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Dividends Policies in an Emerging Market

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This study surveys the perception of corporate managers of Kuwaiti firms listed in the Kuwait Stock Exchange (KSE) by replicating the distributed questionnaire of Baker et al. (2007) in International Journal of Managerial Finance in order to investigate the main determinants that control dividends policies in an emerging stock market, the KSE. The main findings support the extant literature in several instances. The study finds the most influencing factors of dividends policies of Kuwaiti listed firms to be the management perception of the level of current and future earnings, liquidity constraints such as availability of cash, availability of positive net present value projects. The study also documents other insignificant factors such as signaling to investors and cost of capital. Moreover, this study provides a more support to firm life cycle in explaining the dividends policy than to theories of bird-in-the-hand, agency cost and the catering explanation.

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1. Introduction

The dividends policy remains one of the key issues in corporate finance since it affects the firm's value and shareholders wealth. The question of why firms pay dividends is still an unanswered question and hence dividends policy remains a controversial issue in finance. Although many propositions have been advanced by financial economists over the last 50 years to explain dividend policies, the road to a more comprehensive explanation is still not yet fully paved. Finance scholars still have yet to answer the question of: "Why Firms Payout Dividends?"

The first influential work on dividends contributed by Miller and Modigliani (1961), which claims that dividends policy has no affect on shareholders wealth reliant on holding investment policy constant. Investigating the possible factors influencing dividends decision, Lintner (1962) found that different firms follow different strategic path in aligning dividends over time. This leads Black (1976) to question how firms settle on their dividends policies. Many empirical and theoretical explanations were advanced over time by financial economists to solve dividends puzzle. Bhattacharya (1979) provides a popular explanation refers to the signaling hypothesis as paying dividends signals future profitability. Another conventional explanation for dividends policy referred to by "bird-in-the-hand" provided by Bhattacharya (1979).

Jensen (1986) and Gomes (2000) relate dividends policy to the agency problem. They evidence that, if dividends are not paid to shareholders, they tend to be

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exploited by firm managers on their benefits. As Robinson (2006) puts forth, dividends policy is the payout policy that is followed by a firm management in determining the size and the pattern of dividends to shareholders over time.

In addition, the literature is full of many factors and conditions that have to be met and accounted for when making the dividends decision. Hence, these factors have to be exposed across industries and countries so as to add to the building blocks of the finance theory. As the basis for the dividends decision is not precisely determined, and even if empirically identified in one country, it may differ for another industry at the same country or may differ across countries due to different cultures and business beliefs.

In this study we investigate the perception of corporate managers of Kuwaiti firms listed in the KSE. Kuwaiti corporations characterized with high level of ownership concentration, as well as most of the GCC corporations. Therefore, the aim of this study is to fill the gap in literature by defining the main factors that control dividend policies in KSE as one of the emerging stock markets with high ownership concentration and explore if they are different from other emerging and developed market or not.

The paper is organized as follows. Section two is to review the relevant literature. Section three describes the survey design and sample. Hypotheses and methodology will be provided in section four. Section five is to report the result and analyze the findings. Section six is to conclude the study. Limitation and recommendation for further research are included in the final two sessions.

2. Literature Review

Empirical studies on dividends policy have shown several factors influencing the dividends decision. Existing theories on why firms pay dividends can be categorized according to various explanations for dividends policy. The following factors have been argued in literature as the main determinants of dividends policy: (1) Earnings Stability, (2) Historical Dividends, (3) Current Earnings, (4) Expected Earnings, (5) Stock Price, (6) Liquidity Constraints, (7) Asymmetric Information, (8) False Signals, (9) Investment Plans, (10) Stockholders Wealth, (11) Leverage, (12) Expected Rate of Return, (13) The Capital Structure and others.

Identifying the most important factors used by U.S. companies listed in New York Stock Exchange (NYSE) that have an effect on dividends policy decisions, Baker and Powell (1999) found that NYSE firms' managers believe that historical dividends patterns and the continuity of current dividends are important factors when setting dividends policy. Studying US companies listed in NASDAQ, the result of Baker and Powell (1999) was supported by the study of Baker and Powell (2001) which documents that the pattern of past dividends, earning stability, and the level of current and expected future earnings to be significant factors in determining the level of current dividends and the dividends policy. Tse (2005) examining the UK dividends payout patterns; Baker et al. (2006) surveying how Norwegian managers view dividends policy; McCluskey et al. (2007) investigating the Irish financial directors’ views about dividends; and all document that historical, current and earnings stability are the main factors that determine the dividends policy decision. Also, Baker et al. (2007) find that Canadian managers consider the future earnings when making their dividends decisions. Results from developed markets were supported by the results from emerging markets. Both, Al-Twajiry (2007) identifying factors with an expected influence on dividends policy on Malaysian firms listed in Kuala Lumpur stock exchange and Al-Malkawi (2008) exploring factors influencing corporate dividends decisions of publicly quoted companies in Jordan, found evidences of the association between current, past, and expected earnings.

In financial theories, expected cash flow of a firm is considered one of the main determinants of stock price; this is empirically supported by evidences from listed companies in NYSE by Baker and Powell (1999) and listed companies in NASDAQ by Baker et al. (2001). However, Baker et al. (2007) surveying Canadian firms found little support for this postulate while Tse (2005) examining UK dividends payout patterns documents a mixed; positive and a negative; signal of capital gain or a cash dividends policy on the stock price. Investigating the impact of liquidity constraints on dividend decision, Baker and Powell (1999) find the cash level to be important factor in determining the level of the current dividends. Studying industrial sector's firms traded in NYSE and AMEX, Deshmukh (2005) documents positive relationship between higher-dividends paying firms and level of cash. On the other hand, Baker et al. (2007) document that cash is a significant factor on the level of the payout ratio. Examining publicly held companies in US, Khang and King (2006) document that high-dividends firms have large cash balances as they are mature firms. However, McCluskey et al. (2007) find that Irish financial directors don't value cash when setting their firms' dividends policy.

Although firm mangers send signals to shareholders, these signals may be interpreted incorrectly depending on the life cycle of the firm. Baker and Powell (1999) find firm mangers to significantly value the signals they send to the financial market as they tend to justify any changes in the dividends policy. The same result is confirmed by Baker et al. (2001) and Baker et al. (2007). On the other hand, Khang and King (2006) and Deshmukh (2005) provide results that are not consistent with the traditional dividends signaling models. They evidenced that dividends are negatively elated to the insider trading return and growth rate. The residual dividends model recommends paying dividends after all investment needs are fulfilled. In this regard, Al-Malkawi (2008) document those dividends-paying firms in Jordan are more likely to have less investment. The same result was established by Baker et al (2007), Khang and King (2006), and Deshmukh (2005). Usually, large stockholders influence the dividends policy especially if they own large stake in the firm. However, Deshmukh (2005) finds that the insider ownership is unrelated to the level of the current dividends. Similarly, Baker et al (2007) give the stockholders characteristics a lower rank in influencing the dividends policy.

When incurring high leverage, firms' dividends decisions might be affected by its creditors. Among others, both Al-Malakawi (2008) and Al-Twajiry (2007) document a negative relation between dividends payments and corporate leverage. Baker et al. 2001 evidenced that firms' managers consider their firms' capital structure when setting dividends levels in their efforts to maintain an optimal level of capital structure. Therefore, he argues that dividends could have negative or positive relationship with leverage over the life cycle of the firm.

Since literature shows less efforts to investigate dividends policies of corporations from emerging markets with high ownership concentration, this study investigate the main factors that outline dividends policies of listed firms in KSE.

3. Methodology

This study surveys the perception of corporate managers of Kuwaiti firms listed in the KSE by replicating the distributed questionnaire of Baker et al. (2007) in International Journal of Managerial Finance in order to investigate the main determinants that control dividends policies in an emerging stock market with high ownership concentration, the KSE.

The main research question in this study is to determining that factors that influence the dividends decision among Kuwaiti firms. Being an exploratory due to lack of studies in this field, this study is also a deductive study. As such, a primary data is employed in order to test hypotheses that relate to the dividends decision. Borrowing the Baker's (2007) methodology, and in order to set up a concrete questionnaire, in literature, the main factors that influence the dividends decisions are identified as follows: (F-1) Earnings Stability, (F-2) Pattern of Past Dividends, (F-3) Level of Current Earnings, (F-4) Level of Expected Future Earnings, (F-5) Concern about Affecting Stock Price, (F-6) Current Degree of Financial Leverage, (F-7) Availability of Alternative Source of Capital, (F-8) Expected Rate of Return on the Firm's Assets, (F-9) Desire to Maintain a Target Capital Structure, (F-10) Projections about the Future Growth Rate of the Economy, (F-11) Liquidity Constrains such as Availability of Cash, (F-12) Desire to Confirm the Sector's Dividend Payout Ratio, (F-13) Desire to Confirm the Industry Dividend payout Ratio, (F-14) Desire to Payout, a Long Run, a Given Fraction of Earnings, (F-15) Needs of Current Shareholders Such as the Desire of Current Income, (F-16) Contractual Constrains Such as Dividends Restrictions in Debt Contract, (F-17) Preference to Pay Dividends Instead of Undertaking Reinvestment Risk, (F-18) Desire to Avoid Giving a False Signal to Investors by Changing the Dividends, (F-19) Legal Rules and Constrains Such as Paying Dividends that Would Impair Capital, (F-20) Financing Consideration such as Cost of Rising External Funds, (F-21) Investment Considerations Such as the Availability of Profitable Investment Opportunity, (F-22) Signaling Intensive.

We employed a factor analysis statistical technique for data reduction, removing redundancy and pattern findings to identify the most important factors for each common dimension. In order to investigate the main factors that control dividends polices in Kuwait firms, a survey study was designed and a structured survey was prepared and revised to collect the required data from Kuwaiti listed firms in KSE.

4. Research Questions

In this study we investigate the perceptions of corporate managers of Kuwaiti listed firms in KSE. We address five major research questions:

1. Does the view of the Kuwaiti managers about dividends policies differ among different sectors?
2. How do Kuwaiti firms set the amount of distributed dividends?
3. What explanation of dividends policy do corporate managers of Kuwaiti listed firms tend to favor?

4. Do corporate managers of Kuwaiti listed firms believe that dividends policies affect firm value (Are dividends relevant)?

One unique aspect of corporate governance of Kuwaiti firms, unlike that of firms in developed and emerging markets, is the high level of ownership concentration. This is anticipated to influence respondents' views (contrary to those in developed markets) as their main concern would be the firm's business. Investors in Kuwait seem to have illusion with regard to issues of dividends policies. This should lead to high concentration of Kuwaiti investors on the capital gain rather than on dividends payout ratio, which should lead to low payout ratio supporting high growth rate from internal source of capital as suggested by Gordon Growth Model. This argument was not answered by past studies which investigated the dividends decision and policy from the point of view of listed corporations with low ownership concentration, but not corporations with high ownership concentration and almost as family business.

Given that the main focus of the previous literature is on the factors that lead to the nature of the dividends decision, this study becomes one further step in this road. The study strives to answer the long-researched question of the reasons manipulate the dividends policy and decision of listed family corporations in KSE. It will opt for managers' opinion regarding the dividends decision. This study intends to investigate the dividends policy by surveying CEOs and CFOs of Kuwaiti firms. The uniqueness of this study comes from the fact that it sheds light on the nature of the dividends decision in an emerging stock market of a country that families plays a significant role in shaping the Kuwaiti private sector economic outlook.

5. Research Design

This study adopted a structured survey to explore factors that affect the dividends decision by Kuwaiti firms. The survey employed structured multi-choice questions to explore the choice of dividends policy on the Kuwaiti firms' dividends decision-making procedures. The design of the survey was improved by the comments of experts of listed firms in KSE; these experts were excluded from the final sample. The survey was structured to be completed by executives in charge of dividends decision-making. The final survey included 22 "closed type questions" for the more efficient data organization and analysis. The survey required respondents to identify themselves and their companies for further contact.

To reduce the main potential limitation of our survey's study, related to non-response bias, we pursue several precautionary steps to increase the response rate such as making the survey short, easy to complete and assuring the confidentiality of the respondents. Also, four rounds of attempts to fill out the survey followed extensively, personally and over the phone, to increase the response rate. Second, to avoid the bias related to the small number of responses from some sectors, we were not able to panel the sample into more than one group to compare the factors that influencing dividends policy decision across sectors. Third, all surveys were answered by only one manager within each firm involved in forming the firm's dividend policy. Finally, to make the survey clear, the design of the survey was improved by the comments of experts of listed firms in KSE; these experts were disallowed to answer the survey.

This study targeted the population of all 201 listed firms in KSE that paid cash dividends, at least one time, between June 2000 and June 2008. We focus on listed firms that paid dividends to be able to compare our results to those of Baker and Powell (2000), Baker et al. (2001), Tse (2005), Baker et al. (2006), McCluskey et al. (2007), Baker et al. (2007), Al-Twajiry (2007), and Al-Malkawi (2008). The targeted firms are distributed across eight sectors excluding the non-Kuwaiti sector (16 foreign firms) as the included firms are headquartered outside Kuwait and their dividends decision not related to the Kuwaiti market. The final sample includes 185 firms in seven sectors. Table (1) shows the distribution of the received surveys after *four* rounds of attempts to fill out the survey. All rounds were followed extensively personally and over the phone in order to increase the response rate.

6. Statistical Analysis of the Survey Results

Table (1) shows that 123 surveys of the 185 surveys sent out were returned with 66.49% response rate. The usable surveys count for 65 with usable rate of 52.58%. The usable surveys rate as percentage of total surveys count for 35.14%, which is acceptable statistically to carry out a scientific analysis of the research question. The highest response rate was from the food sector with response rate of 83.33% with usable rate of 40% followed by the banking sector with response rate of 77.78% with usable rate of 85.71%. The lowest response rate of 58.7% was obtained from the investment sector with 85.19% usable rate. The highest usable rates were from the banking and investment sectors with 85.71% and 85.19% respectively. The lowest response rates of 11.11% and 37.5% were from the industrial and service sectors respectively although they have a high response rate of 64.29% and 72.73% respectively.

Table 1: Survey Sample and Responses Across Sectors for Kuwaiti Firms

Sector	# of Surveyed Firms	Respondent Firms	Respondent Rate	Usable Surveys	Usable Rate
1. Banking	9	7	77.78%	6	85.71%
2. Investment	46	27	58.70%	23	85.19%
3. Insurance	7	5	71.43%	2	40.00%
4. Real Estate	34	21	61.76%	15	71.43%
5. Industrial	28	18	64.29%	2	11.11%
6. Services	55	40	72.73%	15	37.50%
7. Food	6	5	83.33%	2	40.00%
Total	185	123	66.49%	65	52.58%

Comparing the 66.49% response rate and 35.4% usable rate of this study with other surveys studies gives some inspiration as to trust the results. Our response and usable rates are significantly higher than some recent academic surveys targeted listed firms including Baker et al. (2006), who obtained a response rate of 27.3%, Chiang et al. (2006) who obtained less than 12% usable rate, Baker et al. (2002 and 2001), who obtained a response rate of 29.8%, Graham and Harvey (2001), who obtained almost 9% response rate, Baker and Powell (1999), who obtained 32.9% response rate, and Trahan and Gitman (1995), who obtained a 12% response rate. In comparison with the response and usable rates for surveys investigating the factors influencing dividends policy decisions by managers from different countries, our surveys' response and usable rate is slightly above the international practices as mentioned by Chiang et al. (2006) and Brav et al. (2005), where a 20%-22% response rate is the mode of survey studies. This related to the limited number of listed firms in KSE and the easy way to find a link to top management in the Kuwait.

Preferably, the coefficient of the alpha scale must be above 0.7, but sometimes this coefficient could be lower due to the limited number of factors tested in the study and the length of the scale used. Results show that the reliability coefficients of the survey's respondent rate match the acceptance level of more than 70%. Cronbach's Alpha was 0.784 for the dividend policy used by Kuwaiti companies listed in KSE.

In the following tables (2 through 7) we report the results of the factor analysis to determine factors that outline each of the four research questions. First, we discus factors influencing dividends policy related to each research question. Second, we compare our results to those reported in the literature. Each research question is reported with the main factors that constitute the dimension related to that question (which has a factor loading exceeds 50% and reliability coefficient of at least 70%), the factor reliability, its extracted variance and the factor loadings.

6.1 Industry Influence on Dividends Policy by Kuwaiti Firms

Our first research question was "Does the view of the Kuwaiti managers about dividends policies differ among different sectors?" We used seven factors on the survey to answer this question from the perception of corporate managers of Kuwaiti firms. Factors F-1, F-3, F-5, F-17, and F-19 are suggested by Baker et al. (1985) and Soter et al. (1996), while factors F-12, F-13, and F-14 are included in Baker et al. (2006 and 2007).

The majority of respondents provide unambiguous response on three of these seven factors. As shown in table (2), respondents agree that F-12 (with 91.0% factor loading), F-13 (with 88.8% factor loading), and F-14 (with 85.8% factor loading) formulate the industry influence on dividends policy. Fewer respondents agreed that F-19 (with 52.9% factor loading) form the industry influence on dividends policy.

Results reported in table (2) show that the dimension of the industry influence on the Kuwaiti firms' dividends policy has 73.2% reliability, which is acceptable by statistical standards. These results reflect high consistency of the 4-factors accounted by respondent corporate managers to measure industry influence on dividends policy. The overall variance accounted by the four factors explains 22.3% of the total group variability, which is expected in financial surveys. Moreover, factor loadings illustrate that the "Desire to Confirm to the Sector's Dividends Payout Ratio" has the highest positive correlation of 91% with the industry influence on dividends policy dimension. The "Desire to Confirm to the Industry's Dividends Payout Ratio" has the second highest positive correlation of 88.8% with the industry influence on dividends policy dimension. The "Desire to Payout in the Long Run a Given Fraction of Earnings" came out next in importance with 85.8% positive correlation. The "Legal Rules and Constraints that Would Impair Capital" factor came out the last with 52.4% positive correlation with the industry influence on dividends policy dimension. These results confirm the findings of H. K. Baker et al. (2006 and 2007) and contradict the results of Baker et al. (1985) and Brigham, and Evanson (1996).

Results shown in table (2) reveal that 91.0% and 88.8% of the respondent corporate managers in the sample follow the industry's sector leaders or the industry's norm in determining their dividends policies. This may be interpreted by the notion that most of the surveyed companies have no particular dividends policy related to the needs of their shareholders. Also, results say that 85.8% of the surveyed firms' managers build their dividends policies in the long run upon their expectation for the future earnings of their firms. This can be explained by the fact that long run payout ratio of earnings is related to the firm strategic position and market share in its related industry or sector within the industry. The legal rules and constrains related to each industry that impair capital play little role in outlining the industry influence on the dividends policies by Kuwaiti firms as only 52.9% of Kuwaiti firms' respondent managers take these legal rules into consideration while forming their firms dividends policy.

Table 2: Industry Influence on Dividends Policy

Factors	Reliability Coefficient (α)	Extracted Variance	Factor loading
F-12: Desire to Confirm to the Sector's Dividends Payout Ratio	73.2%	22.3%	91.0%
F-13: Desire to Confirm to the Industry's Dividends Payout Ratio	73.2%	22.3%	88.8%
F-14: Desire to Payout (in the long run) a Given Fraction of Earnings	73.2%	22.3%	85.8%
F-19: Legal Rules & Constrains such as Paying Dividends that Would Impair Capital	73.2%	22.3%	52.9%

In contrast to Baker et al. (1985) and Soter et al. (1996), earning stability (F-1), level of current earnings (F-3), Concern about Affecting Stock Price (F-5), and Preference to Pay Dividends Instead of Undertaking Reinvestment Risk (F-17) do not show to have impact on the dividends policies. They are not reported in our analysis since they have factor loading of less than 50% and reliability coefficient of less than 70%.

In conclusion, results in table (2) demonstrate that the majority of the Kuwaiti managers follow the main stream of their related industry or sector regarding dividends distribution and driven by the long run stability of dividends, while fewer managers consider legal constrains as one of the factors that shape their dividends policy.

6.2 Setting Dividends Payments

Second research question was "How do Kuwaiti firms set the amount of distributed dividends?" Seven factors on the survey reflect believe of corporate managers of Kuwaiti firms of setting dividends payments. As described by Linter (1956), reexamined by Baker and Powell (1999) and Baker et al. (2007); factors F-1, F-2, F-3, F-4, F-14, F-15, and F-21 are argued to form the setting of dividend payments.

Table (3) reports positive response of respondent managers for only two of these seven factors; respondents agree that F-15 (with 72.5% factor loading) is the leading factor in forming the setting of dividend payments, less respondents of Kuwaiti corporate managers agreed that F-4 (with 52.2% factor loading) form the setting of dividends payments.

Table 3: Setting Dividends Payments

Factors	Reliability Coefficient (α)	Extracted Variance	Factor loading
F-4: Level of Expected Future Earnings.	70.6%	14.9%	52.2%
F-15: Needs of Current Shareholders such as the Desire for Current Income.	70.6%	14.9%	72.5%

Table (3) demonstrates the results of testing the conjecture of using several factors by corporate manager of Kuwaiti firms included in the sample to set the dividend payments. Results from table (3) reliable by 70.6% as factors F-15 and F-4 are the only two factors of the seven tested factors to form the setting of dividend payments. Results reported in table (3) reflect high consistency of the two factors accounted to measure the setting of dividends payments. The overall variance accounted by the two statements explains 14.9% of the setting dividends payments' variability.

From table (3), we can say that a firms' ability to meet the "Needs of Current Shareholders such as the Desire for Current Income" is considered the strongest factor that form the setting of dividend by corporate managers of Kuwaiti firms. Factor loadings show that 72.5% of Kuwaiti managers believe that their firms' setting of dividend payment is explained by the firm's ability to meet the needs of current shareholders for income with 70.6% reliability and 14.9% extracted variance. It is surprising to find out that the setting of dividend payments is correlated with the "Level of Expected Future Earnings" by only 52.2%.

With less 50% factor loading and reliability coefficient of less than 70%, earning stability (F-1), pattern of past dividends (F-2), level of current earnings (F-3), desire to payout (F-14), and investment considerations such as the availability of profitable investment opportunity (F-21) are not considered as factors used by Kuwaiti corporate managers to set dividends payments.

In conclusion, results reported in table (3), reveals that respondent Kuwaiti corporate managers perceived that shareholders deserve to receive share of the firm earnings through dividends. It is shown in table (3) that respondent managers prefer long-term target payout ratio based on the expected future earnings. At the same time they believe that current shareholders should receive a share of the firm current income.

6.3 Explanations of Dividends Relevance

Since most of the corporate managers believe in dividend relevance, our third research question in this study was "What explanation of dividends policy do corporate managers of Kuwaiti listed firms tends to favor?" Literature offers four explanations of dividend distribution policy: (A) agency explanation, (B) the-bird-in-hand explanation, (C) signaling explanation, and (D) tax preference explanation. In this study we examine the first three explanations, while the forth explanation cannot be examined in this study since Kuwait is classified as a tax free economy. Panels A, B, and C of table (4) provide the three explanations of dividend policy: agency explanation, bird-in-the-hand explanation, and signaling explanation respectively.

6.3.1 The Agency Explanation of Dividend Relevance

Factors F-6, F-7, F-9, F-16, and F-19 are the most common factors used to explain the principal/agent relationship, the agency theory, by Jensen and Meckling (1976), extended by Rozeff (1982) and Easterbrook (1984) and revisited by Moh'd et al. (1995), Baker et al. (2002), Baker and Powell (1999) and Baker et al. (2007). They examined how corporate managers use dividends policy to reduce agency cost. Panel (A) of table (4) demonstrates the results of testing the conjecture of using the dividends policy by corporate managers of Kuwaiti firms included in the sample to control agency cost.

Table 4: Explanation of Dividend Relevance

Factors	Reliability Coefficient (α)	Extracted Variance	Factor loading
Panel A: The Agency Explanation:			
F-7: Availability of Alternative Sources of Capital.	70.6%	14.9%	60.9%
F-9: Desire to Maintain a Target Capital Structure.	70.6%	14.9%	69.7%
F-16: Contractual Constraints such as Dividends in Restriction in Debt Contracts.	70.6%	14.9%	60.9%
Panel B: The Bird-In-The-Hand Explanation:			
F-17: Preference to Pay Dividends Instead of Undertaking Reinvestment Risk.	60.2%	10.6%	71.0%
F-21: Investment Considerations such as the Availability of Profitable Investment Opportunities	60.2%	10.6%	65.2%
Panel C: The Signaling Explanation:			
F-3: Level of Currents Earnings.	60.1%	8.1%	77.4%
F-1: Earnings Stability.	60.1%	8.1%	72.3%
F-6: Current Degree of Financial Leverage.	60.1%	8.1%	65.2%

Results from panel (A) of table (4), show that dividends policy as a tool used by corporate managers to control agency cost in Kuwaiti corporations is reliable by 70.6%. Results reported in panel (A) of table (4), reflect high consistency of the 3-factors chosen by respondents to reduce the agency cost. The overall variance accounted by the three factors explains 14.9% of the total group variability. From panel (A) of table (4), we can say that a firms' "Desire to Maintain a Target Capital Structure" that keeps the cost of capital at minimum and market value of the firm at maximum is the first factor to outline the managers tool to control agency cost with 69.7% positive correlation with the agency explanation for distributing dividends, reliability of 70.6% and extracted variance of 14.9%. Both, the "Availability of Alternative Sources of Capital" and "Contractual Constraints such as Dividends in Restriction in Debt Contracts" are considered to be a positive tool to control agency cost by 60.9% correlation with the agency explanation for distributing dividends, 70.6% reliability and 14.9% extracted variance.

As shown in panel (A) of table (4), the majority of the respondents believe that the desire to maintain a target capital structure (F-9) can be used as a dividend policy to reduce the agency cost by forcing Kuwaiti firms' corporate managers to depend less on the external finance and secure the investors. This believes was confirmed with dividends restriction in debt contract as dividend policy that can reduce the cost of the other type of agency problem between principle/creditors through agent. The availability of alternative source of capital is seen by respondents as one of the effective dividend policies that can reduce the intention of firms to distribute dividends whatever they have, or not, alternative source of capital with less or the same cost of capital or risk.

Inconsistent with the literatures, current degree of financial leverage (F-6) and legal rules and constrains such as paying dividends that would impair capital (F-19) cannot be considered as agency explanation of dividends policies formed by Kuwaiti corporate managers. They have less 50% factor loading and reliability coefficient of less than 70%.

6.3.2 The-Bird-in-the-Hand Explanation of Dividend Relevance

In their well-known work, Modigliani and Miller (1958), argued that dividends police is irrelevant in determining the value of the stock, which must be independent of the dividend policy. Therefore, the value of the stocks that pay dividends must be the same as the stocks that does not pay dividends in a world with no tax preference. Contradicting Modigliani and Miller proposition, Myron Gordon (1959) argued that stockholders prefer current cash dividends (Bird-in-the-Hand) to future capital gain since cash dividends are secured and certain than capital gain. Therefore, stocks with greater dividend payout ratio must receive more appreciation by the market through higher stock price than less dividend payout ratio's stocks. Since then, literature shows mixed results of bird-in-the-hand fallacy based on the stockholders' tax preference. In a tax free economy, like Kuwaiti economy, the cash in hand or capital gain should be irrelevant in forming dividends policy of different firms since shareholders can create their home made dividend policy.

In this study we use four factors; namely: F-11, F-15, F-17, and F-21 to investigate the bird-in-the-hand explanation of dividend relevance. Panel (B) of table (4) show with 60.2% reliability that respondents indicated that the two factors (F-17 and F-21) grouped to form the bird-in-the-hand explanation are strongly and positively affect dividend policy by Kuwaiti firms. Results reported in panel (B) of table (4), reflect high consistency of the 2-factors chosen by respondents to form the bird-in-the-hand explanation of the dividends policy by Kuwaiti firms. The overall variance accounted by the two factors explains 10.6% of the total group variability.

Results from panel (B) of table (4) show that "Preference to pay dividends instead of undertaking reinvestment risk" is the first factor to outline the respondent dividends decision with 70.0% positive correlation with the bird-in-the-hand explanation for distributed dividends. This factor is 60.2% reliability with extracted variance of 14.9%. This result consistent with findings of Baker and Powell (1999), Baker et al. (2002) and Baker et al. (2007), which indicated that shareholders prefer certain dividends distributions to a higher future cash dividends or uncertain price appreciation.

The "Investment considerations such as the availability of profitable investment opportunities" is considered by the respondent to be a positive explanation of dividend policy with 60.9% correlation with the bird-in-the-hand fallacy to explanation the distribution of dividends. This factor has 70.6% reliability and 14.9% extracted variance, but contradict the first factor. In bird-in-the-hand fallacy, corporate manager must distribute all available cash as dividends instead of undertaking risky investment disregard its profitability. This result could be related to the fact that in a small liquid economy with no tax, like Kuwaiti economy, corporate managers undertaking profitable investment opportunity instead of distributing cash since there is no need to payout earnings as source of income to shareholder. With no tax and over speculation, the distribution of cash dividends will not create as much income as capital gain for shareholders.

With less 50% factor loading and reliability coefficient of less than 70%, liquidity constrains such as availability of cash (F-11) and Needs of Current Shareholders Such as the Desire of Current Income (F-15) cannot be considered as Bird-in-Hand explanation of dividends policies formed by Kuwaiti corporate managers.

6.3.3 The Signaling Explanation of Dividend Relevance

Panel C of table (4) shows the results of investigating the factors that create positive or negative signaling when corporate manager of Kuwaiti firms decide to distribute dividends. It is found that factors F-1, F-3, and F-6, as shown in panel (C) of table (4) are indicated by respondent managers to form the signaling explanation of distributing dividends. The “Level of Current Earnings” is found to be the strongest earning signal’s factor by respondent Kuwaiti managers who participated in the survey of this study. With low extracted variance of 8.1 %, moderate reliability of 60.1% and loading factor range between 77.4% and 65.2%, Kuwaiti managers use level of current earnings, stability of earning, and current degree of financial leverage as factors of earning signaling when they decide upon the level of the dividends distribution. The founded relation between leverage and dividends in this study conform to that documented by Julio and Ikenberry (2004) as dividends and leverage are substitutes for governance mechanisms.

6.4 The Relationship between Dividend Policy and Value

The fourth research question was “Do corporate managers of Kuwaiti listed firms believe that dividends policies affect firm value (Are dividends relevant)?” Table (5) contains the results of investigating the factors that affect the dividends pattern and dividends distributions by Kuwaiti firms. Results reported in table (5) confirm that the pattern of past dividends is considered the strongest signal to affect the stock price as indicated by respondent corporate managers of Kuwaiti firms who participated in the survey of this study. This result confirms the results documented by Benartzi et al. (1997) who report a strong link between earnings and dividends (past and current) and stock value. That is, managers tend to increase dividends, which will lead to a higher stock value, only if they are convincingly certain that these earnings are maintained in the foreseeable future. The dividend growth model explains that stocks with higher expected growth should be valued higher than stocks with lower or no growth opportunity.

Table 5: The Relationship between Dividend Policy and Value

Factors	Reliability Coefficient (α)	Extracted Variance	Factor loading
F-2: Pattern of Past Dividends.	56.4%	7.8%	53.4%
F-3: Level of Expected Future Earnings.	56.4%	7.8%	72.7%
F-4: Concern about Affecting the Stock Price	56.4%	7.8%	69.7%

Results in the table (5) illustrate that 72.7% of respondent mangers of Kuwaiti firms believe that the "Level of expected future earnings" has the strongest influence on the stock price with 56.4 reliability and 7.8% extracted variance. The "Concern about affecting the stock price" is the second factor that influences the respondents' consideration when deciding for their firm's dividend policy. It is reported that 69.7 % of respondent Kuwaiti mangers (with reliability of 56.4 % and extracted variance of 7.78%) have concern about the affect of their firms' dividend policy on the stock price. Only 53.4% of respondent managers included in the survey consider the "Pattern of past dividends" has a relationship with the stock value. This finding has 56.4% reliability and 7.8% extracted variance.

7. Conclusion

This study surveys the perception of corporate managers of Kuwaiti firms listed in the KSE by replicating the distributed questionnaire of Baker et al. (2007) in order to investigate the main determinants that control dividends policies in Kuwait as an emerging stock market. The uniqueness of this study comes from the fact that it sheds light on the nature of the dividends decision in an emerging stock market with high level of ownership concentration.

The study employed structured multi-choice questions to explore the factors that affect the dividends policies adapted by Kuwaiti firms in their dividends decision-making procedures. The survey is answered by executives in charge of dividends decision-making. The final survey included 22 "closed type questions" for the more efficient data organization and analysis.

We targeted in this study all listed firms in KSE that paid cash dividends at least one time between June 2000 and June 2008. The final sample includes 185 firms in seven sectors. The response rate of the study counts for 66.49% of all surveys sent out and the usable rate of respondents counts for 52.58%. The usable surveys rate as percentage of total surveys count for 35.14%, which is acceptable scientifically and statistically to carry out a scientific analysis of the research question.

We employed a factor analysis statistical technique for data reduction, removing redundancy and pattern findings to identify the most important factors for each common dimension that effect dividend policy. In order to investigate the main factors that control dividends polices in Kuwait firms, a survey study was designed and a structured survey was prepared and revised to collect the required data from Kuwaiti listed firms in KSE.

The first research question investigated "the views of the Kuwaiti managers about dividends policy among different industry sectors." We found that 91.0% and 88.8% of the respondent corporate managers in the sample follow the industry's sector leaders or the industry's norm in determining their dividends policies. This may be interpreted by the notion that most of the surveyed companies have no particular dividends policy related to the needs of their shareholders. Also, results say that 85.8% of the surveyed firms' managers build their dividends policies in the long run upon their expectation for the future earnings of their firms. This can be explained by the fact that long run payout ratio of earnings is related to the firm strategic position and market share in its related industry or sector within the industry. The legal rules and constrains related to each industry that impair capital play little role in outlining the industry influence on the dividends policies by Kuwaiti firms as only 52.9% of Kuwaiti firms' respondent managers take these legal rules into consideration while forming their firms dividends policy.

Second research question concerned about "How do Kuwaiti firms set the amount of dividends that they distribute." We found that 72.5% of the respondent corporate managers of Kuwaiti firms believe; when they set the amount of dividends; that current shareholders should receive a share of the firm current income, while 52.5% perceived that shareholders deserve to receive share of the firm earnings through dividends. Results verify that respondent managers in Kuwait contradict the literature by preferring short-term payout ratio based on current income than long-term target payout ratio based on the expected future earnings.

Through the third research question we explored which "Explanation of dividends policy do corporate managers of Kuwaiti listed firms tend to favor?" We found that agency explanation, as the first explanation for dividends policy, is evident by the 69.7% of the respondents who believe that the desire to maintain a target capital structure can be used as a dividend policy to reduce the agency cost by forcing Kuwaiti firms' corporate managers to depend less on the external finance and secure the investors. This believes was confirmed by the 60.9% of the respondents who confirmed that dividends restriction in debt contract as dividend policy that can reduce the cost of the other type of agency problem between principle/creditors through agent. Also, the availability of alternative source of capital is seen by 60.9% of respondents as one of the effective dividend policies that can reduce the intention of firms to distribute dividends whatever they have, or not, alternative source of capital with less or the same cost of capital or risk. Bird-in-the-hand as the second explanation of the dividends policy was confirmed by 70% of the respondents who see that the preference to pay dividends instead of undertaking reinvestment risk is the first factor to outline the bird-in-the-hand explanation for distributed dividends. While 60.9% of the respondents confirm that the investment considerations such as the availability of profitable investment opportunities explains the bird-in-the-hand fallacy of dividends. This result could be related to the fact that in a small liquid economy with no tax, like Kuwaiti economy, corporate managers undertaking profitable investment opportunity instead of distributing cash since there is no need to payout earnings as source of income to shareholder. With no tax and over speculation, the distribution of cash dividends will not create as much income as capital gain for shareholders. Also, results show that signaling is used by corporate managers of Kuwaiti firms to explain dividend policy. The level of current earnings is found to be the strongest earning signal's factor as agreed by 77.4% of respondents. 72.3% and 65.2% of Kuwaiti managers use stability of earning and current degree of financial leverage, respectively, as factors of earning signaling when they decide upon the level of the dividends distribution.

The fourth research question investigated in this study was questioning if "corporate managers of Kuwaiti listed firms believe that dividends policy affect firm value?" Our results illustrate that 72.7% of respondent mangers of Kuwaiti firms believe that the level of expected future earnings has the strongest influence on the stock price. The concern about affecting the stock price is the second factor that influences 69.7% respondents' consideration when deciding for their firm's dividend policy. Only 53.4% of respondent managers consider the pattern of past dividends has a relationship with the stock value.

In conclusion, the main finding of this study is that there is no particular dividends policy relates to the needs of shareholders but instead relates more to sector factors. Also, this study documents a correlation between the agency, bird-in-the-hand, and signaling explanations and the level of the distributed dividend by Kuwaiti firms. External constraints are also important factor in determining the dividends policy in Kuwait. Moreover, Kuwaiti managers believe that the expected earnings, current and historical pattern of dividends affect firm's shares value.

The study also documents that the most important factors that affect dividends policy are (1) the level of currents earning; (2) liquidity constraints; (3) the availability of profitable investment opportunities; and (4) the level of future expected earnings. Other factors were found to have insignificant effects on dividends policy for Kuwaiti firms such as the desire to avoid giving false signals to investors, the cost of raising external funds, the projections about the future state of the economy, and using dividends changes as a signal to investors. Furthermore, this study documents a stronger explanation of the dividends policy by the life cycle as well as signaling theories more than the theories of bird-in-the-hand and agency cost explanation.

8. Limitation and Future Research

This study had been done according to the perception of the Kuwaiti managers of listed companies in KSE paying dividends before the financial crisis, but not all listed companies. The un-paying dividends companies may have their own explanation for not distributing dividends and retaining all earnings available to common shareholders, such as growth explanation. The results to be driven out of this study related to the sample companies in the study and do not represent the whole market, therefore, results should be restricted to surveyed sectors. The survey was done on the down turn time of the market with international financial crisis, which could effected the answer of the respondents.

Future research on the dividends policy issue, particularly related to the Middle East, and specifically to GCC, is still needed. All listed companies with earnings available for common shareholders should be included in the study. A comparative study can be made between financial and non-financial sectors since dividends policies may differ significantly between them. How investors view dividend policy and what are the main factors influencing it according to their expectations should be investigated. Finally, since most of the Kuwaiti managers support life cycle explanations, a future research could be done to explore the reasons for not applying other explanations such as catering, agency cost, and bird-in-the-hand explanations

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