

Perception of Investors towards Dividends, Retained Earnings and Share Prices in Nepal

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Abstract: *This paper examines the attractiveness of dividends as opposed to retained earnings as well as the factors affecting market share price in Nepal. The primary data is used to meet the objectives of the study. The outcome of this paper suggests that the investors in Nepal prefer dividends to retained earnings because dividends portray information to shareholders that the company is doing better. The factor of earnings of the company is the most important factor that affects the share price in Nepal. On the other hand, the experience of managing director is the least important factor affecting share price which is in contrast to the other previous studies results.*

I. INTRODUCTION

Dividend is the result of a discretionary decision made by the board of directors of a firm. Generally, a firm announces dividend on profit made by the company. Corporate dividend policy is one of the most enduring issues in modern corporate finance. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm (Weston & Copeland: 1992). Dividend policy involves the decision to pay out earnings versus retaining them for reinvestment in the firm. Miller and Modigliani (1961) in their classical work gave a neat theory stating that given the investment decisions of the firm, the shareholders should be indifferent between amount distributed and retained in the firm. However, in practice, the assumption of capital market perfection does not hold and dividend policy is relevant.

There are two different views regarding the dividend policy and stock price. Those who think dividends have more impact in determining share price, argue that

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shareholder prefers current return rather than future return and dividend distribution is an indicator of earning capacity in future. The other views are based on the importance of retained earnings. They argue that retained earnings are indicator of future investment opportunities. The shareholders can enjoy tax advantages in retained earnings. For tax purpose, retained amount is not treated as income until it is realized.

II. STUDY OBJECTIVES

- To identify whether dividends or retained earnings is more attractive to the investors in Nepal.
- To survey the opinion of investors on factors affecting market share price in Nepal.

III. METHODOLOGY

The questionnaire is distributed to the investors to know their perception on attractiveness of dividends or retained earnings and the factor affecting market share prices in Nepal. The questionnaire was designed into two parts. First part considers the background information on respondents and second part deals with general question to examine the major factors affecting market share price in Nepal and attractiveness of dividends or retained earnings to the investors in the context of Nepal.

IV. SAMPLE

The questionnaires were distributed to the investors from different backgrounds, including those who are involved in academic institutions, government service, private service, professional services as well as, the self-employed and others. It was distributed to 250 respondents from different sectors. Total 107 usable questionnaires were obtained with 42.8 percent response rate. The following information and table consists of detailed profile of respondents.

- **Gender:** Among the 107 respondents, 91 were male which covers 85 percent of total respondents and 16 were female that is 15 percent of total respondents.
- **Investment:** The majority of respondents have investment in banking sector i.e. 73.8 percent and 26.2 percent respondents have investment in non- banking sector. Where the banking sector includes commercial banks, development banks, finance company and non-banking firms includes those industries other than the banking firms.

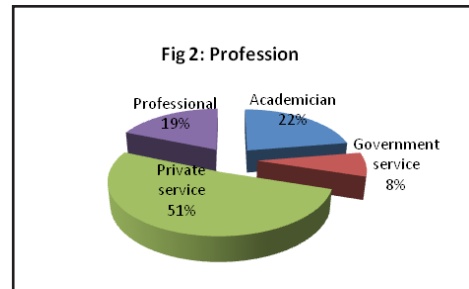
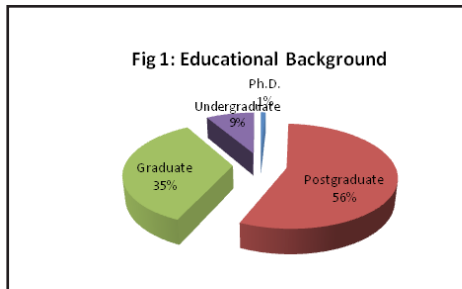
As evident from the above table and figures, the majority of person responding to the survey (38.3 percent) reported working career of two to five years and second largest 33.6 percent has a working career of 10 years and above, and followed by 6-9 years working experience and below two years. As regards to educational level of respondents, the majority of person responding to the survey (55.7 percent) holds the postgraduate degree. There are also a good number of holding the degree of graduate i.e. 34.9percent followed by undergraduate (8.5percent) and Ph.D. (0.9percent). The largest number,

51.4 percent of respondents are from private service, 22.4 percent academician, 18.7 percent are professional (auditors, lawyer etc.), and 7.5 percent from government service.

Table 1: Background Information of Respondents

This table summarizes the background information of 107 respondents categorizing with working experience, educational background and professions.

Working Experience	N	percent	Educational Background	N	percent	Profession	N	percent
Below 2 yrs	8	7.5	Ph.D.	1	0.9	Academician	24	22.4
2-5	41	38.3	Postgraduate	60	55.7	Government service	8	7.5
6-9	22	20.6	Graduate	37	34.9	Private service	55	51.4
10 yrs and above	36	33.6	Undergraduate	9	8.5	Professional (Auditors, lawyer etc.)	20	18.7
Total	107	100	Total	107	100	Total	107	100



V. Results and Discussion

The table 2 and figure 3 shows the majority of respondents stated that the investors prefer dividends rather than retained earnings. Total 61percent (i.e. 65 respondents) prefer dividends while 29percent (i.e. 31 respondents) prefer retained earnings and remaining 10percent (i.e. 11 respondents) are indifferent whether companies pay dividends or retained earnings.

Table 2: Respondents' Views on Attractiveness of Dividends or Retained Earnings in Nepal

This table summarizes the view of 107 numbers of respondents describing the attractiveness of dividends or retained earnings in Nepal.

Variables	Frequency	percent
Dividends	65	61
Retained Earnings (R/E)	31	29
Indifferent	11	10
Total	107	100

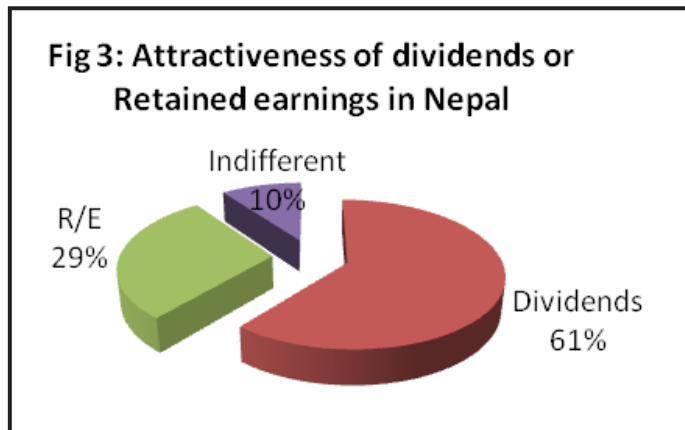


Table 3: Respondents' Views on Factor Affecting Share Prices in Nepal

This table summarizes mean weight of the given statements on the view of 107 respondents describing the major factor affecting share price. The mean values of each alternative are computed the number of responses' ranking with the statement, where one (1) assigned for very important and five (5) for the not important.

Factor affecting share price	very important (1)	Important (2)	Indifferent (3)	least important (4)	not important (5)	No. of respondents	Mean weighted average	Rank
Dividend declared by the company	45	50	6	2	1	104	1.69	3
Issue of bonus shares	55	44	4	1	2	106	1.59	2
Government tax policy	27	39	25	10	2	103	2.23	5
Political events	58	28	7	6	6	105	1.80	4
Past stock prices	14	50	28	10	5	107	2.46	7
Earnings of the company	57	44	3	2	0	106	1.53	1
Market rumors	26	44	20	10	5	105	2.28	6
Experience of managing directors	17	35	26	16	12	106	2.73	8

According to the table 3, the factor of "Earnings of the company" (with mean value =1.53) is the most important factor that affect the share price in Nepal. The factor of "Issue of bonus shares" (with mean value = 1.59) is the second most important factor. Similarly, the factor of "Dividend declared by the company" is the third most important factor. The least important factors are "Political events" followed by "Government tax policy", "Market rumors", "Past stock prices" and "Experience of managing directors".

VI. CONCLUSION

The study had the objective to gauge the opinions and views of investors in Nepal on factors affecting market share price and the attractiveness of the dividends as opposed to retained earnings. The study was undertaken by distributing questionnaires to the

investors from different backgrounds. The paper suggests that Nepalese investors prefer dividends rather than the retained earnings and that the market price of share is highly affected by the earnings of the company. And in contrast to the other studies findings, this study suggests that the experience of managing director is the least important factor affecting share price.

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