



Abstract

Cash dividend policy is affected by financial and behavioral factors. Available information in the financial markets reduces the uncertainty and leads to better decisions for the performance and organizational effectiveness. Companies face uncertainty with respect to the world-wide policy, growth, stability, technology and the changes in consumers' tastes. The determinants and factors that influence the decision to pay dividends include the stakeholders' perceptions on dividends announcements, the pattern of dividends payments, the opportunities of investments, the effects on share price, the effects of taxes, and the companies' size.

Keywords: dividends policy, investments, perception, size, tax, and research and development.

Resumen

Distintos factores financieros y de comportamiento afectan la política de pagos de dividendos. La información disponible en los mercados de valores disminuye la incertidumbre y ayuda a tomar decisiones adecuadas para el rendimiento y la efectividad organizacional. Las empresas enfrentan incertidumbre relacionada con la política global, crecimiento, estabilidad, tecnología y cambios en las preferencias de los consumidores. Los factores y determinantes que influyen en los pagos de dividendos incluyen las percepciones de todos los relacionados a la empresa sobre los anuncios de dividendos, los patronos de pagos de dividendos, las oportunidades de inversiones, los efectos en los precios de las acciones, los efectos de las contribuciones y el tamaño de la empresa.

Palabras clave: Política de dividendos, inversiones, percepción, tamaño, contribuciones y investigación y desarrollo

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Introduction

The financial economy has evolved from a stage of the irrelevance propositions of the 50's and the 60's to a stage where theories and empirical evidences offer explanations and guidelines to financial managers (Jensen and Smith, 1984). Since the work of Lintner (1956), numerous studies have been developed related to the dividend policy, in particular the identification of the factors and determinants of dividend policy (Jensen and Johnson, 1995).

Behavioral and economical theories are the main theories used to explain the motives and determinants of dividends policy. The

behavioral theories include “Bird-in-the-hand”, “Agency Theory”, “Signaling Theory”, and “Tax-Preference” (Baker and Powell, 1999), and the economical and financial theories related to the performance, investment, and financing opportunities (Fama, 1974).

The classical models of financial evaluation indicate that dividend policy is important since the share value is equivalent to the present value of the future dividends (Gordon, 1959). However, the relationship between dividends and share prices has been a controversial subject (Baker and Powell, 1999; Bernstein, 1996; Black, 1976; Dempsey, Lafer and Rozeff, 1993; Holder, Langrehr and Hexter, 1998; Litzenberger and Ramaswamy, 1982).

Black (1976) indicates that there are no reasons to pay dividends and describes dividend policy as “dividend puzzle”. According to Miller (1986), providing a rational explanation for dividend policy is one of the central tasks of the corporate finance theory. Brealey and Myers (2002, p. 918) state that dividend policy is one of the “10 problems without solving in finances”. Brigham and Gapenski (2002, p. 549) describe dividend policy as one of the decisions of more judgment than any other area of decision making. According to Van Horne (2001, p. 344), the difficulty to predict the effect of the longer term of a specific dividends policy on the share value, makes the dividend decision more difficult than the decisions of investment or financing.

All financial theories (capital structure, merger and acquisition, asset pricing, and capital budgeting) are influenced by dividends policy. In discussing the related behavioral and economical aspects of cash dividend policy, this article discusses the stakeholders' perceptions on dividends, the pattern of dividends payments, the relationship between dividends and investments, dividends effects on share price, regulatory and tax effects of dividends policy considering the Jobs and Growth Tax Relief Reconciliation Act of the year 2003 (JGTRRA) in the USA, and the relationship between companies' size and dividends.

The Stakeholders' Perceptions on Cash Dividends

Determining the optimal dividend policy and how investors evaluate the cash dividend compared with capital gain are fundamental

subjects in finance. Dividends are more predictable than capital gains. Managers can control the dividends but they cannot fix the share prices. The theory of “bird-in-the-hand” is based on the argument that the dividends are less risky than the capital gains (Baker and Powell, 1999; Keown, Martin, Petty and Scott, 2002). This theory is also related to the motives and determinants of investors to receive dividends in shorter run instead to receive capital gains in longer run.

Although dividend decisions cannot alter the present value of cash payments to investors, it may affect the payouts pattern. Miller and Modigliani (1961) and Bhattacharya (1979) state that for companies that pay dividends, there are no differential costs to produce dividends or capital gain, a dollar of dividends is valorized just as one of capital gains. In this sense, the argument of “bird-in-the-hand” is not a solid explanation why companies pay dividends.

The agency theory is a popular form to explain the relevance of the dividend policy. This theory is initiated by Ross (1973) and Jensen and Meckling (1976) and extended by Rozeff (1982) and Easterbrook (1984), among others. Agency theory explains the conflict of interest between the corporate managers (agents) and shareholders (principles), and exposes that dividend mechanism provides incentives to managers to reduce costs relative to principle-agent relationship (Jensen and Meckling, 1976; Alli, Khan and Ramirez, 1993). To obtain financing, a company is placed under the scrutiny of the capital markets to assure that managers act in the best interest of shareholders (Baker and Powell, 1999; Jensen, 1986).

Greater numbers of shares owned by internal agents versus the ample dispersion of shares are important factors in determining the agency cost and the form of dividends payments. A level of cash flow entails to high agency cost and at the same time to high dividend's payments in order to reduce the agency cost (Holder *et. al.*, 1998). Paying dividends stimulates companies to create new motives in order to obtain their objectives and goals. According to agency theory, companies with an unstable cash flow will pay, on average, a greater proportion of dividends than companies with stable cash flow (Bradley, Capozza and Sequin, 1998). Also, the dividends policy performs an important function in the process to facilitate the primary monitoring of capital market that reduces the agency cost

and thus an appreciation of common stock value (Hansen, Kumar and Shome, 1994).

Dividends announcements are used by managers to communicate (signal) information to the participants of capital markets on the future and efficiency of companies (Ross, 1973). The information includes the profitability, liquidity, and opportunity of investment among other economical indicators. Cash dividend policy is used to distribute the excess of cash to the shareholders, to administer necessities of cash, to maintain adequate structure of capital and to signal to the shareholders the probabilities of future profits and cash flows. This entailed to the formulation of the theory of "dividend signaling".

According to agency theory, asymmetry of information exists on the future of the company. According to Miller and Rock (1985), the effects of the announcement of well-known dividends policy imply asymmetry of information between investors and decision makers. Gonedes (1978) and Watts (1973, 1976) argue that unexpected dividends provide little information to the market. Managers are cautions to reduce dividends to avoid sending a negative signal and not to increase dividends for conservative reasons (Dewenter and Warther, 1998).

According to Goshen (1995), managers with the objective to communicate the future and plans of their companies, can alter the reasons of dividends payment. Dividends signal information on the level of present and future gains (Bhattacharya, 1979; John and Williams, 1985; Kane, Lee and Marcus, 1984; Miller and Rock, 1985; Aharony and Swary, 1980). However, empirical results by Watts (1973), Gonedes (1978), Penman (1983) and Wansley, Sirmans, Shilling and Lee (1991) indicate that the dividends are not good signals of future gains. The reported empirical results (DeAngelo, DeAngelo and Skinner, 1996; Benartzi, Michaely and Thaler, 1997, Goddard *et. al.* 2006) suggest that changes in dividends are not reliable signals on the company's future gains and there are little evidences of a positive relation between the changes in dividends and changes in gains.

Aharony and Swary (1980), Asquith and Mullins (1983), Brickley (1983), Charest (1978), Dielman and Oppenheimer (1984), Kalay and Lowenstein (1985), Michaely, Thaler and Womack (1995), and Zhou

and Ruland (2006) conclude that the changes in dividends produce significant effects of information. Aharony and Swary (1980) and Baker and Powell (1999) found that the share price of a company is affected by unexpected changes in dividends. The changes in dividends are seen as indicators on future changes in the levels of cash flow (Brook, Chariton and Hendershott, 1998; Keown *et. al.*, 2002). Managers can decrease the asymmetry of the information through changes of dividends. Lipson, Maquieira and Megginson (1998) indicate that exist sufficient evidence that the announcements related to increase on dividends are followed by positive increase in share prices.

The Patterns of Dividend Payment

The cash dividends policy and the decision to increase, reduce or maintain the same level of distributed dividends represent one of the challenged areas of financial policy for all corporations (Sterk and Vandenberg, 1990; Baker and Powell, 1999; Keown *et. al.*, 2002). Corporations follow different schemes of dividends' payments. Some companies follow a stable cash dividend policy, other companies pay a constant amount, some companies continuously increase dividends payments every year, and many companies pay no dividends at all (Baker, 1989).

The changes in dividends signal information related to the permanent status of a company (Miller, 1999). Companies would have to avoid eliminations and reductions of dividends for many reasons that include consideration in the share price (Holder *et. al.*, 1998). The investors' reaction to changes in dividends influences companies to be reluctant to increase the dividends unless they think that the increase will be stable for longer term (Dyl and Weigand, 1998; Kallberg, Liu and Srinivasan, 2003).

The increase in the dividends is associated with the expectation of the increase in future profits (Black, Ketcham and Schweitzer, 1995). The reductions in dividends are perceived as negative signals by the investors (Nadler, 1977). It is common to establish a rate of dividends payments below the company's capacity because the companies wish to avoid elimination or lower the rate of dividends. A dividend reduction

signals a clear message to the market on the future of the company and that the management has failed in producing the expected gains and administering the cash flow (Escherich, 2000). If managers are reluctant to reduce dividends, companies with unstable gains pay fewer dividends to maintain a stable cash dividend policy and to avoid the cost of external financing (Howe and Gronewoller, 1990; Kalay, 1980; Moh'd, Perry and Rimbey, 1995). Because many companies pay very small proportion of dividends instead of no amount, there are discrete components to attract the attention through cash dividends (Baker and Wurgler, 2002; Lipson *et. al.*, 1998; Pan, 2001).

By interviewing managers in charge of dividend policy in 28 industrial companies, Lintner (1956) developed a mathematical model to explain the process of dividends decision. Lintner's main conclusion is that managers avoid dramatic changes in dividends payments by making periodic adjustments in the short term. Fama and Babiak (1968) extended the model of Lintner (1956) concluding that managers only increase dividends if they are reasonably safe and can be maintained at the new level.

DeAngelo and DeAngelo (1990) confirmed Lintner's conclusion that the main factor that induces to a change in the dividend policy is the company's profit. Benartzi *et. al.* (1997) expressed that this model is the best description available of dividends policy. This is consistent with the residual theory of dividend that a company will only pay dividends when their generated profits are internally not used for investment (Alli *et. al.*, 1993).

Nevertheless, Bond and Mougoue (1991) conclude that the model does not reflect the individual policies of dividends of each company. On the other hand, Frankfurter and Wood (1997) observed that the patterns of payments of dividends are a cultural issue that impeded construction of mathematical models for all companies at the same time. Baker, Farrelly and Edelman (1985) and Baker and Powell (1999) emphasize the importance of maintaining stable dividend policy.

Jensen and Johnson (1995) examined 268 companies that reduced its dividends payments by 20% or more after determining a policy of stable dividend at least in 12 consecutive trimesters during the period from the year 1974 to the year 1989 and they found that reduction in dividend arises from a previous deterioration of the company,

specifically in the period previous to the reduction. In addition, after one reduction in dividends the companies tend to reduce the cost in assets, activities of external financing and the cost in research and development.

Fama and French (2001) propose a theoretical framework that suggests three characteristics that affect the decision to pay dividends: the yield, the opportunities of investment and the size of the company. They studied the incidence of the companies that pay dividends during the period from the year 1926 to the year 1999, with special interest after the year 1972. The proportion of companies that paid dividends diminished greatly after the year 1978, from 6.5% to 2.08% in the year 1999. The proportion of companies that pay dividends diminished partly as a result of the changing characteristics of the corporations that they quote publicly. The population of these companies tends to be of smaller size, low yield and with great opportunities of growth. All these characteristics are typical in companies that never have paid dividends. The companies have become less motivated to pay dividends independently of its characteristics (Fama and French, 2001).

Bakers, Veit and Powell (2001) realized a study to determine the most important factors, used by American companies that are quoted in NASDAQ, when considering the decisions to pay dividends. The sample consisted of 188 quoted companies in NASDAQ that had paid dividends during the year 1996 and the year 1997. The results suggest many of the managers of the companies in NASDAQ make decisions consistent with the results of the model of Lintner (1956). The findings imply the presence of effects in dividend policy related to the type of industry since the answers in 9 of the 22 factors presented significant differences. The most important determinants of the decisions from dividends turned out to be the pattern of dividends, stability of the gains and the level of the present and future gains.

The Yield of S&P 500 diminished from 6.4% in the year 1980 to 1.4% in the year 2002. However, after the year 2002, the increases in dividends are close to 20%, and companies such as FEDEX, Maxim Integrated Products and Outback Steakhouse announced cash dividends for the first time (Teitelbaum, 2002). Also, some empirical evidences indicate that there is a change in dividends

trend after the Jobs and Growth Tax Relief Reconciliation Act of the year 2003 (JGTRRA) in the USA (e.g. Harden *et. al.*, 2003; Poterba, 2004; Hubbard, 2005; Zhou and Ruland, 2006; Howton and Howton, 2006).

The Relation between Investments and Dividends

Dividends infer companies' plans of investment. The investors can perceive that a company that does not pay dividends as evidence of excellent opportunities of investment. On the contrary, the declaration of dividends is seen as evidence of the weakness of investment opportunities (Baker and Wurgler, 2002; Pan, 2001). As companies face greater risk, the proportion of dividends payments is lower (Dyl and Weigand, 1998). Ofek (1993) suggests that companies facing financial risk in the short-term react quickly reducing dividends, among others alternatives, to make sure that the company continues operations.

On the contrary, DeAngelo and DeAngelo (1990) examine companies associated with financial risk in a longer term and find that one third of the sample companies do not reduce dividends in spite of experiencing losses. These companies confront transaction costs and require other sources of financing to replace money assigned for dividends (Holder *et. al.*, 1998).

However, the empirical studies give no evidence if change in price happened as a result of the information revealed to the market or by a pure effect of dividends (Jensen and Smith, 1984). Although managers can use cash dividend announcements to communicate pertinent information, the change in dividends is not a perfect signal. The increase in dividends may be considered as ambiguous signals if the market cannot distinguish between growing companies and companies that do not make investments (Easterbrook, 1984). According to Goshen (1995), assuming the investment policy of a company is unalterable; dividend policy cannot affect the value of the company.

Baker (1989) surveyed 175 companies in NYSE that did not have paid cash dividends during the period from the year 1980 to the year 1985. Their results indicate that the most important determinants, for companies that do not have established a cash dividend policy,

was the availability of opportunities of investment, availability of cash and the cost of increasing external financing. The investors can interpret that the company does not pay dividends as evidence that this company has excellent opportunities of investment. Brook *et. al.* (1998) indicate that companies that have increased their cash flow also reflect an increase in their dividends during the previous year. This is not the case in companies that have not increased their dividends.

Decision making are influenced by the environment and the context of such decisions. Dividend policy is, as in any other decision making process, affected by internal and external factors. Available information in the financial markets reduces the uncertainty and leads to better decisions for the performance and organizational effectiveness. In addition, the present leaders of business face uncertainty with respect to the world-wide policy, growth, macroeconomic issues, stability, technology and the changes in consumers' tastes (Roberto, 2002).

The great tendencies in investments often are affected by external factors. The embargo of the Organization of Petroleum Exporting Countries (OPEC) to petroleum triggered the shortage of hydrocarbon of the 70's. The Internet stimulated the technological bubble of the 90's. But all great thinkers of Wall Street are predicting that next great tendency will be impelled not by gigabytes but by considering the notion of which dividends are a sign of a future stable corporation. The Effect of Dividends on Share Price

Controversy related to the effect of dividends on the common shares prices exists. Miller and Modigliani (1961) initiated the debate on the relevance of dividend policy. Ross (1973) and Bhattacharya (1979) argue that companies with profitable projects are able to pay high dividends like means to separate those organizations with projects less profitable. The relationship between share price and dividends announcements depends on how much information is contained in the announcements and how much the information can affects the expectations of investors (Black *et. al.*, 1995).

For the vast majority of public companies, cash dividend announcement is an important factor to maximize the value of shareholders (Escherich, 2000; Keown *et. al.*, 2002). However, considerable judgmental and empirical studies suggest that the

dividend policy is irrelevant (Black, 1976; Black and Scholes, 1974; Jose and Stevens, 1989; Miller and Scholes, 1978) where others propose that it affects the value of the company (Baker *et. al.*, 1985; Baker and Powell, 1999; Litzenberger and Ramaswamy, 1979; Long, 1978; Sterk and Vanderberg, 1990). Most of the controversies on the subject of dividend policy arise from the discrepancies between the academic community and professionals (Keown *et. al.*, 2002).

Companies offer to the public new shares necessary to increase the capital required by its optimal dividend policy. If the financing costs are significant, the companies will be inclined to finance investments from retained earnings instead of financing externally, which would affect dividend policy (Fama, 1974; Higgins, 1972). The theory of residual dividend establishes that the dividends paid would have to be equal to the excess of capital after financing the profitable projects of the company. According to this theory the dividend policy influence the market share price (Keown *et. al.*, 2002). The theory of residual dividend also postulates that a company will pay dividends only when generated gains that are not used for investment (Alli *et. al.*, 1993). The companies that are experimenting higher rate of growth will need to maintain minimum payments of dividends to avoid the cost of external financing (Holder *et. al.*, 1998; Rozeff, 1982). Easterbrook (1984) and Jensen (1986) state that opportunity of investment is an important factor that affect dividends policy.

Goshen (1995) establishes that a company that does not pay dividends will have a growth in its share price proportional with its profits. On the contrary, if it paid dividends and finances new investments, the share price will diminish in proportion to the payment of dividends. For these reasons, the companies could be indifferent when taking the decision to pay or not dividends since in both cases the investor maintains a similar amount of wealth. According to Ross, Westerfield and Jaffe (2002), changes in dividends have a significant positive effect on the share price of a company.

Farrelly and Baker (1989) conduct a survey of institutional investors to determine those factors considered important in the dividend policy of a company. Their findings, consistent with Lintner (1956), conclude that investors consider that dividend policy affect the share price. In the United States the magnitude of the change in dividends

influence significantly in the reactions in share prices (Dewenter and Warther, 1998).

Black and Scholes (1974) indicate if a corporation could increase the share price by increasing or diminishing the rate of payment of dividends, then many other companies would do the same, which it would saturate the demand by higher yields or low dividends respectively and it would bring a balance in which the marginal changes in policy of dividends would not have effect on the share price (p. 2). According to Yoon and Starks (1995), when a company announces a reduction in dividend, the analysts reduce significantly their expectations of yield growth at the longer term.

Bakers and Powell (1999) carried out a study with Chief Investment Office (CIO) in charge to determine the dividend policy in their respective companies. A questionnaire was distributed to obtain CIO points of view on several theoretical and practical topics of dividend policy. On a 90% of participants settled down that a change in the dividend policy affects not only the value of the company but also its cost of capital. These results contradict Miller and Modigliani (1961) theory of irrelevance proposition which exposes that an ideal dividend policy does not exist.

According to Miller and Scholes (1982), the relationship between return on common stocks and dividends is attributed to the information that companies disclose. Of nine studies examined related to the relation between shares yield in NYSE and dividends yield, eight of them reported on average a significant relationship.

Asquith and Mullins (1983) and Healy and Palepu (1988) found a moderate positive relation between the declaration of cash dividends and the future profit of the company. Michaely *et. al.* (1995) inform that the companies that declared dividends reflect positive returns during the next 3 years after the declaration. Studies made by Lipson *et. al.* (1998), show that companies have registered favorable profits during the following year of the emission of dividends.

The Tax Effect on Dividend Policy

The tax effect is another explanation of why dividends are important. The theory of tax-preference exposes that the investors

would prefer dividends for contributing reasons since the capital gains have a preferential treatment [at least before JGTRRA (2003)]. According to empirical evidence before the year 2003, it is not possible to conclude that the investors prefer a company with a lower rate of dividends (Baker and Powell, 1999). The tax preference theory suggests that companies would have to maintain a lower rate of dividends payments if they want to maximize share prices (Fama and French, 1998). The argument “tax-clientele” postulates that the investors in low taxation levels prefer shares that pay high dividends when it compares to investors in high taxation levels (Brennan, 1970; DeAngelo and Masulis, 1980; Elton and Gruber, 1970; Litzenberger and Ramaswamy, 1979; Long, 1978).

According to Miller and Scholes (1978), if the ordinary personal income tax is greater than the capital gains tax, many individuals need not pay more than the capital gains rate on individuals. The implication is that individuals will be indifferent between payments in the form of dividends or capital gain (if the firm decides to repurchase shares). Thus the firm’s value may be unrelated to its dividend policy even in a world with personal and corporate taxes.

Brennan (1970) presents how the taxations levels of the dividends versus the capital gains could induce a company to diminish its dividends. There is an assumption of trade off between dividends policy and capital gains. This trade off is based on the tax effect on dividend policy versus capital gains. The companies that pay dividends are in competitive disadvantage on those that do not adopt it (Black, 1976; Fama and French, 2001).

Legal obligations are important factors in determining the level of dividends payments (Goshen, 1995). Changes made to the US tax code challenge managers to adopt a steady cash dividend policy. Taxation is one of the most critical variable in considering cash dividend (Howton and Howton, 2006; Zeng, 2003). The GTRRA (2003) by reducing the dividend tax to 15% increase dividend payment compared to capital gain (Hubbard, 2005).

After the GTRRA (2003), some empirical evidences show an increase in dividend payment by US companies (Harden, Biggart and Richmond, 2003; Howton and Howton, 2006; Hubbard, 2005; Poterba, 2004; Berger and Bogdanowicz, 2003). For example, Howton

and Howton, (2006), state that a significant number of firms with low or nonexistent dividend payouts started paying dividends after the GTRRA (2003) and during the year 2004 the change was more than 12%.

It seems that there is a need to conduct more research to verify the GTRRA (2003) implications on US companies' cash dividend policies and whether the increase is a steady increase or merely a temporarily increase.

The Companies' Size and Dividends

Larger-sized companies and smaller-sized companies differ in many aspects including cash dividend policy. Larger-sized companies tend to have an easier access to the capital markets. This is by reducing the dependency on generated funds internally and allows payment of higher rate of dividends (Zeng, 2003; Holder *et. al.*, 1998; Lloyd, Jahera and Page, 1985; Vogt, 1994).

In examining a sample of 148 companies (124 that pay dividends and 24 that do not pay dividends) in the period from the year 1980 to the year 1985, Mozes and Rapaccioli (1995) argue that the company's size is independent of the decision of dividends payments. However, Bajaj and Vijh (1990) argue that the effects in the share price due to changes in dividends are more significant for smaller sized companies. According to Gaver and Gaver (1993), the yield and payment of dividends is positively related to the size of the company.

Fama and French (2001) studied the incidence of companies that pay dividends during the period from the year 1926 to the year 1999 with special interest in the period after the year 1972 (the data cover companies in NYSE, AMEX and NASDAQ). The total assets of the selected companies would have to be available in the announcement year (t) and prior year (t-1). In order to measure the yield, operating income before interests to the added assets (E_t/A_t) was used. Investment opportunities were measured by market value to book value of the assets (V_t/A_t). The variable used to measure the size of the company was the percent in NYSE (NYPt), that is, the percent of companies in NYSE that have equal or smaller capitalization. The results conclude that the yield, the opportunities of investment

and the size of the company are characteristics that affect dividends policy. The greater and more profitable companies tend to pay more dividends. The organizations with greater investments tend to pay fewer dividends.

Dyl and Weigand (1998) found that the risk of company is significantly smaller immediately after the declaration of initial dividends. The change in risk is more pronouncing in larger-sized companies than in smaller-sized companies. The sample for their study consisted of 240 companies in NYSE and AMEX that initiated payments of dividends during the period from the 1972 to the year 1973. Companies were selected that paid no dividends at least 4 years before the announcement of the initial dividend and that the yield is available on data at least one year before and one year after the announcement.

Conclusions

Dividend policy, especially understanding how managers use dividends announcements to signal information to investors, is a central issue in behavioral finance. But the dividend payment issue has been one of the most studied phenomena in the finance literature. Dividends constitute the primary cash payment to stockholders, the greater the expected future stream of dividends, the greater the value of the stockholder's share.

A firm's decisions with respect to dividends are often intertwined with other financing and investment decisions. A company has to decide if use the cash flow to research and development or to pay dividends. This decision has extremely importance and responsibility because the theoretical discrepancies about its effects on the enterprise.

Dividend policy is influenced by internal factors such as income, liquidity and agency cost, and external factors such as stock price, tax issues and company size. Actually, discrepancies exist about the factors affecting the dividend policy. This situation encourages continuing conducting research to provide answers to these controversies. On one side there is a conservative group that believes high dividends increase firm value. On the other side there is a group that believes

high dividends bring high taxes, and therefore, reduce firm value. And in the center there is a middle-of-the-road party that believes dividend policy makes no difference.

Some managers argue that dividends payments signal a positive message about firm's financial condition. Others argue that dividends payments signal that the company has fewer investment opportunities. Managers can alter the dividend payment ratio to manipulate the firm's future performance.

It is difficult to argue that only economical and financial variables are the significant determinants of dividends policy. Behavioral theories try to offer more realistic explanations for dividends policy. Legal aspects and changing in taxations laws seem to alter the dividends trend.

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