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An Empirical Analysis of Determinants of Dividend Policy - Evidence from the UAE Companies

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Dividend decision is one of the most important decisions and well researched areas of Financial Management but still very little research has been conducted in the GCC, particularly in the UAE. This paper adds to the existing body of knowledge by empirically chalking out the important factors which affect the dividend payout decisions of UAE firms. This paper investigates the determinants of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, health care and industrial sectors (except bank and investment concerns) listed on the Abu Dhabi Stock exchange for a period of 5 years from 2005-2009. This study analyses a range of determinants of dividend policy: Profitability, Risk,, Liquidity, Size and Leverage of the firm The correlation and the multiple regression techniques have been applied to find out the most significant variables used by the UAE firms in making the dividend decisions. The study provides evidence that profitability and size are the most important considerations of dividend payout decisions by UAE firms.

Field of Research: Finance

1. Introduction

"The harder we look at the dividend picture the more it seems like a puzzle, with pieces that just do not fit together" (Black 1976). Dividend policy is one of the most controversial topics and researched areas of corporate finance. But still the Dividend Puzzle: whether the dividend payout policy affects the value of the firm? what are the factors which affect the determination of the dividend policy?, seems unsolved. Many implausible reasons are given for why dividend policy might be important and many of the claims made about the dividend policy are economically illogical. Even so, in the real world of corporate finance, determining the most appropriate dividend policy is considered a most important issue. In fact, the dividend issue is quite challenging. The important elements are not difficult to identify but the interactions between those elements are complex and no easy answer exists. (Ross 2009). Many dividend theories have been propounded to give the explanation on how the dividend decisions are being undertaken and whether it has an influence on the value of the firm. There are three different approaches in this regard. On the right, there is a conservative group that believes an increase in dividend payout increases the value of the firm. On the left, there is a radical group that believes a higher dividend payout reduces the value of the firm. And, in the centre, there is a middle of the road party, founded in 1961 by Miller and Modigliani (MM), which claims that the payout policy makes no difference (Meyers & Allen 2010). In a theoretical paper MM showed the irrelevance of the dividend decision in the world without taxes, transaction cost or other market imperfections. (Miller & Modigliani 1961). Ever since the publishing of

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the MM paper, the researchers have focused on finding out how the dividend policy affects the value of the firm and what are those determinants which affect the dividend decisions.

The dividend policy determinants have been well documented and researched in developed countries (US, Canada, UK, Germany, France and Japan) USA and European markets (Lintner 1956, Modigliani and Miller 1961, Pettit 1972, Black & Scholes 1973, Amibud & Murgia 1997). A few empirical investigations have been undertaken in emerging markets or developing countries. Very limited research work is available on this issue in GCC (Kuwari 2009) but hardly any work has been done in the UAE context. So there is a need to examine the determinants which affect the dividend payout decisions of UAE firms.

The current study adds to the existing body of knowledge by empirically chalking out the important determinants which affect the dividend payout decisions of UAE firms. This paper is the first attempt to study the dividend payout policy decisions in UAE, (as per author's knowledge) as no previous research has been undertaken in this context.

The primary objective of this study is to find out whether several determinants as per the available literature have any influence on the dividend payout polices of UAE firms. This paper examines to what extent various determinants of dividend payout policy can explain the dividend decisions of UAE companies. The research finding shows that some of the factors which have been significant determinants of dividend policy in developed countries are not applicable to the UAE. Contrary to the literature, this study does not support the relevance of liquidity as a most important consideration of dividend policy and finds that liquidity and leverage are insignificant in influencing the dividend payout decisions. Whereas, like developing countries the size of the firm has played the most important role in the dividend decisions of UAE firms.

This current study has been organized into the following parts. Section 2 describes the review of literature, which has been divided between various studies done in developed countries and developing countries. Section 3 describes the research methodology which discusses the data, scope, sample size and methodology of the study. It also contains various determinants of dividend policy used in the study. Section 4 presents the finding of the empirical research. Section 5 presents the conclusions that have been drawn from the results of the study.

2. Literature Review

The earliest research was undertaken by Lintner (1956, pp. 97-113) who conducted his study on American companies in the middle 1950s. The study concluded that dividend decision is based upon the current profitability and in part on the dividends of the previous year. Since then there has been an on-going debate on dividend policy and the results are mixed. Fama and Babiak (1968) tested the Lintner model on the dividend data of 392 major North American industrial firms for the years 1946-1964. Fama and Babiak had maintained that the firms will try to increase the dividend only when the dividends can be sustained in future. They concluded that Lintner's dividend model has succeeded fairly well in explaining the dividend changes of

individual firms whereas Wolmaran (2003) did not find any evidence for the Lintner model in South Africa.

Gordon (1959) gave the bird in hand theory. He maintained that the discounted value of near future dividends is higher than the present value of distant dividends. Gordon argued that the dividends to be received in future have much uncertainty as compared to the dividends in the near future since the shareholders would prefer certain returns the stock prices would be higher for the dividend paying stocks as compared to the companies paying lesser dividends.

In 1961, Miller and Modigliani came up with the dividend irrelevance theory in a perfect market, without taxes and transaction costs. MM argued that the dividend decision has no impact on the value of the firm so it is an irrelevant decision. The capital gains would be equivalent to dividends in a perfect market without tax considerations or attached transaction costs. The MM theory states that shareholder wealth will remain unaffected by dividend policy in that without tax as a consideration, investors place equal weight in receiving returns as dividends or capital gains as long as the firm's investment policy is not affected by dividend policy (Shapiro 1990). Many researchers have tried to find out the dividend payout decision and its influence on the value of the firm given imperfect market conditions.

Pettit (1977) studied the clientele effect of dividends. Retired investors and pension funds, for example, tend to prefer cash income and may therefore want the firm to pay out a high percentage of its earnings. On the other hand, shareholders in their peak earning years prefer the reinvestment of cash and low dividend payments.

Kania & Bacon (2005) studied the impact of profitability, growth, risk, liquidity and expansion on the dividend decision/policy of a corporation by analyzing the financial data of over 10,000 publicly traded firms using Ordinary Least Squares (OLS). The study concluded that the dividend payout ratio is significantly affected by the profitability (return on equity), growth (sales growth), risk (beta), liquidity (current ratio), control (insider ownership) and expansion (growth in capital spending).

Fama and French (2001) empirically analyzed the importance of firm size, profitability and growth opportunities in the firm's decision to pay dividends. Booth and Cleary [2001] indicated that a firm's dividend policy is affected by profitability, size, debt, risk, tangibility and growth. Ho (2003) conducted a comparative study of dividend policies in Australia and Japan. The results supported the agency, signalling and transactions cost theories of dividend policy. The study concluded that out of all the regressed variables of profitability, size, liquidity, leverage, risk, asset mix and growth, the dividend policies are affected positively by size in Australia and liquidity in Japan and negatively by risk in Japan only. An industry effect was also found to be significant in both Australia and Japan which indicates the importance of the industry in which a firm competes.

Aivazian, B, Gatchev, V & Spindt, P (2007) tried to establish a link between the firm dividend policy and stock market liquidity of NYSE and AMEX firms for the period 1963 to 2003. In the cross section analysis, they found that the owners of less (more) liquid common stock are more (less) likely to receive cash dividends.

Gill, Biger and Tibrewala (2010) analyzed the American service and manufacturing firms and found that the dividend payout ratio is a function of profit margin, sales growth, debt-to-equity ratio and tax. For the services industry, the dividend payout ratio is a function of profit margin, sales growth, and debt-to-equity ratio. For manufacturing firms, the dividend payout ratio is a function of profit margin, tax and market-to-book ratio.

Olantundun (2000) has studied the determinants of dividends in Nigeria using the Lintner-Brittain model and its variants on the pooled cross sectional / time series data for the full sample of observations from 1984-1994. The models were estimated using the Ordinary Least Square (OLS) method. The results of the study showed that there are no significant interactions between the conventional Lintner / Brittain model and dividend decisions of Nigerian firms. They concluded that the dividend behaviour of Nigerian firms depends on growth prospects, level of gearing and firm's size.

Kumar (2003) studied the possible association between ownership structure, corporate governance and firm's dividend payout policy and found that a positive association exists between dividends and earnings trend. Debt-to- equity is found to be negative and associated, whereas past investment opportunities are positively associated with dividend payout policy in India.

Malkawi (2007) studied the determinants of corporate dividend policy in Jordan for a period between 1989 and 2000. Size, age and profitability of the firms have been found to be the determinant factors of corporate dividend Policy in Jordan. The findings provide strong support for the agency costs hypothesis and are broadly consistent with the pecking order hypothesis.

Anil and Kapoor (2008) in their paper attempted to analyze empirically the determinants of dividend payout ratio of the Indian Information Technology sector. For the pooled data for seven years, i.e., 2000 to 2006, they found cash flows, corporate tax, sales growth and market-to-book value ratio do not explain the dividend payment pattern of the IT sector. Only liquidity and beta (year-to-year variability in earnings) were found to be noteworthy determinants.

Kuwari (2009) studied the determinants of the dividend policy in GCC countries. The study investigated the determinants of dividend policies for non-financial firms listed on the Gulf Co-operation Council (GCC) country stock exchanges. The study found out that the firms pay dividends with the intention of reducing the agency problem and the listed firms in GCC countries alter their dividend policy frequently and do not adopt a long-run target dividend policy. The study concluded that dividend payments are strongly and directly related to government ownership, firm size and firm profitability but negatively to the leverage ratio.

Ahmed and Javid (2009) find out the determinants of dividend payout policy of non-financial firms listed in the Karachi Stock Exchange during the period of 2001 to 2006. The study supported Linter's policy. They clearly demonstrated that the firms rely on both current earnings per share and past dividend per share to set their dividend payments. The profitability, market liquidity and ownership have positive impacts on the dividend payout whereas market capitalization and size of the firms have negative impact on dividend payout policy which clearly shows that the firms prefer to invest in their assets rather than pay dividends to shareholders. Al-

Twaijry(2007) studied the emerging market of Malaysia. The study confirmed that current dividends are affected by the past and future. Also, dividends were associated with net earnings but less strongly. Neither the age of the paying dividend company nor its home sector (industry and non-industry) had an impact on the amount paid on each share (DPS). However, size was found to have a significant effect on the DPS as compared to either the current, past or future net earnings.

Appannan and Sim (2011) in their study of Malaysia listed companies for food industries under the consumer products sector showed that variables having a strong relationship with dividend payout are not necessarily the determinants of the dividend payment decision such as profit-after-tax that has the strongest relationship with dividend per share. The study further confirmed the fact that debt-to- equity ratio and past dividend per share were the important determinants of dividend payment.

The above review of literature shows that the dividend determinants have been well researched and well documented in developed countries but very few studies has been done in developing and emerging markets. Moreover, the dividend policy is relatively unexplored in the GCC area/ Middle East and hardly any study has been conducted in this region and no research has been done in the UAE. The need to explore the UAE's dividend policy determinants has been undertaken in the current study.

2.1 Selection of Explanatory Variables and Hypotheses

A number of variables, potentially responsible for determining dividend payout decisions in companies, can be found in the literature. In this study, the set of explanatory variables includes: Size, Profitability, Growth, Leverage and Liquidity of the firm. These explanatory variables have been considered as the potential determinants of dividend policy in the UAE. The list of variables and their proxies have been summarized in Table -1

2.1.1 Size

The previous literature assumed that there is a relationship between the firm's size and its dividend policy. The big size companies pay higher dividends and smaller size companies pay less dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends. Osobov (2008), Hosami (2007), Aivazian (2003), Al-Twaijry (2007),Eriotis (2005) Ahmed and Javid (2009), Kuwari (2009) and Olantundun (2000) also supported the same view.

Measure of Size: The Size of the firm is measured by the natural logarithm of the book value of the firm's Total Assets. (Joseph 2001)

Size (LTA)=Natural Log of Total Assets

Hypothesis: the Size of the company has a positive effect on the dividend policy.

2.1.2 Profitability

Previous researchers have found profitability as one of the most important determinants of dividend payout policy. However, the results on relationship of profitability and dividend payout have been mixed. As per the pecking order theory, the firms will prefer to rely more on internal funds or retained earnings as a result the firms will have a tendency of paying less dividend and hence having more retained earnings. Hence, the profitable firms will prefer lower dividends. Amidu and Abor (2006) have maintained that the profitability is highly negative and significantly associated with the dividend payout, which shows that the firms invest in their assets rather than paying dividends to shareholders. Similarly, Kania and Bacon (2005) have found that the higher the return on equity, the greater is the firm's retained earnings for reinvestment or the lower is the dividend payout. Contrary to it, there are many studies which have proved that the profitability is positively related to the dividend payout ratio. Profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends. The higher profitable firms pay higher dividends. Aivazian, Booth and Cleary (2003) and Li and Lie (2006) have maintained that firms are more likely to raise their dividends if they are large and profitable.

Measure of Profitability**:** The profitability has been measured by
Return on Equity(ROE)= Net Profit after Preference Dividend/Number of Equity Shares outstanding
Return on Assets(ROA)= Net Profit/Total Assets
Earning per Share(EPS)= Net Profit/ Number of Equity shares outstanding

Hypothesis: the profitability has a positive effect on the dividend policy.

2.1.3 Risk

The P/E ratio implicitly incorporates the perceived risk of a given company's future earnings. A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E (Fama and French 1998, Puckett 1964). Raising dividends reduces the risk of future cash flows to the stockholder which increases stock price and the PE ratio. High PEs may be associated with low risk and higher payout ratios, whereas low PEs may be attributed to high risk and lower payout ratios. Amidu and Abov (2006) a negative relationship is there between payout ratio and risk.

Measure of Risk: the risk of the company has been measured by
Risk=Price of Share/Earning per share ratio

Hypothesis: Risk has a negative relationship with the dividend policy. Or PE ratio is positively associated with the Dividend payouts.

2.1.4 Leverage

The empirical evidence regarding the relationship of leverage with dividend payout is *mixed. The* higher the leverage of the firm the lower is the dividend payout; this could be because of the debt covenants. Rozeff (1982) points out those firms with high financial leverage tend to have low payout ratios in order to reduce the transaction

costs associated with the external financing. Similarly Al-Malkawi (2007) confirmed that the firm's financial leverage is significantly and negatively related to its dividend policy, where as Kania and Bacon (2005) have found a significant positive relationship, bringing out the fact that the firms have higher debt funds to pay off dividends.

Measure of Leverage: the leverage has been measured with the help of following formula

Leverage = Short Term and Long Term Liabilities / Total Shareholder's Fund

Hypothesis: Leverage has negative effect on the dividend policy

2.1.5 Liquidity

The liquidity or cash flows position is another important determinant of dividend payouts. The firms with more liquidity are more likely to paydividends as compared to the firms with a liquidity crunch. Dividend payments depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less generous dividends due to shortage of cash. (Kanwal and Kapoor 2008; Ahmed and Javid 2009).

Liquidity has been measured by the following formula *(Kania and Bacon 2005)*

LIQUIDITY =Current ratio (Current Assets/Current Liabilities)

Hypothesis: the Liquidity has a positive effect on the dividend policy

Table 1: Independent variables and their symbol.

Independent variables	Symbol	Description
Profitability	ROA	Net Profit/Total Assets
	ROE	Net Profit less Preference Dividends/Shareholder's equity
	EPS	Net Profit less Preference Dividends/Number of equity share outstanding
Risk	PE	P/E ratio Market Price Per share/Earning per share
Liquidity	CR	Current Assets/Current Liabilities
Leverage	LEV	Short term and long term liabilities / Total Shareholder's Fund
Size	LTA	Natural Log of Total Assets
Dependent variable		
Dividend payout	DPR	Cash Dividend / Net Profit*100

3. Research Methodology

In this section a brief overview of data and sample, tools and techniques used to achieve various research objectives have been discussed.

3.1 Data and Sample

The study is focused on UAE firms listed on the Abu Dhabi Stock Exchange (ADX). The study uses secondary data which have been collected from the ADX website, where the financial statements and other details of the companies are available. This paper investigates the determinants of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, health care and industrial sectors (except bank and investment concerns) for a period of 5 years from 2005-2009. The selection of this period was based on the latest period of available data. Since the Abu Dhabi stock exchange is a relatively new stock exchange, (established in November 2000) the number of companies listed before 2005 was very small and, moreover, the data for years before 2005 are not available. The study includes all 44 companies (excluding 15 banks) listed on the Abu Dhabi stock exchange. The banks and financial institutions have been heavily regulated and needed to be dealt separately, hence, they have been excluded from the list of companies. The selected firms were then screened by each variable with values greater than zero for the selected firm over all the five years. That means firms which have zero value (Non-Payment of Dividend) or zero ratio in any of the variables under study have been removed (Meyers and Beycon 2004). The study finally contains 149 firm-year observations.

3.2 Tools and Technique

To analyse the characteristics of firms that affect the dividend policy, first, correlations have been applied and then the explanatory variables have been regressed using backward multiple linear regression. In this study, backward multiple linear regressions have been applied to find out which are the most significant variables in the model. The independent variables have been checked for multi co linearity by VIF, the variables with VIF number more than 5 or nearby have been removed.

3.3 Hypothesis

Hypothesis: the Profitability has a positive effect on the dividend policy.
Hypothesis: the Size of the company has a positive effect on the dividend policy.
Hypothesis: Risk has a negative relationship with the dividend policy. Or PE ratio is positively associated with the Dividend payouts.
Hypothesis: Leverage has negative effect on the dividend policy
Hypothesis: the Liquidity has a positive effect on the dividend policy

4. Results/ Analysis

This section presents the findings of the empirical analysis. First, it gives the descriptive statistics of the variables used in research (depicted by Table 2). Second,

it discusses the results of correlation analysis and regression analysis and the conclusions that can be drawn from the statistical results.

Table No-2

List of Descriptive Statistics of variables used in the study

	Mean	Std. Deviation	N
DPR	37.0636	43.5314	149
ROA	8.0599	8.10456	149
ROE	13.1748	12.3069	149
EPS	2.92115	11.121	149
LTA	10.9685	5.93955	149
LEV	2.1406	17.8994	149
CR	47.0932	386.913	149
PE	10.0003	13.5317	149

4.1 Correlation Matrix

The first step is to construct the correlation matrix. The correlation matrix (as given by Table 3) clearly indicates that the DPR has the highest correlation with the PE ratio and LTA. The correlation results show that significant positive relationships exists between firm size and risk with its dividend payout ratio and the results are statically significant. The other variables EPS, ROA, ROE, LEV and CR ratio are not having any significant correlation with payout ratio.

Table No 3: Correlation Matrix

		DPR	ROA	ROE	EPS	LTA	LEV	CR	PE
Pearson Correlation	DPR	1.000	.026	.044	-.047	.418**	.029	-.023	.590
	ROA	.026	1.000	.868	.082	.523**	.179	.058	.121
	ROE	.044	.868**	1.000	.122	.581**	.335**	.004	.142**
	EPS	-.047	.082	.122	1.000	.118	-.009	-.024	-.078
	LTA	.418**	.523**	.581**	.118	1.000	.110	.061	.387
	LEV	.029	.179	.335**	-.009	.110	1.000	-.014	.008**
	CR	-.023	.058	.004	-.024	.061	-.014	1.000	-.006
	PE	.590**	.121	.142	-.078	.387**	.008	-.006	1.000
Sig. (1-tailed)	DPR	.	.378	.296	.286	.000	.361	.390	.000
	ROA	.378	.	.000	.161	.000	.015	.240	.071
	ROE	.296	.000	.	.069	.000	.000	.480	.042
	EPS	.286	.161	.069	.	.076	.455	.385	.173
	LTA	.000	.000	.000	.076	.	.090	.229	.000
	LEV	.361	.015	.000	.455	.090	.	.435	.461
	CR	.390	.240	.480	.385	.229	.435	.	.469
	PE	.000	.071	.042	.173	.000	.461	.469	.

4.2 Regression Results

Regression analysis has been further applied to test the significance of the model and the explanatory power of the independent variables. The results of backward multiple linear regression are shown in Table 4.

Table 4:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.660[a]	0.436	0.408	33.5053
2	.660[b]	0.435	0.411	33.39786
3	.659[c]	0.435	0.415	33.29579
4	.658[d]	0.433	0.417	33.23048
5	.654[e]	0.428	0.416	33.25543

a. Predictors: (Constant), PE, CR, LEV, EPS, ROA, LTA, ROE

b. Predictors: (Constant), PE, CR, LEV, EPS, LTA, ROE

c. Predictors: (Constant), PE, CR, LEV, LTA, ROE

d. Predictors: (Constant), PE, LEV, LTA, ROE

e. Predictors: (Constant), PE, LTA, ROE

Table No-5

ANOVA[f]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	122170	7	17452.9	15.547	.000[a]
	Residual	158287	141	1122.61		
	Total	280458	148			
2	Regression	122068	6	20344.7	18.24	.000[b]
	Residual	158389	142	1115.42		
	Total	280458	148			
3	Regression	121926	5	24385.3	21.996	.000[c]
	Residual	158531	143	1108.61		
	Total	280458	148			
4	Regression	121443	4	30360.8	27.494	.000[d]
	Residual	159014	144	1104.27		
	Total	280458	148			
5	Regression	120099	3	40032.9	36.199	.000[e]
	Residual	160359	145	1105.92		
	Total	280458	148			

a. Predictors: (Constant), PE, CR, LEV, EPS, ROA, LTA, ROE

b. Predictors: (Constant), PE, CR, LEV, EPS, LTA, ROE

c. Predictors: (Constant), PE, CR, LEV, LTA, ROE

d. Predictors: (Constant), PE, LEV, LTA, ROE

e. Predictors: (Constant), PE, LTA, ROE

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.914	5.737		.508	.612		
ROE	-.849	.275	-.240	-3.092	.002	.654	1.528
LTA	2.725	.611	.372	4.461	.000	.568	1.762
PE	1.545	.220	.480	7.006	.000	.840	1.191

Dependent Variable: DPR

The regression analysis has confirmed the results obtained from the correlation matrix. The results, as depicted by Table 4, clearly show that the regression model containing all the explanatory variables explains 43.1% of the total variation of Dividend payout policy in the UAE. The F value (15.5) of the overall model is found to be significant, showing the applicability of the overall model.

The use of backward linear regression results, as given in Table 4, shows the step-by-step removal of the most insignificant variables out of the overall model. In regression equations b, c and d the explanatory variables, Return on Assets, Earning per share, Current ratio and Leverage, have been removed in the respective equations. The overall value of R square is 43.6% whereas the R square is 42.8% after the removal of all insignificant variables. This indicates that the predictive power of these variables is insignificant and these variables contribute little explanatory power of the overall regression model. The results of the ANOVA, as given in Table 5, show that the F value has improved with the step-by-step removal of the most insignificant variables.

The regression results as indicated by regression model (e) given in Table 4 clearly indicate that Size, Risk and Profitability (only ROE) are the most significant variables influencing the dividend decision of UAE firms. Only these three variables explain 42.8% of the total variation of dividend payout ratio.

The results of the study highlight the following. First; the Size of the firm is significantly and positively related to the dividend payout of the firm in the UAE. Like earlier studies, this research also concludes that the larger size firms pay out more dividend as compared to firms with smaller size. Thus, the hypothesis that size has positive relationship with dividend payout ratio has been supported by the results of the analysis.

Second; the Risk of the firm is found to be a significant determinant of dividend payout. The firms with high PE ratio have lower risk and high growth prospects. Results of this study suggest that the higher the firm's PE, the lower its risk, and the higher is its payout ratio. Again, the hypothesis that the risk has negative relationship with dividend payout has been accepted.

Third, the profitability of the firms as measured by ROE has negative relationship with dividend payout, which indicates that the more profitable firms pay less dividends. Profitability measured by ROA and EPS are negatively associated with the dividend payout ratio but the results are not statistically significant.

Contrary to the literature, in developed countries, this study does not support the relevance of liquidity as a most important consideration of dividend policy, and finds that liquidity and leverage are insignificant in influencing the dividend payout decision. Thus, this study rejects the hypothesis that profitability, liquidity and leverage affect dividend decisions.

5. Conclusion

This study examined the determinants of dividend payout policy for UAE firms. This paper investigated the determinants of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, health care and industrial sectors (except bank and investment concerns) listed on the Abu Dhabi Stock exchange for a period of 5 years from 2005-2009. This study empirically examined the data for a sample of 149 firm–year dividend paying firms. The study used the firm's dividend payout ratio as the dependent variable to represent the dividend decision. This study analysed a range of determinants of dividend policy: Profitability, Growth, Liquidity, Size and Leverage of UAE firms. The study analyzed the dividend payout behaviour of UAE firms by using correlation and backward multiple linear regression models. This study imparts practical insights of UAE dividend decision behaviour, given the fact that there has been hardly any study done in the UAE. The data have been taken from the ADX website where the financial details of all the firms are available. The study indicates that size and risk and profitability explain 42% of the total variations in the dividend payout policy. The study clearly shows that Size and Risk are the two most important considerations in deciding on dividend policy by UAE companies. The results of the study are similar to the other studies done in developing countries that the greater is the firm Size, the larger is the dividend payout. The study has the limitation that it takes into consideration only 5 years and the influence of some of the determinants like growth rate, EPS growth and past dividends have not been taken in to consideration. Examining the influence of sales growth rate, insider ownership, institutional ownership, capital spending, EPS growth and beta can be explored in future research.

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