The impact of industry-sector influences on dividend policy. The case of services firms in Zimbabwe (2009 to 2015).

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Abstract
The goal of this paper is to contribute to the existing body of knowledge by shedding new light on the role of industry influences on the dividend policies pursued by firms in developing economies. The literature on the influence of industry on dividend policy is quite limited and mixed up. Rickard (2012); Fatani and Bildik (2012); La Porta et al. (2000) found that the dividend payout ratios do not differ across industries but differ from country to country. Prior studies elsewhere to examine the influence of industry differences support Rozeff’s (1982) model. The study utilized a causal design to investigate the relationships between the variables. Data was analysed using the chi-square technique. The 88 sampled services sector firms were grouped into five industries. The study found that the proportion of dividend payers dropped by 14.8% over the five-year period to 64.7% in 2014. The largest proportion of dividend payers has payout ratios ranging between 10% and 20%. The study found that the banking industry has the largest number of cash distributors and the constant or target payout ratio is widely used in Zimbabwe. Finally, the study concludes that industry influences have no effect on the dividend policies pursued by firms. This study has some additional implications for further research. In particular, it would be more interesting to examine the nature and extent of the correlation that exists between earnings and payout ratios. Also of interest is the need to establish if there is a relationship between a firm’s cash holding levels and dividend policy. The interest here will be to find out if firms that hold huge cash reserves have a tendency to pay high dividends or not.

Key Terms: Dividend Policy, Industry Influences, Dividend Payout Ratio, Services Sector

1.0 Introduction
The corporate finance area on dividend policy has drawn the interest of financial scholars from across the globe and has witnessed an escalation of the debate over a period spanning to over half a century. More so, the relationship between dividend policy and industry-sector influences is still an unresolved issue in corporate finance. Having made a profit, a firm’s management has to decide on whether to reinvest the profits or distribute them as dividends. The decision regarding how much, which form and when to distribute the value to stockholders is the firm’s dividend policy. Numerous studies have been done to investigate the exact influence of industry-sector influences on a firm’s dividend policy over the past five decades but no robust findings. The findings have been mixed up. Michel and Shaked (1986;365); Lintner (1956) observed that firms in the same industry might have dividend policies positively correlated due to similar investment opportunities that they can take advantage of.

The services sector in Zimbabwe appears to be doing very well as possibly evidenced by the high proportion of firms that are paying dividends. Dividend levels have been on the increase in some firms, while other firms have maintained traditional pay-out levels. The services sector firms include the telecommunications, tourism and hospitality, transport, insurance, and the banking and asset management firms. The researcher felt that it’s grossly unfair to treat dividend issues of the services sector under one blanket. Such generalizations are dangerous since these industries have different characteristics underlying them. Differences in the stability of cash flows, profit margins, turnover levels, risk levels, investor perceptions, stages in the life cycle- among others, are some of the underlying reasons why making generalizations about the services sector dangerous. However, the problem will be half solved since individual firms within an industry will also have different characteristics such as different stages of the life-cycle, but the good thing is the problem has been minimized, and further research efforts may be directed at resolving the challenge. This study sought to provide empirical evidence regarding the relationship between dividend policy issues and industry in a developing economy.

2.0 Literature Review
The literature on dividend policy is mixed. Pallant (2012) found that there was no difference between the proportion of dividend payers in 2011 compared to 2005. Some scholarly work has gone a long way to show that dividend payouts have increased in the US following tax cuts in 2003 (Brown et at, 2007; Blouinet al,
2011; Chetty and Saez, 2005). However, Fatemi and Bildik in their 2012 study of 17 000 firms present overwhelming evidence that the number of dividend payers decreased sharply. Floyd et al. (2013) found a decreasing number of dividend payers over a 22 year period from 1980. Their study used 194 081 USA industrial and financial firms. But the trend later changed when the number of payers increased. Rickard (2013) concluded that the fluctuations in the numbers of dividend paying firms might be due to different periods of time.

According to Rickard (2012); La Porta et al. (2000), the Dividend Payout Ratio (DPR), which is Dividend Per Share (DPS) divided by Earnings Per Share (EPS), does not differ across industries but differ from country to country. Fatani and Bildik (2012) also concluded that it is rare for some industries to have larger payout ratios than others. Dividend policies may be tailored and aligned to suit prevailing circumstances in their industries (Dhanani, 2005). This means that firms in industries experiencing rapid growth may be tempted at making small or no distributions to ensure they reinvest the funds in attractive investment opportunities. Firms in mature and saturated industries may have to distribute large dividends to their stockholders. Prior studies elsewhere to examine the influence of industry differences support Rozeff’s (1982) model. Michael and Roberts (2012) found that private firms smooth dividends less than the public limited companies. They argued that public corporations tend to pay larger dividends and are more sensitive to changes in the investment opportunities than private firms.

**Dividend Policies**

Dividends are distributions of profits by management to owners of the firm. Such distributions may be cash distributions, stock dividends, or dividends in kind. There are four common dividend policies firms may use to distribute value to owners and these include:

i) **The Residual Policy**- when a firm relies heavily on internally generated funds for investments, it may have to consider its profitable investment projects with positive net present values before any value distributions to stockholders. Leftovers after investments (residue) are then distributed if any remain.

ii) **Constant Payout Policy**- a fixed percentage of its earnings is distributed to owners. The DPS will vary with fluctuations in EPS. According to Damodaran (2006), a firm pursuing the constant/target payout policy will pay a certain percentage of earnings in each financial year.

iii) **Constant Dollar Policy**- firms are pursuing this policy attempt to smoothen out the dividends by distributing a fixed amount of DPS regardless of earnings levels.

iv) **Low Regular plus Bonus**- a firm commits itself to distributing a low dividend level and pays an extra dividend during the periods when the earnings level surpasses the normal earnings.

**Theoretical framework**

The groundbreaking view by Modigliani and Miller (MM) (1961) argues that the dividend policy pursued by a firm is irrelevant and doesn’t affect firm value. The MM (1961) school of thought came under heavy attack by those who argue that perfect capital markets do not exist. This group of scholars (Allen and Michael, 2003; Brav et al., 2005; Lintner, 1956) argues that a firm’s dividend policy has an effect on firm value and as a consequence management should take the dividend policy issues seriously. One obvious reason why dividend policy remains a puzzle or controversial issue in corporate finance is that the majority of empirical findings are inconsistent with the existing theories (Bhayani 2011:103; Rickard, 2013; Pandey, 2003:17; Barker, 2001:18-20). There are some schools of thought surrounding dividend policy.

The ‘Bird-in-hand’ school argues that a relationship exists between firm value and dividend payout because dividends represent a sure thing for shareholders as compared to capital gains. Following this argument, firms are supposed to set high payout ratios because investors are assumed to prefer the fewer risk dividends as compared to the future prospects of capital gains. Another widely accepted school of thought is the signaling hypothesis, with its proponents arguing that management is reluctant to make dividend cuts because of the information contained in dividends. Prior studies have shown that company management smooth dividends from year to year to avoid dividend cuts (Brav et al., 2005; Baker and Powell, 1999; Bernheim, 1991; Lintner, 1956). Researchers like Bernheim (1991); John and Williams (1985) are in support of the signaling hypothesis and argue that firms use dividend payments as a costly signal about future

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earnings prospects. Allen et al (2000) attributed the tendency of firms to repurchase shares rather than dividend distributions to the clientele effect. Firms attract institutional investors during periods when individuals are taxed at higher levels than institutional investors.

The dividend tax preference viewpoint gives rise to the notion of the dividend clienteles (Gordon and Bradford, 1980). Different tax economies charge different tax rates on dividends and capital gains. Where tax rates on individuals are low, such individuals will own stock in firms with high dividend payout ratios, while those facing high tax levels will own stocks in firms with low dividend payouts, prioritizing reinvestments. However, it is very important to highlight here that empirical evidence concerning the clientele hypothesis has been mixed. Pettit (1977); Gordon and Bradford (1980) and Scholz (1989) found the existence of a clientele effect. On the other hand, Blume and Friend (1987); Poterba (1984); Poterba and Summers (1984); Auerbach (1983); Hess (1982) have contradictory evidence regarding the clientele effect.

The agency hypothesis focuses on the presence of agency and contradicting costs. The agency problem emanates from absent ownership. The principal (shareholders) may not be adequately informed to determine whether the agent (management) is acting in their best interests (Crockett and Friend, 1988). The principal fears that the agent may consume excessive perquisites out of undistributed earnings and may also invest the retained earnings in poor projects (Brav et al., 2005; Perry and Rimbery, 1995; Easterbook, 1984; Rozeff, 1982). The proponents of this view advocate for distribution of dividends to reduce the free-cash-flow subject to the discretion of management and forcing the firm to consider debt finance which brings with it a discipline to management.

3.0 Methodology
This study used a causal design. A causal design uses an independent variable and a dependent variable to provide information on the reasons why the world around us operates in the way it does. The design was useful in helping the researcher identify the relationships existing between industry influences and dividend policy. While it is true that numerous similar studies have investigated industry-dividend policy relationships in the developed world, the chosen design enabled the researcher to replicate and compare the studies with those from stable developed economies. Stratified random sampling was used to group the services firms in Zimbabwe into five industries. 70% of the firms in each industry were chosen using systematic random sampling. Random sampling techniques were employed to reduce the error in the sample.

Questionnaires were designed and personally administered to 120 managers in the services firms. Personal follow-ups enabled the researcher to attain a 73.3% response rate from this group of respondents. Another set of important data was gathered from secondary sources. Companies’ annual reports were closely monitored, and data on dividends were extracted from 2009 to 2014 for each firm. The years during which the firms declared dividends were noted. The dividend amounts, forms of dividends and the policies being pursued were also recorded. A chi-square technique was then employed to investigate the relationship between dividend policy and industry-sector influences.

4.0 Data Analysis and Discussion
The largest sampled industry is the banking and asset management industry. This industry had the highest number of players and is at the heart of the financial services sector, and as a result, it was felt that it gives the greatest satisfaction in quenching the dividend knowledge thirst. The overall response rate from this study was 73.3%. To begin with, the researcher was interested in establishing the statistics to do with dividend-paying firms in Zimbabwe.

4.1 The Dividend Paying Firms
Table 1: Dividend Paying and Non-dividend paying firms

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Dividend Payers</th>
<th>Non-Dividend Payers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2014</td>
<td>2009</td>
</tr>
<tr>
<td>Banking</td>
<td>36</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Insurance</td>
<td>25</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Tourism</td>
<td>6</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Transport</td>
<td>10</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Communication</td>
<td>11</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>88</td>
<td>70</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: Survey Data 2014  

From the sampled 88 firms, 79.5% of the firms paid dividends in 2009. The proportion of dividend payers went down to 64.7% by 2014. Effectively this means that there was a 14.8% drop in the number of dividend payers over the five years in the Services Sector. In support of the findings of this research, are Fama and French’s dividend studies in the United States who found that the proportion of dividend payers declined sharply from 67% in 1978 to 21% in 1999 and that only about a fifth of public companies pay dividends. Also, Singhania (2005) studied the dividend payout in less developed countries. He studied the historical trends of dividend payout using a sample of Indian companies from Bombay Stock Exchange, and he found out that the companies paying dividends dropped from 448 in 1992 to 376 in 2004. Abdulrahman et al. (2007) studied a sample from the 300 firms listed on the Kuala Lumpur Stock Exchange (KLSE) and found out that the number of companies paying no dividends was 67 (30%) in 2001. The figure declined to 56 (24%) by 2005. This study found a 14.8% drop in the number dividend payers over the five years from 2009 to 2014.

4.2 The relationship between industry sector influences and dividend payments.

At this point, it is necessary to establish whether dividend payments/ announcements are dependent upon the sector from which a firm comes from.

**Ho:** Dividend payments are independent of industrial sector.  
**H1:** Dividend payments dependent upon the industrial sector.

The chi-square was used to establish the relationship between industry influences and dividend policy at a 1% significance level. The data that was used to compute is in Table 4.1 above.

- Degrees of freedom = (4-1)(2-1) = 3  
- Significance Test Level = 1%  
- Rejection Criterion: $X^21% (3) = 6.251$  
- Since $X^2$ is calculated is below 6.251 and is in the acceptance zone. Therefore the Ho must be accepted.

**Interpretation:**

Since the calculated chi-square is in the acceptance zone, the Ho must be accepted. It means that dividend payments are independent of industrial sector. Dividend payments do not depend upon the sector from which a firm belongs. Some firms pay their dividends as stock, cash or as dividends in kind. These findings are not consistent with Dickens et al. (2003) who found that the magnitude of dividend payments differ or vary across sectors. Dickens et al. (2003) further concluded that banking companies typically pay larger cash dividends and more often than sector firms.
4.3 Range of dividend payout ratios

Table 4.2 Range of dividend payouts

<table>
<thead>
<tr>
<th>Range of DPR</th>
<th>Subscribers</th>
<th>Percentage representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10%</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>10% - 20%</td>
<td>18</td>
<td>31.2%</td>
</tr>
<tr>
<td>21% - 30%</td>
<td>9</td>
<td>15.8%</td>
</tr>
<tr>
<td>31% - 40%</td>
<td>5</td>
<td>8.8%</td>
</tr>
<tr>
<td>Above 40%</td>
<td>2</td>
<td>3.5%</td>
</tr>
<tr>
<td>Varying / Not Fixed</td>
<td>11</td>
<td>19.3%</td>
</tr>
<tr>
<td>Other forms</td>
<td>9</td>
<td>15.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data 2014 n=57

Table 4.2 above shows that the 10%-20% payout range had the highest number of subscribers amounting to 31.2% of the dividend payers. Those paying below 10% represent 5% of the dividend payers. Firms are distributing value ranging between 21% and 30% amount to 15.8% of dividend payers. However, there are 11 respondents who highlighted that their dividend policies were not fixed, while 15.8% of the respondents indicated that they have other means of distributing value to stockholders. These findings are in agreement with Lintner (1956) who suggested that firms set target dividend payout ratios by deciding on what fraction of earnings they are willing to pay out as dividends in the long run. The study conducted on the KLSE by Abdulraharman et al. (2007) revealed that 29% of Malaysian firms distributed less than one-third of their profit and this percentage declined in the year 2005 to only 16%. 18% paid out half or more of their earnings. There are some contradictions with the research findings from the Zimbabwean context which have shown firms distributing value above 40% to be 3.5% only. This is an indication that Zimbabwean firms are still trying to pull out of the effects of a wide of macroeconomic problems. Abdulraharman et al. (2007) also found out that the Malaysian companies with low EPS tend to distribute most earnings, but companies with high EPS distribute an average of only one-third of earnings.

4.4 Forms of dividends

Table 4.3 Forms of dividends

<table>
<thead>
<tr>
<th></th>
<th>Banking</th>
<th>Tourism</th>
<th>Insurance</th>
<th>Transport &amp; Communications</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>24</td>
<td>3</td>
<td>12</td>
<td>9</td>
<td>48</td>
</tr>
<tr>
<td><strong>Stock</strong></td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td><strong>Div-in-kind</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24</td>
<td>3</td>
<td>18</td>
<td>12</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: Survey Data 2014 n=57

Table 4.3 above shows that 84% of firms in the Services Sector pay out dividends in the form of cash to their stockholders. This is an indication that cash dividends are popular in Zimbabwe. Stock dividends have a low usage rate with 16% of dividend paying firms using them. The existence of stock dividends could have been necessitated by the liquidity challenges bedeviling the Zimbabwean economy. None of the firms is using the dividend-in-kind method. At this point, it is necessary to establish whether the forms of dividends are dependent upon sector or not. The chi-square will be used to test for independence using the following hypothesis at 5% significance level:

**Ho:** Forms of dividends are independent of the industrial sector.

**H2:** Forms of dividends are dependent upon the industrial sector.

- Degrees of freedom = (4-1)(2-1) = 3
- Significance Test Level = 5%
• Rejection Criterion: $X^25\%(3) = 7.815$
• Since $X^2$ is calculated is above 7.815 and is not in the acceptance zone. Therefore the Ho must not be accepted.

**Interpretation:**
Since the calculated chi-square is in the rejection zone, the Ho must be rejected. It means that the forms of dividends are dependent upon the industrial sector from which a firm belongs. The banking sector has all of its firms paying cash dividends; this view is supported by the findings of Dickens et al. (2003), who concluded that banking companies typically pay larger cash dividends more often than industrial firms. They also concluded that investors often look at dividends as being important return variables.

### 4.5 Dividend policies in use

**Ho:** Dividend policy is independent of sector.

**H4:** Dividend policy depends upon the sector.

Table 4.5: Dividend Policies pursued by sectors.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Banking</th>
<th>Tourism</th>
<th>Insurance</th>
<th>Transport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target ratio</td>
<td>15</td>
<td>2</td>
<td>11</td>
<td>9</td>
<td>37</td>
</tr>
<tr>
<td>Residual</td>
<td>7</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>3</td>
<td>18</td>
<td>12</td>
<td>57</td>
</tr>
</tbody>
</table>

*Source: Survey Data 2014 n=57*

The results in Table 4.5 above show that the majority (65%) of dividend-paying firms in the services sector to use a constant/ target payout ratio, another 25% use the residual policy, 5% use low regular plus extra dividend policy, and another 5% distribute value as a constant dollar dividend to stockholders. The chi-square was used to establish whether dividend policies pursued by firms are independent of the sectors from which the firms belong.

• Degrees of freedom = $(4-1)(3-1) = 6$
• Significance Test Level = 1%
• Rejection Criterion: $X^21\%(6) = 16.812$
• Since $X^2$ is calculated is below 16.812 and is in the acceptance zone. Therefore the Ho must be accepted.

**Interpretation:**
Since the calculated chi-square is not in the rejection zone, the Ho must be accepted. It means dividend policy is independent of sector. Even though the target payout ratio had the highest number of subscribers (65%), the residual policy had a significant number of subscribers (28%) this effectively means there is no dividend policy that is sector specific, policies in use cut across the sectors. This is consistent with Rickard (2012); Fatani and Bildik (2012); La Porta et al. (2000) found that the dividend payout ratios do not differ across industries but differ from country to country. Higgins (1972) also concluded that dividend policy is influenced by other factors other than the industrial sector. Factors like firm size, the effect of leverage, the effect of corporate governance and the effect of the life cycle of the firm, do influence firm’s dividend policy. Grullon (2002) found that it’s not the sector that influences dividend policy, but the life cycle of the firm. For instance, owing to declining investment opportunities and accumulation of undistributed income, mature firms find paying dividends more desirable. In contrast, younger firms need to build up reserves to finance growth opportunities, requiring that they retain their earnings.

### 5.0 Summary, Conclusion and Recommendations

This study was set out to investigate the impact of industry-sector influences on dividend policy of firms in the Zimbabwean services sector. The services sector was divided into five industries. A total of 120 firms
were under investigation in this study. A sample of 88 firms was used. Out of the sampled firms, 57 paid dividends and out of the dividend paying firms 42.2% were banking and asset management firms, 31.5% were from the insurance sector, 14% communications, 5.3% were tourism, and 7% were from the transport industry. The chi-square technique was employed to analysis the data. The findings of the study points to the following:

- The proportion of dividend payers in Zimbabwe’s services sector dropped by 14.8% from 2009 to 64.7% in 2004.
- Dividend payments or announcements are independent of industry in Zimbabwe.
- The largest proportion of dividend payers has DPRs between 10% and 20%.
- The banking industry has the largest number of payers distributing value in the form of cash. Cash dividends are widely used in Zimbabwean firms especially in the banking and asset management industry.
- Forms of dividends used in Zimbabwe are independent of sector.
- The constant or target payout ratio is widely used in Zimbabwe.
- Finally, the study concludes that dividend policy is independent of industry-sector influences.

This study has some additional implications for further research. In particular, it would be more interesting to examine the nature and extend of the correlation that exists between earnings and payout ratios. There is also need to find out the exact effect of dividend policy on firm value. High statistical approaches need to be employed to ascertain the exact relationship between a dividend policy pursued and the resulting firm value. This aspect of dividend policy research has been very important in the theoretical and empirical literature. Also of interest is the need to establish if there is a relationship between a firm’s cash holding levels and dividend policy. The interest here will be to find out if firms that hold huge cash reserves have a tendency to pay high dividends or not.

References


