and

dividend policy that have been advanced in the literature. Section three provides a brief review of relevant strands of the empirical literature. Section four explains the research methods adopted, followed by a section that deals with the data sample. Section six presents the results and the final section summarises and concludes.

2. Review of Theoretical Literature

As is well known, the dividend puzzle consists of two elements. First, the apparent necessity perceived by (some) corporate executives to pay dividends and their occasional willingness to do so, even in the face of financial fragility. The second aspect of the puzzle is the apparent eagerness of (some) investors to receive dividend payments, even when such payments give rise to an additional tax liability.

The corporate finance literature offers a variety of explanations for dividends and the puzzle that they present. In essence, three fundamental positions can be found in the literature with respect to dividends. The first of these, the so-called ‘bird-in-the-hand’ hypothesis (Gordon and Shapiro, 1956)¹ posits that dividends can increase firm value by reducing the risk perceived by investor in corporate cash flows. It holds that, other things equal, if two firms, A and B, are identical in all respects save that firm A pays a dividend with expectations of future dividend growth, then A will have a higher share price.

At the other end of the spectrum, there is the position that suggests that in the face of market imperfections such as transaction costs and taxes, dividends can have negative consequences for shareholder wealth. Advocates of this position argue that if the income tax rate is greater than the rate of capital gains tax, then dividend payments are economically irrational. Similarly, if a firm pays a dividend, but then raises equity finance to fund investment the consequent flotation expenses represent an unnecessary reduction in shareholder wealth.

This second position builds on a third, which is the famous dividend irrelevance proposition presented by Miller and Modigliani (1961). Given conditions for a perfect capital market, dividends become a residual cash flow to shareholders after

¹ Frankfurter et al. (2002) recount correspondence with Gordon wherein he denies ever having used the term bird-in-the-hand, even though he is the person most associated with its use. Nevertheless, Gordon acknowledges that the term provides a reasonably accurate representation of his views.

investment decisions have been taken. If a firm decides to reinvest all its net cash flows and forego a dividend, then shareholders who need income for consumption purposes can use the capital market to manufacture 'home-made' dividends in the short term. In the longer term they will benefit from the increased net present value created by the firm's capital investment.

In addition to these three fundamental positions, the literature has provided two further mainstream developments, the application of principal-agent theory and the signalling hypothesis. The agency explanation suggests that the role of dividends is to ensure that managers 'disgorge' free cash flow (defined as cash flow in excess of that required for all positive NPV projects) rather than waste it on unprofitable investment and managerial slack, (Easterbrook, 1984; Jensen, 1986). Whilst agency theory might help to explain how the presence of dividends might alleviate potential agency problems, it does not offer an explanation for the remarkably stable pattern of dividends that many firms pursue. In certain circumstances an agency perspective could be consistent with any of the three fundamental positions outlined above. Therefore agency theory might well make a valuable contribution to our understanding of the dividend phenomenon, but it does not provide a complete explanation, although in fairness none of its advocates make that claim for it.

The signalling explanation for dividends is based on the idea that financial reports and press releases are easier to manipulate than cash flows. Although financial reports might show good historical and current earnings performance and managers might claim that future prospects are good, investors place more weight on management actions. If managers are truly confident about future performance then they can best signal this by maintaining and indeed increasing the dividend payout – the signalling hypothesis focuses on the changes in dividends, rather than levels. There is a substantial amount of empirical support for the signalling effect. For example, empirical studies show that firms tend to increase dividends only after sustained increases in earnings (Benartzi, Michaely and Thaler, 1997) and that the initiation of dividend payments is read as a positive signal of future prospects by investors (Healy and Palepu, 1988).

In addition to these mainstream positions, other explanations have been proffered in alternative fields of inquiry such as behavioural finance. For example, Frankfurter *et al.* summarise some of this research as follows:

“... the dividend payment is a ritual meant to strengthen the bond between the owners and the stewards of the firm, a reinforcement necessary because of the separation of ownership from management.” (Frankfurter *et al.*, 2002: 203).

3. Review of the Empirical Literature

Turning now from theoretical explanations of dividends to the empirical evidence, it seems fairly clear that some stylised facts have been established. First, despite the impeccable logic of the Miller and Modigliani position on the irrelevance of patterns of dividend distributions, dividend policy does seem to matter, to both investors and managers. Survey evidence from Lintner (1956) to Brav *et al.* (2005) and Dhanani (2005) demonstrate that in some senses managers seem to pursue active dividend policies. The considerable number of US survey studies (for example, Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999; Baker, Veit and Powell, 2001) report consistently that managers have more regard to the change in dividend payouts, than levels and they tend to smooth the pattern of dividend growth. These surveys also report that managers generally attempt to increase dividends only when they think that increases in earnings are sustainable. Furthermore, managers think that decreases in the payout will cause an adverse price reaction. These results are broadly confirmed for the UK by the survey conducted by Dhanani (2005).

Despite the dearth of systematic evidence on investors' attitudes to dividends, it seems reasonable to assume that if managers are pursuing an active, but misinformed dividend policy aimed at pleasing shareholders, then the latter would be likely to communicate the lack of necessity to do so fairly readily (particularly institutional shareholders, perhaps). Certainly reports in the financial press of shareholder reaction to dividend cuts would seem to suggest strongly that investors regard dividends as an important 'ritual'.

The evidence from statistical studies of secondary data in large samples is rather less consistent than the survey evidence. For example, Redding (1995) found a positive link between firm size and dividend payouts and that informational factors, signalling, represented a strong influence on dividend policy – in line with the survey reports. In contrast the US work of Benartzi, Michaely and Thaler (1997) suggests that dividend increases did not provide reliable signals of future performance, but rather mapped

onto past earnings performance. If the signalling hypothesis is framed in terms of the dividend signal providing indications of future increases in earnings, rather than simply the sustainability of the current earnings level, then this evidence might be regarded as a negative finding.

This negative result for the signalling hypothesis is also reported in the US study by DeAngelo, DeAngelo and Skinner (1996), although other statistical studies report in favour of the signalling role of dividends (Healy and Palepu, 1988; Aharony and Swary, 1980). However, unlike the rather mixed set of findings about the signalling impact of dividend increases, the empirical evidence about dividend cuts shows consistently that they lead to statistically significant negative stock price reactions (Healy and Palepu, 1988; Aharony and Swary, 1980). This result is obviously consistent with the views held by managers as reported in the survey evidence (for example, Lintner, 1956; Baker and Powell, 1999; Baker, Veit and Powell, 2001; Brav *et al.*, 2003) and in the financial press (for example, Jenkins, 2002). A statistical empirical result that is also consistent with the survey evidence is the UK study by Ap Gwilym, Morgan and Thomas (2000), who find that dividend stability has a positive influence on stock returns.

Inconsistency in the results generated by the empirical studies with quantitative archival data is also to be found in relation to the tax and clientele explanations of dividends, which posit that high tax bracket investors will gravitate towards stocks that do not pay or pay low levels of dividends, and *vice versa*. Elton and Gruber (1970) and Bajaj and Vijh (1990) offer evidence in support of such clientele effects, whereas Kalay and Michaely (2000) do not.

There could, of course, be a number of reasons for the rather mixed set of results from the empirical literature based on statistical studies of the dividend puzzle. For example, changes in the regulatory climate, taxes regimes and macroeconomic environment might well effect the inclination of managers to pay dividends and the desire of investors to receive them. Therefore, it is possible that the reports of contradictory results based on samples in different calendar time simply reflect the impact of changes in the economic environment. If so, such studies would do little to corroborate or reject the mainstream hypotheses about dividends. Given that mainstream theoretical explanations typically do not allow for (say) variations due to the business cycle, it is not surprising that some empirical studies do not even attempt

to take account of such factors. However, if these factors do influence dividend decisions then their omission from models to be tested empirically would lead to variations in the results published over time.

Furthermore statistical empirical studies typically use stock returns as a measure of the impact of dividend policy and assume one-way causation from dividends to returns – from the productive realm to the financial. However, during the bull market of the 1990s there was plenty of evidence that the performance of financial markets had an impact on the so-called real economy. The omission of dividends by many firms during this period and the (apparently) concomitant rise in the use of share repurchases, particularly in the US (Fama and French, 2001), might be evidence of two-way causation.

Of course, such ideas are only speculative at this stage. Nevertheless, the evidence of shifts in distribution patterns from both the US and UK (Fama and French, 2001; Benito and Young, 2001; Ap Gwilym, Seaton and Thomas, 2004) suggest that this might be an appropriate time to survey firms in order to assess management attitudes to the distribution decision. In particular, the lack of survey evidence based on European firms² means that this type of empirical research might provide a useful contribution to our understanding of the dividend puzzle as it applies outside the US.

4. Research Methods

Our survey was based on a survey methodology similar to that adopted in the US by Baker, Veit and Powell (2001) and Brav *et al.* (2005). The majority of the questionnaire was based on the Brav *et al.* (2005) survey on corporate payout policy which incorporated share repurchasing as well as dividends. We amended their questionnaire to fit the European context and then re-worked the questions to focus on dividend policy. The questionnaire was piloted with academic colleagues at Kingston University. Their feedback was noted and the questionnaire revised in the light of comments. In an effort to encourage companies to respond, anonymity was guaranteed and a summary of the findings was offered to the respondents. The final version of the survey contained 24 questions and was 6 pages long. The survey

² For example, to the writers' knowledge, the only published surveys in the UK was undertaken by the investment fund *3i* in 1993 and Dhanani (2005).

questionnaire was sent in 2003 to the finance directors of 312 UK companies listed on the London Stock Exchange. Subsequently it was sent in 2006 to the finance directors of the 48 Portuguese companies listed on the Euronext Exchange in Lisbon. The difference in timing arose because the Portuguese survey arose as a result of interest of in the earlier conference presentation of the UK results in 2004.

Clearly the evidence from questionnaire surveys presents a number of difficulties. First, the respondents might not understand the questions and so the questionnaire might not elicit the responses sought by the researchers. Second, the respondents might not answer truthfully or lack appropriate incentives to search for information that is not readily to hand, thereby inducing the potential for a form of measurement error. Brav *et al* (2003) summarise this problem in the following way: they “measure beliefs and not necessarily actions” (2003:3). Third, like all researchers, we had to deal with the trade off between survey length and the likelihood of participants responding. In an ideal we would have liked to ask more questions, but in the event we erred on the side of brevity in the expectation of garnering more replies.

A fourth, potential problem for questionnaires about dividend policy (and thus for our survey) was identified by Baker, Farrelly and Edelman (1985). This concerns the restrictive nature of only obtaining views from one director, (in this case finance directors), when it is likely that more than one person will decide on distribution policy. As Baker, Farrelly and Edelman, (1985: 83) point out, Chief Financial Officers are “not the only individuals involved in dividend policy decisions”.

Another issue associated with questionnaire surveys is the problem of response bias. In an attempt to counter this problem we followed conventional practice and undertook follow-up mailings to non-respondents in order to “increase the response rate and reduce potential non-response bias” (Baker and Powell, 1999:23). The response rate for the UK for the study was 32.9 per cent and 60.4 per cent in Portugal, making an overall response rate of 36.6 per cent. This compares well with earlier studies as can be seen from Table 1.

TABLE 1 ABOUT HERE

5. Data Sample

The UK sample was drawn from the population of all listed, non-financial sector companies in the UK. The questionnaire was sent to a total of 312 firms in the summer of 2003 and 40 responses were received. Follow-up letters and the questionnaire were then sent to non-respondents and a further 63 responses were elicited in two tranches of 52 and 11. In total 103 usable replies were received.

In the case of Portugal a letter and questionnaire were sent to the finance directors of all 48 firms listed on the Euronext Lisbon stock exchange. Nine responses were received from the initial mailing and a further 20 were received after the mailing of a follow-up letter and the questionnaire instrument. In all twenty-nine usable responses were received.

The payout characteristics of the UK and Portuguese samples are shown in Table 2.

TABLE 2 ABOUT HERE

6. Survey Results

In this section we report the results of our questionnaire survey to both UK and Portuguese firms and the results of our tests for similarities and differences between the two samples.

6.1 Dividend Policy and Dividend Setting Process

We asked a variety of questions about the firms' dividend policy and the nature of the dividend setting process. This allows comparison with the results from Lintner's (1956) survey in the US, where he found that firms set dividends on a conservative basis, with dividend payouts determined by sustainable earnings, and that firms used a

target payout ratio. The conservative nature of the dividend decision was clear from the extreme reluctance of managers to cut dividend payouts.

6.1.1 The UK Results on Dividend Policy and Decision Setting Process

Table 3 presents the results for the UK sample. The conservative nature of the dividend decision can be seen throughout. Earnings are an important determinant of dividend payouts with around 83% of respondents reporting that the stability of future earnings (Question 3.3) and sustainable changes in earnings (Q3.2) being important or very important considerations. This reflected in the response to the statement about the influence of temporary changes (Q3.1) where 70% of respondents report that such changes are not important or not at all important. These results are all significant at the one percent level for both parametric and non-parametric tests.

The conservative nature of dividend setting is also reflected in the 73% percent of respondents who consider that the historic pattern of dividends (Q3.12) is important or very important. The desire to maintain a smooth pattern of dividends is also clear, with 74% of respondents reporting (Q20.3) that this is an important or very important consideration.

The reluctance of firms to cut dividends is evident from the responses, with 87% indicating that they try to avoid reducing dividends per share (Q20.4) and 62% reporting (Q20.10) that they are reluctant to make dividend changes that might have to be reduced in future.

The current market price of a firm's stock (Q3.17) does not appear to be an important consideration. To some extent at least, this seems to be consistent with only 41% of firms declaring that dividends are as important for stock valuation as it was 15-20 years ago (Q4.6), although the mean response is significantly different from the neutral response at the one per cent level.

TABLE 3 ABOUT HERE

The impact of cash reserves beyond a desired level (Q3.4) is not important or not at all important for only 44% of firms, although the mean response to this question, -0.32, is statistically significant at the one per cent level. A large proportion of firms, 70%, do not use dividend policy to influence their credit rating (Q4.7).

Changes or growth in dividend per share is regarded as important or very important (Q20.2) by 79% of UK firms and this is consistent with the results to Q18 about targeting, reported in Table 4, with 88 respondents (86.27%) indicating that they target growth in dividend per share. This is by far the most important target, when compared to dividend yield and the payout ratio. The decline in the importance of the payout ratio compared to Lintner (1956) is consistent with the results of Brav *et al.* (2005) for the US.

As far as targeting is concerned (Table 4), only 15 respondents (14.7%) consider their stated target as a strict goal, with 68% indicating that any target set is treated as a partially flexible or fully flexible goal in their decision making process. Interestingly, perhaps, this set of questions has the largest number of missing values (11) in the replies received.

TABLE 4 ABOUT HERE

6.1.2 The Portuguese Results on Dividend Policy and Decision Setting Process

As in other countries, dividend policy and dividend setting are also dealt with in a conservative manner (see Table 5). Sustainable changes in earnings (Q3.2) and the stability of future earnings (Q3.3) are reported as important or very important by 69% and 83% respectively of Portuguese finance directors. The conservative nature of dividend decisions is confirmed with 76% of the Portuguese sample indicating that temporary changes in earnings are not important for dividend decisions, (Q3.1). All these results are statistically significant at the one per cent level for both parametric and non-parametric tests.

Sixty-six per cent consider the historic dividend pattern (Q3.12) to be important or very important, (significant at the one per cent level) but only 41% report that they

attempt to smooth the dividend stream from year to year (Q20.3). These results suggest a certain inconsistency in the Portuguese results, whereby historical dividend patterns are important or very important, but smoothing is not.

This inconsistency is also evident in respect of responses to our questions about dividend reductions. Fifty-five per cent of respondents agree or strongly agree that they try to avoid reducing dividends per share (Q20.4), but this finding is not statistically significant. Furthermore only 24 per cent agree or strongly agree with the statement that they would be reluctant to make dividend changes that might have to be reversed in future (Q20.10) as opposed to 45% who indicate that they would not be reluctant to do so. These results suggest certain ambivalence on the part of at least some Portuguese firms about some aspects of the dividend setting decision.

TABLE 5 ABOUT HERE

From the responses to our question about the influence of the current share price (Q3.17), it appears that this is not a major consideration for the majority of Portuguese firms. Indeed, only 10 per cent of firms consider that dividends are important or very important for stock valuation (Q4.6), with 45 per cent indicating that it is less important now than 15-20 years ago, and though not half of the firms surveyed, the result is statistically significant.

A sizeable majority (66% significant at the one per cent level) of respondents indicate that dividends not used to influence credit rating (Q4.7), although this is not surprising given the undeveloped corporate bond market in Portugal. Cash balances above the desired holding also seem to have now obvious influence on dividend setting (Q3.4).

For 55 per cent of respondents indicate that changes or growth in dividends per share are an important or very important consideration (Q20.2), but this finding is not statistically significant. This is consistent with the responses to the direct questions associated with targeting (Q18), reported in Table 4, where responses indicate that a variety of measures of dividend performance are considered when setting dividends.

The evidence in Table 4 also shows that Portuguese firms take a flexible approach to targets, with only one response indicating that strict dividend targets are set.

6.1.3 UK *versus* Portuguese Responses on Dividend Policy and Dividend Setting

Although the two surveys elicited similar responses to 7 of the questions dealt with in this section, there are important differences between the two sets of results. The results of difference tests for the two sets of responses are presented in Table 6.

TABLE 6 ABOUT HERE

The questions about the impact of temporary changes in earnings (Q3.1), sustainable changes in earnings (Q3.2), the stability of future earnings (Q3.3), and historic dividend policies produced very similar responses in the UK and Portugal, with no statistical differences in the two sets of responses. Similarly, there were no substantive differences in the responses about the influence of cash balances above desired holdings (Q3.4) or credit rating (Q4.7).

In contrast the questions about dividend smoothing (Q20.3), reductions in dividends (Q20.4 and 20.10), past levels of the dividend payment (Q20.1), and the perceived importance of dividends on stock valuation (Q4.6) all produced statistically significant differences between the UK and Portuguese respondents, at the one per cent level. From this evidence it appears that UK finance directors are much more concerned about reductions in the dividend than their Portuguese counterparts. The UK responses are consistent with a long line of evidence from the US (from Lintner, 1956; to Brav *et al.*, 2005), whereas the Portuguese responses are clearly not. The perceived consequences of reductions in dividends are dealt with further in Section 6.4, when we consider signalling.

6.2 Clientele Considerations

Overall the questions about clientele considerations do not elicit strong positive responses from either sample of respondents. For example, the tax positions of stockholders do not influence the dividend decisions of the majority of firms in both

countries (Q3.7 and Q20.8). In the UK 78 per cent of respondents consider the taxes on dividends as unimportant and in Portugal the figure is 59 per cent, both significant at the one per cent level.

TABLE 7 and 8 ABOUT HERE

Despite the lack of positive responses to this set of questions, there were some statistically significant differences between the responses of the two samples (see Table 9). The influence of institutional investors (Q3.9) is much more apparent in the UK, with 47% of directors indicating that this was an important or very important consideration, whereas only 31% of Portuguese firms thought this important and 35% of them thought it unimportant or not at all important (12% in the UK sample). Consistent with this finding, 34 per cent of the Portuguese respondents considered the attraction of retail investors important or very important, whereas the figure in the UK is only 19 per cent.

These results are broadly consistent with recent studies, and the lack of a tax impact on corporate decisions about dividends has already been recorded in US and UK studies (Brav *et al.*, 2005; Dhanani, 2005). However, it is interesting to note that dividend taxes also do not figure in an economy with very different stock market characteristics such as Portugal.

6.3 Relationship between Investment Decisions and Dividend Decisions

Responses to the survey questions about the relationship between investment and dividend decisions are also presented in Tables 7 and 8. The availability of good investment opportunities (Q3.8) has some influence on UK respondents with 41 per cent (significant at the 5 per cent level) rating this factor as important or very important for the dividend decision. The statement in Q4.1 seeks responses about the priority of the investment decision over the dividend decision; 32 per cent of UK respondents agree or strongly agree that investment is the priority, but this does not represent a statistically significant result. Despite the possible influence that investment opportunities might have on the dividend decision, 63 per cent (significant

at the one per cent level) agree or strongly agree that their firms would raise new funds to undertake the investment, rather than reduce the dividend (Q4.5).

According to Miller and Modigliani (1961), it would be in shareholders' interests if a firm were to forego or reduce the dividend payment in order to undertake profitable investment projects. In this view, persisting with a dividend payment and raising external capital in order to do so, especially in the light of transaction costs, could be considered economically irrational. This is addressed by Q3.11 and the UK responses make it clear that the existence of flotation costs would not inhibit raising new funds in order to maintain the dividend.

The influence of available investment opportunities on the dividend decision is much stronger in Portugal with 72 per cent acknowledging that influence (Q3.8). In a similar vein, 52 per cent of responses to Q4.1 (significant at the 5 per cent level) agree that the investment decision is prior to the dividend decision, with only 14 per cent rejecting that priority. The greater importance of investment opportunities in Portugal is consistent with the responses to Q4.5, with only 38 per cent agreeing that new funds would be raised to avoid cutting the dividend in order to undertake more investment, although a 59 per cent response to Q3.11 suggests that flotation costs would not inhibit the raising of external funds.

These differences between the UK and Portuguese responses to questions about the influence of investment opportunities on dividend decisions receives support from the statistical difference tests reported in Panel B of Table 9.

TABLE 9 ABOUT HERE

6.4 Signalling and Agency Explanations

The survey results associated with questions about signalling and agency are presented in Tables 10, 11, and 12. Although many of the questions already dealt with above might be construed to have implicit inferences for the signalling and agency hypotheses, the questions dealt with in this section addressed these issues directly.

First we examine the extent to which the finance directors surveyed think that dividends convey signals to investors. Then we consider specific issues associated with the signalling literature and finally agency issues.

TABLES 10, 11, 12 ABOUT HERE

It is clear from our survey that UK finance directors are more convinced that dividends convey information to investors. In answer to Q4.2, 77 per cent of UK directors indicated strong or very strong agreement with that idea, with only 2 per cent registering disagreement. In contrast only 24 per cent of Portuguese respondents agree that dividend convey information and 31 per cent actually disagree. Not surprisingly there is a statistically significant difference between these two sets of responses at the one per cent level.

This result is echoed even more strongly with the responses to Q4.4, which posed the statement that there are negative consequences to dividend reductions. In the UK sample 87% of respondents (the largest weighting in the entire survey) registered strong or very strong agreement with the statement. In contrast only 45 per cent of Portuguese respondents agreed with the statement. Again there is a highly significant difference between to two sets of responses as reported in Table 12.

This result is confirmed by the responses to Q20.6, which presented the proposition that the cost of raising capital is lower than the costs associated with cutting dividends. Around a third of UK directors agreed with this and just over a third (38%) disagreed. In the Portuguese sample only 3% agreed, whilst 62% disagreed. Again the difference between the two groups, reported in Table 12, is significant at the one per cent level. While the approximately uniform distribution of UK responses is ambiguous, the Portuguese responses suggest that finance directors there are not persuaded that dividend reductions necessarily send negative signals to investors.

In relation to negative signals, Easterbrook (1984) suggests that in some circumstances dividend payments might be construed as an indicator of a shortage of profitable investment projects. This idea was posed directly in Q3.13 of the survey. In the UK 77 per cent of finance directors disagreed of strongly disagreed with this

against 52 per cent in the Portuguese sample, a difference that was significant at the five per cent level (Table 12).

All this suggests that UK firms regard dividends as much more likely to convey a positive signal than their Portuguese counterparts. However, UK respondents were less convinced of the power of dividends to signal in a positive manner in terms of risk reduction. Q4.2 suggest that dividends make a company's stock less risky as against retentions (a sort of bird-in –the-hand hypothesis), but 40% of UK directors indicated that they disagreed or strongly disagreed with this statement, little different from Portuguese firms (28%).

In setting dividends both Portuguese and UK respondents seem to have little regard to the dividend policies of competitors' (Q3.5) with 52% of the former and 43% of the latter indicating that competitor policies were unimportant or not at all important. Furthermore neither group uses their own dividend policies as a competitive device as the almost identical responses to Q4.8 demonstrate.

Bhattacharya (1979) emphasises the idea that to be credible signals have to be costly and he suggests that firms might use dividends to signal quality, whereby dividends increase the risk of having to raise external finance and that poor performance would be more likely for low quality firms. This proposition is tested directly by Q20.7 with 53 per cent of UK and 76 per cent of Portuguese respondents disagreeing or strongly disagreeing with it. The difference between the two groups in their strength of disagreement with the Bhattacharya hypothesis is significant at the five per cent level, but it is difficult to draw an inference other than it is strongly rejected by both sets of respondents. A slightly different approach to the signalling of quality is provided by Miller and Rock (1985) who suggest that only stronger firms will be able to give up profitable investments in order to maintain or increase the dividend. This hypothesis was tested directly with Q4.9 and rejected resoundingly, by 80 per cent of UK and 62 per cent of Portuguese respondents.

The responses to the questions and statements about signalling show clearly that the UK finance directors are more convinced than their Portuguese counterparts that dividends convey value-relevant information to investors. Furthermore, they are also more convinced that dividend cuts are likely to be costly. The UK directors have clear view that negative signals about dividends are important, whereas the Portuguese are

simply more sceptical of the power of signalling with dividends. The more sophisticated signalling models such as those proposed by Bhattacharya and by Miller and Rock, which offer the possibility of firms being able to send positive signals to the market via dividend policy, are rejected by both groups. The finding against the sophisticated academic models of signalling is consistent with the recent findings in the US by Brav *et al.* (2005).

Turning now to agency theory and dividends, we only asked two direct questions in this regard, (although, as noted above, other responses might be thought to convey inferences about an agency hypothesis of dividends). Q3.16 suggested that dividends were used to attract institutional investors because of their more exacting monitoring function. This was rejected by 44 per cent and accepted by only 19 per cent of the UK sample (Table 10). In contrast, and perhaps counter to intuition, the balance of responses was reversed in the Portuguese sample with 35 per cent in agreement or strong agreement and only 21 per cent rejecting this proposition (Table 11). The difference between the samples is significant at the one per cent level (Table 12), suggesting that there is weak support (weak because fewer than 50% of respondents supported the statement) for this agency perspective in Portugal, but none in the UK.

Question 3.6 proposes that dividends reduce cash balances and thereby encourage efficient decision making (in line with the Jensen, 1986 free cash flow hypothesis). Approximately 71 per cent of the UK sample and 52 per cent of the Portuguese sample disagreed or strongly disagreed with this proposition, with no statistical difference (Tables 10, 11, and 12).

The evidence from questions 3.6 and 3.16 provide almost no support for the agency hypothesis of dividends. However, while the responses to Q3.6 do not provide support for the agency hypothesis, this is not necessarily evidence against it, if ordinary dividends are not used to 'disgorge' surplus cash to shareholders (firms might rely special dividends or share re-purchases for that purpose, in order to avoid mixed signal effects).

7. Concluding Remarks

This comparative survey study has uncovered a considerable number of similarities in the ways in which UK and Portuguese finance directors consider policy and decision

making with respect to dividend distributions. However, the study has also found some interesting differences between the two groups.

The conservative nature of dividend policies that has been reported in studies since Lintner (1956) is broadly confirmed by both Portuguese and UK respondents to our questionnaire (though more strongly in the UK). Temporary changes in earnings have little impact on the dividend decisions of either group, whereas the historic dividend policy, the stability and the sustainability of future earnings are all important factors for the dividend decision – although sustainability of future earnings is marginally more important in the UK.

Both groups also focus on dividend changes and growth, rather than levels, although to a significantly greater extent in the UK than in Portugal. This UK focus on changes is consistent with the much greater importance attached to recent dividend payments and also to dividend smoothing in the UK. The greater conservatism exhibited by the UK responses is also demonstrated by the greater reluctance to cut the dividend or to make dividend increases that might have to be reduced in future. All these differences between the samples are significant at the one per cent level.

Although both groups approach dividend policy conservatively, it appears that decision making in respect of dividends in any one year varies considerably. UK firms are keen to maintain a smooth dividend stream and are reluctant to cut the dividend, whereas Portuguese firms do not consider these characteristics of their dividend decision making to be very important. This difference might be explained by the responses to the questions about dividend and investment, reported in Tables 7 through 9. For Portuguese firms the availability of good investment opportunities (Q3.8) is a much more consideration than for UK firms and the difference in responses is highly significant. In relation to the priority of investment and dividend decisions, over 50 per cent of Portuguese firms agree or strongly agree that the former is taken prior to the latter, whereas the corresponding UK response is only 32 per cent and the difference is statistically significant, though only at the 9 per cent level (Table 9). As reported above, UK firms are much more reluctant to reduce the dividend and so we find that a much higher proportion of UK firms would rather raise new finance to undertake investment than reduce the dividend (63% versus 38%) and the difference with Portuguese firms is highly significant. Thus it would appear that

Portuguese firms are prepared to temper their dividend decisions in the light of investment opportunities, in a way that UK firms are not.

When we consider clientele issues, there appear to be more similarities than differences between the two groups of respondents. Both seem to largely ignore the taxes on dividends paid by their shareholders. Whilst 5 of the set of 6 questions or statements on clientele issues reveal statistically significant differences between the two samples, for the most part the significance is driven by the relative strength of response, rather than opposite views. However, it does appear that UK respondents pay more attention to institutional investors whilst the Portuguese are more aware of retail investors, though the differences are not great.

With regard to the signalling hypothesis of dividends, then UK respondents indicate strongly that dividends convey information to investors, as opposed a minority of Portuguese respondents (24%). Furthermore, this difference on signalling between the groups is reinforced when the statement on the negative consequences of dividend reductions is posed: the UK sample produces the strongest of any response in either sample in support of this, whereas less than half the Portuguese agree or strongly agree. Furthermore, when asked if the cost of raising new capital is lower than the cost of cutting the dividend, 62 per cent of Portuguese respondents reject this, as against only 38 per cent of the UK sample. Again the difference is highly significant.

Although the differences recorded in relation to other questions or statements about signalling are less clear cut, the divergence of opinion in relation to these three suggests a major divergence on the issue of signalling and dividends.

Finally, the responses to the direct questions or statements about agency theory and dividends do not offer any real support for that hypothesis, a finding consistent with a number of previous US and UK studies (Brav *et al.*, 2005; Dhanani, 2005).

Although we have recorded a number of similarities in the opinions of UK and Portuguese finance directors, in relation to dividend policy and decision making, our surveys have also uncovered some important differences. These differences might, perhaps, be accounted for by the different characteristics of the UK and Portuguese capital markets and economies, although this is, of course, speculation. However, what is clear from our results is that it would be difficult to utilise a universal model of dividends to explain the survey evidence that we have generated and reported here.

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Table 1 Comparison of Dividend Survey Response Rates

Authors	Response Rate %
Baker, Farrelly & Edelman (1985)	56.6
Farrelly & Baker (1989)	25.8
Baker & Powell (1999)	32.9
Baker, Veit & Powell (2001)	29.8
Brav, Graham, Harvey & Michaely (2005)	16.0
Dhanani (2005)	16.4
The Current study	36.6 ¹

¹ UK response rate = 32.9%; Portuguese Response Rate = 60.4%

Table 2 Panel A Sample Characteristics – Payout Policies

Payout Characteristic	<u>UK Sample</u>		<u>Portuguese Sample</u>	
	n	%	n	%
<i>During the past three years, the company has</i>				
Both paid dividends and repurchased shares	32	(31.1)	4	(13.8)
Only repurchased shares	2	(1.9)	1	(3.4)
Only paid dividends	61	(59.2)	14	(48.3)
Neither paid dividends nor repurchased shares	7	(6.8)	10	(34.5)

Table 2 Panel B Sample Characteristics – Payout Policies

Payout Characteristic	<u>UK Sample</u>		<u>Portuguese Sample</u>	
	n	%	n	%
<i>Of funds that could be used for dividends, the most likely alternative use would be to:</i> ¹				
Retain as cash	18	(17.5)	14	(48.3)
Invest more	47	(45.6)	16	(55.2)
Mergers/acquisitions	37	(35.9)	7	(24.1)
Repurchase shares	27	(26.2)	1	(3.4)
Repay debt	50	(48.5)	17	(58.6)
Other	2	(1.9)	3	(10.3)

¹ Multiple responses possible

Table 3 Survey Responses by UK Firms Related to Dividend Policy and Dividend Setting, Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	<i>t</i> -value	<i>p</i> -value	K-S 'z'	<i>p</i> -value
3.1 A temporary change in earnings	101	7.9	70.3	-0.83	-9.456	0.000	2.799	0.000
3.2 A sustainable change in earnings	103	83.5	3.9	1.12	12.908	0.000	2.864	0.000
3.3 Stability of future earnings	103	82.5	3.9	1.10	13.735	0.000	2.817	0.000
3.4 Having extra cash relative to our desired cash holding	101	25.8	43.6	-0.32	-2.838	0.005	1.764	0.004
3.12 Maintaining consistency with historic dividend policy	102	72.5	4.9	0.84	10.740	0.000	3.069	0.000
3.17 Market price of our stock	101	28.7	29.7	-0.05	-0.547	0.586	2.258	0.000
4.6 Dividends are as important for stock valuation as 15-20 years ago	100	41.0	22.0	0.24	2.700	0.008	2.137	0.000
4.7 Dividend policy is used as a tool to influence credit rating	102	6.9	69.6	-0.94	-10.445	0.000	2.241	0.000
20.1 The company considers the level of dividends paid in recent years	98	64.2	10.2	0.676.863	0.000	2.717	0.000	
20.2 We consider the change or growth in dividends per share	100	79.0	3.0	1.0212.311	0.000	2.804	0.000	
20.3 We try to maintain a smooth dividend stream from year-to-year	99	73.7	8.1	0.9010.365	0.000	2.825	0.000	
20.4 We try to avoid reducing dividends per share	100	87.0	6.0	1.3015.351	0.000	2.858	0.000	
20.10 We are reluctant to make dividend changes that might be reversed in future	99	61.6	14.1	0.646.240	0.000	2.548	0.000	

Table 4 Survey Responses about Targetting¹

Survey question	UK Sample		Portuguese Sample	
	Yes	%	Yes	%
<i>When you make you dividend decisions, do you target?¹</i>				
Level of dividends per share	37	(35.9)	13	(44.8)
Growth in dividends per share	77	(74.8)	10	(34.5)
Dividend yield	28	(27.2)	12	(41.4)
Dividends as a percentage of earnings	44	(42.7)	16	(55.2)
Do not target at all	3	(2.9)	4	(13.8)
<i>Is the target framed as?</i>				
A strict goal	15	(14.6)	1	(3.4)
A partially flexible goal	34	(33.0)	8	(27.6)
A flexible goal	35	(34.0)	15	(51.7)
Not really a goal	8	(6.8)	5	(17.2)
Number of responses	92	(88.3)	29	(100.0)

¹ Multiple responses possible

Table 5 Survey Responses by Portuguese Firms Related to Dividend Policy and Dividend Setting, Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	<i>t</i> -value	<i>p</i> -value	K-S 'z'	<i>p</i> -value
3.1 A temporary change in earnings	29	10.3	75.9	-0.97	-5.506	0.000	2.290	0.000
3.2 A sustainable change in earnings	29	68.9	10.3	0.76	3.746	0.001	2.368	0.000
3.3 Stability of future earnings	29	82.7	3.4	1.10	7.697	0.000	2.662	0.000
3.4 Having extra cash relative to our desired cash holding	29	34.4	34.5	-0.17	-0.775	0.445	1.161	0.135
3.12 Maintaining consistency with historic dividend policy	29	65.5	20.7	0.76	3.143	0.004	2.182	0.000
3.17 Market price of our stock	29	34.5	20.7	0.07	0.422	0.677	2.476	0.000
4.6 Dividends are as important for stock valuation as 15-20 years ago	29	10.3	44.8	-0.59-3.213	0.003	1.300	0.022	
4.7 Dividend policy is used as a tool to influence credit rating	29	6.9	65.5	-0.93-5.217	0.000	1.857	0.002	
20.1 The company considers the level of dividends paid recent years	29	20.7	58.6	-0.62-2.642	0.013	1.811	0.003	in
20.2 We consider the change or growth in dividends share	29	55.2	24.1	0.241.097	0.282	1.625	0.010	per
20.3 We try to maintain a smooth dividend stream from year-to-year	29	41.4	27.6	0.100.431	0.669	1.207	0.109	
20.4 We try to avoid reducing dividends per share	29	55.1	27.6	0.241.045	0.305	1.625	0.010	
20.10 We are reluctant to make dividend changes that might be reversed in future	29	24.1	44.8	-0.21-0.972	0.339	1.393	0.041	

Table 6 Comparison of Survey Responses by UK and Portuguese Firms Related to Dividend Policy and Dividend Setting, Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	Difference in Means	<i>t</i> -value	<i>p</i> -value	K-S 'z'	<i>p</i> -value	M-W 'z'	<i>p</i> -value
3.1 A temporary change in earnings	0.113	0.585 ^z	0.559	0.403	0.997	-0.766	0.444
3.2 A sustainable change in earnings	0.358	1.835 ^z	0.069	0.691	0.726	-1.683	0.092
3.3 Stability of future earnings	-0.006	-0.038 ^z	0.970	0.048	1.000	-0.051	0.959
3.4 Having extra cash relative to our desired cash holding	-0.144	-0.602 ^z	0.548	0.431	0.992	-0.704	0.481
3.12 Maintaining consistency with historic dividend policy	0.085	0.433 ^z	0.665	0.964	0.311	-0.424	0.672
3.17 Market price of our stock	-0.118	-0.622 ^z	0.535	0.428	0.993	-0.779	0.436
4.6 Dividends are as important for stock valuation as 15-20 years ago	0.826	4.303 ^z	0.000	1.453	0.029	-3.682	0.000
4.7 Firm uses dividend policy as one tool to influence credit rating	-0.010	-0.052 ^z	0.958	0.1994	1.000	-0.032	0.974
20.1 The company considers the level of dividends paid in recent years	1.294	5.082 ^x	0.000	2.290	0.000	-4.800	0.000
20.2 We consider the change or growth in dividends per share	0.779	3.312 ^x	0.000	1.130	0.156	-3.320	0.001
20.3 We try to maintain a smooth dividend stream from year-to-year	0.796	3.120 ^x	0.000	1.532	0.018	-3.126	0.002
20.4 We try to avoid reducing dividends per share	1.059	4.304 ^x	0.000	1.833	0.002	-4.521	0.000
20.10 We are reluctant to make dividend changes that might be reversed in future	0.843	3.821 ^z	0.000	1.775	0.004	-3.592	0.000

Notes: K-S = Kolmogorov-Smirnov test for 2 independent samples
M-W = Mann-Whitney test
^{x,z} = unequal and equal sample variances determined by Levene's test

Table 7 Survey Responses by UK Firms Related to Clientele Considerations and the Relationship between Dividend and Investment Decisions Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	t-value	p-value	K-S 'z'	p-value
<i>Panel A: Clientele Considerations</i>								
3.7 Personal taxes stockholders pay when receiving dividend	102	3.9	77.5	-1.12	-13.315	0.000	2.357	0.000
3.9 The influence of institutional shareholders	103	46.6	11.7	0.41	4.537	0.000	2.141	0.000
3.14 Attracting retail investors to purchase our stock	102	18.7	54.9	-0.51	-5.038	0.000	2.356	0.000
3.15 Attracting institutional investors to purchase our stock	102	48.0	23.5	0.25	2.321	0.022	2.433	0.000
20.5 We pay dividends to attract investors subject to 'prudent man' investment restrictions	96	29.1	35.4	-0.08-0.862	0.391	1.837	0.002	
20.8 We pay dividends to demonstrate value despite dividend taxes	95	14.8	61.1	-0.69-6.627	0.000	2.222	0.000	
<i>Panel B: Dividend Decisions in Relation to Investment Decisions</i>								
3.8 The availability of good investment opportunities	102	41.2	22.5	0.24	2.338	0.021	1.877	0.002
3.10 Merger and acquisition strategy	101	34.6	39.6	-0.13	-1.120	0.286	1.833	0.002
3.11 Flotation costs to issuing additional equity	99	4.0	77.8	-1.18	-13.466	0.000	2.687	0.000
4.1 Dividend decisions are made after investment plans are determined	102	32.3	30.4	0.09	0.886	0.378	2.135	0.000
4.5 Rather than reducing dividends, the company would raise new funds to undertake investment	102	62.7	16.7	0.56	5.755	0.000	3.040	0.000

Table 8 Survey Responses by Portuguese Firms Related to Clientele Considerations and the Relationship between the Dividend and the Investment Decisions, Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	t-value	p-value	K-S 'z'	p-value
<i>Panel A: Clientele Considerations</i>								
3.7 Personal taxes stockholders pay when receiving dividend	29	10.3	58.6	-0.522	-3.266	0.000	1.424	0.035
3.9 The influence of institutional shareholders	29	31.0	34.5	-0.103	-0.487	0.630	1.021	0.248
3.14 Attracting retail investors to purchase our stock	29	34.4	24.1	0.069	0.386	0.702	1.393	0.041
3.15 Attracting institutional investors to purchase our stock	29	37.9	24.1	0.138	0.812	0.424	1.393	0.041
20.5 We pay dividends to attract investors subject to 'prudent man' investment restrictions	29	3.4	58.6	-0.759	-4.919	0.000	1.609	0.011
20.8 We pay dividends to demonstrate value despite dividend taxes	29	3.4	79.3	-1.000	-7.124	0.000	2.476	0.000
<i>Panel B: Dividend Decisions in Relation to Investment Decisions</i>								
3.8 The availability of good investment opportunities	29	72.4	0.0	1.000	7.124	0.000	1.486	0.024
3.10 Merger and acquisition strategy	29	58.6	24.1	0.310	1.361	0.184	1.811	0.003
3.11 Flotation costs to issuing additional equity	29	6.8	58.6	-0.655	-3.768	0.001	2.321	0.000
4.1 Dividend decisions are made after investment plans are determined	29	51.7	13.8	0.448	2.546	0.017	1.950	0.001
4.5 Rather than reducing dividends, the company would raise new funds to undertake investment	29	37.9	31.0	-0.069	-0.319	0.752	1.161	0.135

Table 9 Comparison of Survey Responses by UK and Portuguese Firms Related to Clientele Considerations and the Relationship between the Dividend and the Investment Decisions, Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	Difference in Means	<i>t</i> -value	<i>p</i> -value	K-S 'z'	<i>p</i> -value	M-W 'z'	<i>p</i> -value
<i>Panel A: Clientele Considerations</i>							
3.7 Personal taxes stockholders pay when receiving dividend	-0.566	-3.121 ^z	0.002	1.325	0.060	-2.966	0.003
3.9 The influence of institutional shareholders	0.511	2.515 ^z	0.013	1.086	0.189	-2.259	0.024
3.14 Attracting retail investors to purchase our stock	-0.579	-2.725 ^z	0.007	1.462	0.028	-2.761	0.006
3.15 Attracting institutional investors to purchase our stock	0.107	0.492 ^z	0.624	0.480	0.975	-0.713	0.476
20.8 We pay dividends to demonstrate value despite dividend taxes	0.305	1.742 ^x	0.086	0.861	0.449	-1.329	0.184
20.5 We pay dividends to attract investors subject to 'prudent man' investment restrictions	0.675	3.455 ^z	0.001	1.214	0.105	-3.193	0.001
<i>Panel B: Dividend Decisions in Relation to Investment Decisions</i>							
3.8 The availability of good investment opportunities	-0.765	-4.427 ^x	0.000	1.484	0.024	-3.578	0.000
3.10 Merger and acquisition strategy	-0.439	-1.780 ^z	0.078	1.138	0.150	-1.910	0.056
3.11 Flotation costs to issuing additional equity	-0.527	-2.810 ^z	0.006	1.288	0.072	-2.754	0.006
4.1 Dividend decisions are made after investment plans are determined	-0.360	-1.722 ^z	0.088	0.920	0.365	-1.913	0.056
4.5 Rather than reducing dividends, the company would raise new funds to undertake investment	0.628	2.916 ^z	0.004	1.179	0.124	-2.675	0.007

Notes: K-S = Kolmogorov-Smirnov test for 2 independent samples
M-W = Mann-Whitney test
^{x,z} = unequal and equal sample variances determined by Levene's test

Table 10 Survey Responses by UK Firms Related to Signalling and Agency Theories of Dividend Policy Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	t-value	p-value	K-S 'z'	p-value
<i>Panel A: Signalling</i>								
3.5 Dividend policies of competitors in our industry	102	22.6	43.1	-0.36	-3.550	0.001	2.081	0.000
3.13 Dividends might indicate shortage of profitable investments	102	3.9	76.5	-1.00	-12.687	0.000	2.673	0.000
4.2 Dividend decisions convey information about the company to investors	102	76.5	2.0	0.85	12.935	0.000	3.556	0.000
4.3 Dividends make stock less risky (versus retained earnings)	100	16.0	40.0	-0.30	-3.542	0.001	2.384	0.000
4.4 There are negative consequences to dividend reductions	102	87.3	12.7	1.19	15.358	0.000	2.810	0.000
4.8 Dividend policy used make firm look better than competitors	102	7.8	69.6	-0.99	-10.422	0.000	2.285	0.000
4.9 Dividend used to show that firm could bear cost of external financing or passing up	100	2.0	80.0	-1.27	-15.357	0.000	3.013	0.000
20.6 The cost of raising capital is lower than the cost of cutting dividends	96	32.3	37.5	-0.07-0.605	0.547	1.556	0.016	
20.7 We pay dividends to demonstrate strength to raise capital if needed	97	13.4	52.6	-0.58-5.637	0.000	1.878	0.002	
20.9 We pay dividends to show that the firm is strong enough can pass up profitable investments	97	9.3	75.3	-1.02-9.951	0.000	2.407	0.000	
<i>Panel B: Agency</i>								
3.6 To reduce cash thereby encouraging efficient decision making	102	9.8	70.6	-0.90	-9.392	0.000	2.486	0.000
3.16 Attracting institutional investors because of monitoring function	100	19.0	44.0	-0.40	-3.903	0.000	2.118	0.000

Table 11 Survey Responses by Portuguese Firms Related to Signalling and Agency Theories of Dividend Policy Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	N	%+	%-	Mean	t-value	p-value	K-S 'z'	p-value
<i>Panel A: Signalling</i>								
3.5 Dividend policies of competitors in our industry	29	20.7	51.7	-0.586	-2.822	0.009	1.486	0.024
3.13 Dividends might indicate shortage of profitable investments	29	13.8	51.7	-0.552	-3.134	0.004	1.052	0.218
4.2 Dividend decisions convey information about the company to investors	29	24.1	31.0	-0.069	-0.420	0.677	1.393	0.041
4.3 Dividends make stock less risky (versus retained earnings)	29	20.7	27.6	-0.241	-1.316	0.199	2.105	0.000
4.4 There are negative consequences to dividend reductions	29	44.8	17.2	0.310	1.609	0.119	1.764	0.004
4.8 Dividend policy used make firm look better than competitors	29	6.9	69.0	-1.000	-5.588	0.000	2.043	0.000
4.9 Dividend used to show that firm could bear cost of external financing or passing up investment	29	13.8	62.1	-0.879	-4.338	0.000	2.228	0.000
20.6 The cost of raising capital is lower than the cost of cutting dividends	29	3.4	62.1	-0.897	-5.363	0.000	1.671	0.007
20.7 We pay dividends to demonstrate strength to raise capital if needed	29	6.9	75.9	-1.000	-6.075	0.000	2.290	0.000
20.9 We pay dividends to show that the firm is strong enough can pass up profitable investments	29	6.9	69.0	-0.897	-5.363	0.000	1.919	0.001
<i>Panel B: Agency</i>								
3.6 To reduce cash thereby encouraging efficient decision making	29	6.9	51.7	-0.655	-3.931	0.001	1.424	0.035
3.16 Attracting institutional investors because of monitoring function	29	34.5	20.7	0.172	1.000	0.326	1.578	0.014

Table 12 Comparison of Survey Responses by UK and Portuguese Firms Related to Signalling and Agency Theories of Dividend Policy Registering Agreement or Disagreement to the Questions or Statements Measured on a Scale +2 (strongly agree/very important) to -2 (strongly disagree/not at all important)

Survey Question	Difference in Means	t-value	p-value	K-S 'z'	p-value	M-W 'z'	p-value
<i>Panel A: Signalling</i>							
3.5 Dividend policies of competitors in our industry	0.223	1.010	0.314	0.519	0.951	-0.951	0.342
3.13 Dividends might indicate shortage of profitable investments	-0.448	-2.324	0.025	1.176	0.126	-2.376	0.018
4.2 Dividend decisions convey information about the company to investors	0.922	5.213	0.000	2.487	0.000	-5.282	0.000
4.3 Dividends make stock less risky (versus retained earnings)	-0.059	-0.316	0.753	0.589	0.879	-0.705	0.481
4.4 There are negative consequences to dividend reductions	0.876	4.216	0.000	2.016	0.001	-4.370	0.000
4.8 Dividend policy used make firm look better than competitors	0.010	0.049	0.961	0.045	1.000	-0.035	0.972
4.9 Dividend used to show that firm could bear cost of external financing or passing up investment	-0.373	-1.677	0.102	0.850	0.465	-1.518	0.129
20.6 The cost of raising capital is lower than the cost of cutting dividends	0.824	3.461	0.001	1.361	0.049	-3.266	0.001
20.7 We pay dividends to demonstrate strength to raise capital if needed	0.423	2.180	0.034	1.100	0.178	-2.049	0.040
20.9 We pay dividends to show that the firm is strong enough can pass up profitable investments	-0.124	-0.594	0.553	0.499	0.965	-0.907	0.364
<i>Panel B: Agency</i>							
3.6 To reduce cash thereby encouraging efficient decision making	-0.247	-1.228	0.222	0.896	0.398	-1.482	0.138
3.16 Attracting institutional investors because of monitoring function	-0.598	-2.766	0.007	1.133	0.154	-2.638	0.008

Notes: K-S = Kolmogorov-Smirnov test for 2 independent samples
M-W = Mann-Whitney test
^{x, z} = unequal and equal sample variances determined by Levene's test

Table 13 **Survey Responses about Dividend Initiation**

Survey question	<u>UK Sample</u>		<u>Portuguese Sample</u>	
	Yes	%	Yes	%
<hr/>				
<i>If you were deciding to make a distribution for the very first time, would your first payout be?</i>				
Dividends only	65	(63.1)	27	(93.1)
Share repurchase only	10	(9.7)	0	(0.0)
Combination of dividends & repurchases	20	(19.4)	1	(3.4)
Number of responses	95	(92.2)	28	(96.6)
