Determinants of the Dividend Policy of Companies Listed on the Stock Exchange of Mauritius

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Abstract
Dividend policy is an unsolved mystery in the field of finance. Even after decades of investigations, scholars still disagree on the factors that influence dividend decisions of companies. Hence, this paper explored the determinants of dividend policy of companies listed on the Stock Exchange of Mauritius. To attain the objectives of this study, a sample of 30 companies were selected and analyzed from the Stock Exchange of Mauritius using the regression analysis. The fixed and the random effect model were conducted to determine the effects of earnings per share, net income, retained earnings, cash and debt to equity on the dividend policy of the listed companies operating in the Mauritrian Stock Exchange and for this purpose; companies’ annual reports for the period 2009-2013 were used. Moreover, two measures of the dividend policy were considered namely the dividend per share and the dividend payout ratio. The study also attempted to provide a comparison between the dividends policies of companies listed on the official market with that listed on the DEM. The findings show there is a significant negative relationship between companies’ dividend policy and their retained earnings. Furthermore, the results indicate that there is no meaningful connection between the dividend policy and a company’s cash and debt to equity ratio.

Key Words: Dividend Policy, Stock Exchange of Mauritius, Fixed Effect Model, Random Effect Model, Retained Earnings
1. Introduction

The development of the dividend policy walks in hand with corporate development. In fact, it was found that the dividend policy was propelled by the changing shape of financial markets. In the early stages of corporate history, managers realised the importance of dividend payments in fulfilling shareholders expectations. Dividends were often smoothened on the belief that any reduction in dividend might have an adverse consequence on share price. Moreover, it was perceived that without a regular and reliable corporate reporting, dividends were considered as the best indicator of a company’s corporate performance to the market. Essentially, since the 1950’s, there is great debate by finance scholars about corporate dividend policy issues and on how it can impact a firm value.

The “Dividend Puzzle” as referred by Fischer Black (1976) fascinated many academicians and researchers resulting in the advent of a number of hypothetical clarifications for dividend policy. This stipulated much debates among financial analysts. However, even after substantial amount of research, there is no similar response to the question: what are the determinants of the dividend policy? Therefore, this study regards the determinants of the dividend policy of companies listed on the Stock Exchange of Mauritius.

This paper focuses on the factors affecting the dividend decision of public listed companies. The specific aims are to analyse the financials of companies that are responsible for dividend declaration, to determine how they affect the dividend decision and to examine existence of differences between markets.

2. Determinants of Dividend Policy

When deciding about the amount to be distributed to shareholders, one of the main concerns of directors would be the proportion of earnings that they want to hold in order to meet financing needs. Nevertheless, the decision on how much company’s profit to retain and how much pay out to shareholders is influenced by many other factors as follows:

Companies’ Profitability

Since dividends are paid out of profits, it is impossible for an unprofitable company to forever go on paying dividends from past retained profit. According to Lintner (1956), a firm's net earnings are an important factor influencing dividend payments. Ceteris paribus, the pecking order theory states that if the costs of debt and equity are considered, low profit firms will not consider it ideal to pay dividends. Conversely, high profitable firms will have greater ability to pay dividends.

Net Income

Net Income is the income left after the deduction of all expenses, interests and taxes. A company’s possibility of paying dividends is directly related to the net income of the same company. As such, highly profitable companies are more expected to pay high dividends.
Retained Earnings

Retained Earnings are earnings stored by company for future use and are considered to be an outstanding indicator of a company’s possible dividend policy. Accordingly, retained earnings can be used to determine the future financial performance of a company.

Cash Balance

In order to declare cash dividends, companies must have enough cash at its disposal. Thus, companies which have poor working capital are unable to adopt a liberal policy of cash dividend and are therefore forced to distribute dividends in other forms. Alli et al (1993) declared that dividend payments are more influenced by cash flows. Brealey-Myers (2002), later, on his part, revealed that managers will not raise dividends unless they are optimistic that there will be adequate cash flow.

Company’s Debt

When a firm obtains finance through debt, it has a fixed financial obligation which includes payments of interest and the initial amount. Inability to comply with these commitments may lead the company into bankruptcy. Hence, high level of financial leverage increases the risk of low dividend payments. In other words, ceteris paribus, companies must sustain their internal cash flow to meet their commitments. This view was supported by Rozeff (1982) who specified that companies having high gearing are likely to have low payout ratios.

Type of industry in which company is operating

Companies in industries like public utilities are regarded to have stable earnings and hence a more consistent dividend policy than those having a volatile flow of income.

Years of companies existence

Newly formed companies need to consistently invest their earnings for improvement and expansion. Old companies, on the other hand, have attained a longer earning experience and can consequently be liberal in its dividend distribution.

Business Cycles

During period of boom, risk-averse corporate managers build up its reserves to face future crisis following the period of inflationary. Greater dividend policy acts as a good marketing strategy for securities in depressed market.

Government Policies

The government may directly restrict the rate of dividends that companies can pay. For instance, at times, the government may limit the amount of dividend professed by companies in a particular sector.

Taxation Policy

Corporate taxes influence dividends both directly and indirectly. Directly, tax reduces the
residual profits available to shareholders and indirectly dividend distribution above a specific amount is prone to tax.

**The law on distributable profits**

Legislations may bind companies to pay out dividends solely out of accumulated net realized profits.

**Capital impairment rule**

Many countries forbid the payments of dividend if this is seen to be impairing its capital.

**The rule of insolvency**

Some countries prohibit the payment of cash dividend if the company is insolvent.

### 3. Literature Review

Farelly et al. (1988) considered dividend policy to be very relevant and essential. Fama and Babiak (1968) and Fama (1974), on their part, stated that managers favour stable dividend policy and are reluctant to augment dividends to an amount that cannot be sustained.

There are various determinants of the dividend policies of companies and researchers have worked a lot in determining which factor most contribute to the decision making of the dividend. The prime indicator of the company’s ability to distribute dividends is said to be dependent on the company’s profit.

#### 3.1 Relationship between Dividend Policy and Profitability

The study conducted by Aivazian, Booth, and Cleary (2003) shows that dividend payout ratio is positively related to profitability and return on equity. According to E.F. Fama and K.R.French (2001), dividend decisions are influenced by Firm Size, Profitability and Investment opportunities. They studied dividend payments in the United States and concluded that about one fifth of public companies pay no dividend, among which there are growth firms like Microsoft, Cisco and Sun Microsystems. They argued that a company’s likelihood to pay dividends are positively associated to profitability and size but adversely to growth that is, unlike companies with investment opportunities, large companies are more lucrative and tend to pay dividends. Alike, Jennifer J. Gaver and Kenneth M. Gaver (1993) proposed that the dividend yield of a company is adversely correlated to its growth opportunities. The reasoning is that smaller companies have better investment opportunities and therefore are likely to avoid paying dividends since the dividend coefficient falls as a result of an increase in cash flow.

#### 3.2 Relationship between Dividend Policy and Net Income

Lintner (1956) carried out a study on the dividend distributions of 28 selected companies, based on which, he deduced that companies first set up their dividend policies and then other policies are adjusted. He stated that the market responds positively to announcements of rise in dividend and vice versa. Also, he found earnings to be a major factor of dividend policy.
As such, Lintner dividend model suggests that a company’s dividend payout ratio is based on its current level of earnings. He said that a company’s payment pattern depends on present earnings and past years dividends.

Fama and Babiak’s (1968) study concluded that net income better explains change in dividend decision than cash flow. Adaoglu (2000), Amidu and Abor (2006) and Belans et al (2007) declared that there is a positive relationship between dividend payout and net income suggesting that companies which have positive earnings pay higher dividends.

The survey of Baker and Powell (2000) on 562 NYSE-listed companies shows that the primary determinant of dividend policy is future expected level of earnings and stability in previous dividends. Mick and Bacon’s (2003) study concludes that dividend decision is not only influences by future earnings but is also influenced by past, present and expected dividend patterns.

As a consequence of a study conducted on firms listed on Istanbul Stock Exchange, Adaoglu (2000) declare earnings to be the main factor affecting the amount of dividend. Similar deduction was generated by Omet (2004) based on companies listed on Amman Securities Market but he also commented that tax obligation had no significant effect on the dividend behaviour of a company. The findings of DeAngelo et al. (2004) show that earnings have no effect on dividend payments. In other words, it means that increasing earnings concentration may lead to increasing dividend concentration.

### 3.3 Relationship between Dividend Policy and Retained Earnings

Past studies have showed that dividend payments are affected by both existing and historical years’ profits. Based on the study of 221 German firms, Goergen et al. (2005) found that the principle reason for dividend changes is the net earnings.

While the study conducted by Ferris et al. (2006) indicate mixed results about the link between a firm’s earnings and its capacity to pay dividends, Kao and Wu (1994) made use of time series regression analysis by considering 454 companies from year 1975 to year 1984 and concluded that there is a positive relationship. The result of Carroll (1995) was similar since he found a significant positive relationship after examining quarterly data of 854 firms over the time-span of 1975 to 1984.

Benchman and Raaballe (2007) recorded a positive correlation between the propensity to pay out dividends and retained earnings. Furthermore, a research by Denis and Osobov (2006) discovered that important main determinants of dividend of non-US firms including the UK, German and French companies are retained earnings.

### 3.4 Relationship between Dividend Policy and Size of firm

A research conducted on market capitalization by Norhayati Mohamed, Wee Shu Hui, Mormah Hj.Omar, and Rashidah Abdul Rahman on 200 top Malaysian companies over a
period of 3 years ended 2005 lead to the conclusion that larger firms pay higher dividends. Based on the study of Baker et al. (2007), it can be found that companies that pay high dividends in Canada are considerably bigger and more lucrative, having higher cash flows, ownership structure and some growth prospects.

Naceur et al (2006) studied the dividend policy of 48 companies which are listed on the Tunisian Stock Exchange for the year 1996-2002 and reported that lucrative companies with constant earnings can support bigger free cash flows and pay higher dividends.

3.5 Relationship between Dividend Policy and Liquidity

The research of Ho, H. (2003) revealed that dividend policies are positively influenced by size and liquidity in Australia and Japan respectively. Liquidity is a significant factor determining dividend policy. Poor liquidity position will result in shortage of cash and hence fewer dividends. Hence, according to Alli et al (1993), dividend is more dependent on a company’s cash flows which reveal a company’s capacity to pay dividends rather than current earnings which can be easily manipulated through accounting. They argued that current earnings do not represent a company’s capacity to pay dividends and that companies not backed back by cash flow cannot opt for high payout since ultimately it will either be forced to reduce its investment projects or search for additional debt. This was supported by Brook, Charlton and Hendershott in 1998 where companies which were expecting large augmentation in permanent cash flow raised their dividend. However, unlike Belans et al (2007) who reported that a firm with more market liquidity is likely to make higher dividend payments, Amidu and Abor (2006), on the other hand, found an opposite relationship.

Myers and Bacon's (2001) study indicate that the liquid ratio and dividend payout are negatively correlated. Later in 2002, Brealey-Myers hypothesized that managers will not augment dividends until they are assured that they will be adequate cash movements to match dividend payment.

4. Model Specification

The study is based on the analysis of balanced panel data and consequently, two set of cross-sectional regressions are run of the form:

1. \[ Y_{1it} = \alpha + \beta_1 X_{1it} + \beta_2 \log(X_{2it}) + \beta_3 \log(X_{3it}) + \beta_4 \log(X_{4it}) + \beta_5 X_{5it} + \epsilon_{it} \]
2. \[ Y_{2it} = \alpha + \beta_1 X_{1it} + \beta_2 \log(X_{2it}) + \beta_3 \log(X_{3it}) + \beta_4 \log(X_{4it}) + \beta_5 X_{5it} + \epsilon_{it} \]

Where \( Y_{1} \) and \( Y_{2} \) are the dependent variables and represent a measure of the dividend policy which are the DPS and the Dividend Payout respectively \( X_{1}, X_{2}, X_{3}, X_{4} \) and \( X_{5} \) are the independent variables and denotes the determinants of dividend policy. They stand for EPS, Net Income, Retained Earnings, Cash and Debt to Equity respectively. \( \alpha \) is the intercept of the model, also known as the constant; \( \beta_1, \beta_2, \beta_3, \beta_4 \) and \( \beta_5 \) represents the coefficient of each variables; \( \epsilon \) is the error term; \( i \) and \( t \) symbolizes individual companies and the time
Variables Definitions

In the formulation of the econometrics models, various variables are used as follows:

Dependent Variables (Y’s)

Dependent variables are what are being affected during the experiment. The dependent variables respond to independent variables i.e. it depends on the independent variables.

Y1: DPS

DPS is the main measure of companies dividend policies as it refers to the amount of dividend a shareholder will receive for each share held.

Y2: Dividend Payout

Dividend Payout is another indicator used to measure a company’s dividend policy. It refers to the percentage of overall net income that is paid to shareholders as dividends.

Independent Variables (X's)

Independent variables are the presumed caused and are tested to see if they affect the dependent variable.

X1: EPS

One of the key determinants of the dividend policy is the profitability of a company and this is measured by the EPS.

EPS used in this study is either obtained from the financial statements of the companies or calculated using the above formula. It is assumed that there exists a positive relationship between EPS and a company’s dividend policy.

X2: Net Income

Net income indicates the financial situation of a company. It reveals whether a firm is doing well or not such that large profits facilitate dividend payments. Therefore, net income is found to be a vital factor of dividend policy. The net incomes of the companies are found from their respective Income Statements and are logged for testing with a view to improve the model. The relationship theorised between dividend policy and net income is a positive one.

X3: Retained Earnings

Retained Earnings are earnings companies keep for future growth and investment opportunities. Denis and Osobov (2006)”s study stated that retained earnings is a major dividend representative. Thus, retained earnings are found to be a crucial determinant of dividend policy. Retained earnings of the companies are taken from their respective Balance Sheets. However, the retained earnings figures have been logged in order to make the relationships between variables more linear. According to Benchman and Raaballe (2007), the tendency to distribute dividends is positively related to retained earnings.
X4: Cash and Cash Equivalents

Cash and cash equivalents is net money coming into the business. A lucrative firm can still have insufficient money to pay dividends. The dividend decision, therefore, rest on the amount of cash that the company holds and this figure is obtained from the Balance Sheets and is logged to reduce the effects of outliers. The relationship between cash and dividend policy is assumed to be positive.

X5: Debt to Equity Ratio

Debt to equity is the fraction of total debt including both short term and long term over shareholders equity.

5. Methodology of Study

For the purpose of this study, multi regressions models were formulated, a panel data set of 30 companies listed on the SEM was constructed over a sample period of 5yrs from 2009 to 2013 and these were subsequently tested using a statistical software package called SmallStata 12. SmallStata 12 is used as it is viewed as effective and reliable software for testing panel data.

The tests performed are namely Heteroskedasticity, Hausman, Fixed Effect and Random Effect, and the Multicollinearity test.

6. Data Analysis

6.1 FE model

The FE model takes into account the individuality of each company and thus, allows the intercept to vary for each company. The differences may be due to characteristics specific to individual companies, such as the style and philosophy of management. However, each individual’s intercept does not vary over time.

6.1.1 Overall Model Fit

<table>
<thead>
<tr>
<th>Table 1: Model 1 - Overall Model Fit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of obs</td>
</tr>
<tr>
<td>Number of groups</td>
</tr>
<tr>
<td>Prob &gt; F</td>
</tr>
</tbody>
</table>

Number of observations used in the regression analysis amounts to 150 based on 30 companies. The p-value associated with the F-statistic is used to test the null hypothesis which states that all the coefficients are equal to zero. Given the value obtained is statistically significant that is less than 5%, it implies that that the model is nicely fitted.
6.1.2 Variables’ Coefficients and Significance

Table 2: Model 1-Coefficient and significance of independent variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>P &gt; 1 t 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>0.1729411</td>
<td>0.018</td>
</tr>
<tr>
<td>Net Income</td>
<td>-1.82971</td>
<td>0.044</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>-0.1912532</td>
<td>0.06</td>
</tr>
<tr>
<td>Cash</td>
<td>-0.1113578</td>
<td>0.604</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>-0.1780417</td>
<td>0.598</td>
</tr>
</tbody>
</table>

Two-tailed p-values associated with t-statistics are used in testing the null hypothesis that the coefficient is zero at a 10% significance level. Consequently, it can be deduced that the EPS is statistically significant in explaining DPS.

This supports the findings of Malkawi (2007) and Kevin (1992) who found that profitability of firms are one of the foremost factors influencing dividends. The model shows that DPS of companies listed on the SEM increased by 0.1729411 when EPS went up by one. Thus, the relationship attained for DPS and EPS is a positive one and is in alignment with theory. As EPS increases, so does DPS and vice versa. Actually, changes in DPS indicate mainly what has happened to profitability.

Moreover, from the model, Net Income is also found to be a significant factor influencing companies’ DPS in Mauritius. This is in line with Gitman’s (1991) and Pandey (2001)’s findings where they found that the amount of dividend payments is influenced by current net income. However, the relationship between DPS and Net Income is against the theory. The model indicates that DPS decreased by 1.82971 when Net Income went up by one.

Another determinant that proved to be significant is the Retained Earnings. AlTwaijry (2007)’s study confirmed that current dividends are affected by the past earnings. It can be found that DPS fell by 0.1912532 when Retained Earnings went up by one. In fact, the relationship expected should have been positive but the one obtained is negative.

The significant negative correlations that exist between the DPS of the observed companies listed on the SEM with its Net Income and Retained Earnings are however justifiable. Some companies despite having a positive net income and a large reserve pay no dividend because they prefer to grab the investment opportunities available on the market so that they can grow and produce higher profits. Such behaviour is not unfamiliar among growing companies. Union Sugar Estates Co Ltd, for instance, paid no DPS in year 2009-2010 and paid a constant DPS of Rs1.07 in year 2011-2013 despite witnessing
an average growth of 8% and 1% in retained earnings and cash respectively for the year 2009-2013. Such companies take advantage of all investment opportunities available such that only if money is left after this course of action will it be distributed as dividends. The Board of these companies believes that the company’s shares are still tempting; even though dividend payments are not present, the prices of shares will increase, due to growing book value of the firm. In other words, when these companies perform well, their demand increases since in the long run greater profits equate higher share prices. So if a company invests in itself in order to grow higher profits, the principal reason in buying its shares will be expected future capital gains. Thus, enabling companies to achieve its main objective of maximising shareholders wealth.

This strategy was adopted by Apple, Inc., one of the largest companies in the world, between 2005 and 2012. It did not pay dividends on its ordinary shares, in spite of recording an earnings growth in that period. During the financial year ended 24 September 2011, Apple declared a net income of about US $26 billion, of which $0 were proclaimed for dividends. Similarly, companies listed on the SEM like United Bus Service Ltd, United Investments Limited and the Union Sugar Estates pay no dividends despite having a positive net income while others pay less or same DPS despite the fact that the company’s net income and retained earnings are increasing.

On the other hand, companies may happen to pay more or same DPS even though net income is and retained earnings are decreasing if they believe that they have built up sufficiently strong reserves in the past to sustain their dividend payments. For example, Plastic Industry Ltd.’s DPS was reduced by only 19% despite the fact that its net income fell drastically by 63% in 2013 because its reserves were large enough to sustain the dividend payments. Furthermore, companies may refuse to decrease DPS even though net income and retained earnings are falling for fear of creating a bad reputation. If DPS falls, shareholders may feel insecure about holding the company’s share. Thus, they will try to get rid of the shares believing that these companies are underperforming. Therefore, to avoid distortion in the market and hence, prevent share price from falling, companies do maintain the same DPS.

Moreover, some companies’ dividend policy may be such that they will pay same amount of DPS for consecutive years. This is the case for Associated Commercial Company Ltd which paid Rs4 DPS for the three consecutive years 2011-2013.

6.1.3 Coefficient and Importance of Variables

| Variables | Official Market Coefficient | P > | t | | DEM Coefficient | P > | t | |
|-----------|----------------------------|------|---| |                       |------|---|---|
The main determinant affecting the DPS of companies in the Official Market is the Net Income while in the DEM, it is the EPS. As such, DPS in the Official Market decreased by 0.8247731 when Net Income went up by one and DPS in the DEM increased by 0.2579627 when EPS increased by one. However, relating to the results obtained for the Official Market, the relationship between DPS and Net Income does not support the theory and empirical evidences. The companies listed in Mauritius’s Official Market will increase DPS even when Net Income is falling and would do contrary when Net Income is increasing. Such a dividend policy is weird since companies” ability to pay DPS normally increases when Net Income increases. However, companies on the Official Market do not react this way. The idea behind paying more DPS even though net income is falling may be because companies believe that it has strong cash and retained earnings reserves to sustain this. Similarly, companies may reduce DPS despite the fact that Net Income of the company is rising if it doubt its future ability to sustain such a level of DPS. In other words, managers are reluctant to reduce dividends because of possibly sending a negative signal related to net income. Also, there is some reluctance to increasing dividends because they may have to cut them in the future. In fact, Farrelly and Baker (1989)’s findings suggest that investors consider that dividend policy affect share prices and thus will react accordingly to any changes in dividend policy.

Looking at the DEM, it is deduced that the main significant determinant of DPS is the EPS and results show that they are significantly positively correlated. As such, this is in line with stated theory and supports the observation of Myers (2004) who found a strong support for profitability on dividend decisions.

6.2 Model 2: Dividend Payout as a measure of Dividend Policy

The Dividend Payout Ratio is used as another measure of the Dividend Policy in order to determine the factors influencing dividend decision of companies listed on the SEM. For this reason, the following econometric equation is being run:

\[ Y_{2it} = \alpha_i + \beta_1 X_{1it} + \beta_2 \log (X_{2it}) + \beta_3 \log (X_{3it}) + \beta_4 \log (X_{4it}) + \beta_5 X_{5it} + \epsilon_{it} \]
6.2.1 Overall Model Fit

Number of observations used in the regression analysis amounts to 150 based on 30 companies. The p-value associated with the F-statistic is statistically significant at the 5% significant level. Therefore, we reject the null hypothesis and conclude that all the coefficients are not equal to zero and that the model is a nicely fitted one.

6.2.2 Variables' coefficients and significance

Two-tailed p-values associated with z-statistics are used in testing the null hypothesis that the coefficient is zero at a 10% significance level. Accordingly, it can be deduced that the Net Income and the Retained Earnings are statistically significant in explaining Dividend Payout. While the relationship obtained for Dividend Payout and Net Income is in line with theory, the relationship between Dividend Payout and Retained Earnings is found to be negative which contradicts theories. According to the model, Dividend Payout increased by 0.1368822 when Net Income when up by one and decreased by 0.2732735 when Retained Earnings went up by one.

Dividend Payout refers to the amount of dividend paid out to shareholders relative to the amount of total income and it is found that as net income increases, companies tend to increase their payout ratio.

However, companies listed on the SEM do not increase dividend payout when retained earnings increases. The relationship found suggests that companies tend to reduce their Dividend Payout when Retained Earnings increases and vice versa. In practice, companies may reduce their payout ratio even though retained earnings are increasing since dividend payout ratio is in terms of percentage so any proportionate increase in dividend payout may seem unrealistic to maintain in the future. For instance, if a company has a retained earnings and dividend payout of Rs 20m and 20% respectively, an increase in retained earnings to

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>P &gt; 1 z 1</th>
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</thead>
<tbody>
<tr>
<td>EPS</td>
<td>-0.0009178</td>
<td>0.754</td>
</tr>
<tr>
<td>Net Income</td>
<td>0.1368822</td>
<td>0.052</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>-0.2732735</td>
<td>0.000</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0909946</td>
<td>0.148</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>0.0088095</td>
<td>0.797</td>
</tr>
</tbody>
</table>
Rs35m will increase dividend payment effortlessly. Therefore, the needs to increase dividend payout accordingly by companies are not felt. A company may in fact reduce its dividend payout if its dividend policy is such that the same amount of DPS needs to be paid for the following years. According to Lintner (1956), Fama and Babiak (1968) and Fama (1974)’s view, managers prefer a stable dividend policy and are reluctant to dividends to a level that cannot be sustained.

6.2.3 Interdependence of the determinants of Dividend Policy

Multicollinearity does arise when two or more predictors in the model are correlated; thus, providing confusing and misleading results.

Table 6: Correlation Matrix of both the Official Market and the DEM

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>Net Income</th>
<th>Retained Earnings</th>
<th>Cash</th>
<th>Debt to Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>0.0510</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0.0513</td>
<td>0.5469</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>-0.0622</td>
<td>0.3388</td>
<td>0.2202</td>
<td>1.0000</td>
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</tr>
<tr>
<td>Debt to Equity</td>
<td>-0.0867</td>
<td>0.0000</td>
<td>-0.1713</td>
<td>0.1613</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Correlation indicates the extent of association between two variables and it normally ranges from -1 to +1. Since all the values range between -0.9 and 0.9, it implies that there exists no problem of multicollinearity. Therefore, variables used as determinants in the model in no way invalidate the results obtained as a consequence of testing. The existence of multicollinearity has the statistical power to cause coefficients to switch signs and to make predictors look insignificant when in reality there are not. However, such an issue is not encountered with the determinants used.

6.2.4 Comparison between the two measures of Dividend Policy

It can be inferred that the DPS is a better measure of explaining dividend policy since three out of the five determinants significantly affect the variation of the DPS. Also, as a matter of fact, it can be deduced that the two main common determinants that really did affect Dividend Policy of companies were the Net Income and the Retained Earnings. Moreover, the Retained Earnings and the DPS’s relationship are significantly negative. Such a liaison negates theories and empirical evidence but is however admissible in Mauritius scenario whereby managers keep on paying dividend when retained earnings are falling and cut down dividend when retained earnings are increasing. Financial managers

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fear to take decisions that may affect the goodwill of the business. They neither reduce dividends when retained earnings fall for fear of generating bad signals to the market nor increase dividends when retained earnings rise as they are uncertain of their ability to sustain it.

7. Summary and Main Findings of Study

Multi regression models were formulated and the determinants used were EPS, Net Income, Retained Earnings, Cash and Debt to Equity. A sample of 30 companies listed on the SEM was considered and companies listed on the Official Market and the DEM were regressed separately in order to make comparisons.

Various problems were encountered while regressing the models. Firstly, there was the need to log the values of Net Income, Retained Earnings and Cash to reduce the effects of outliers. Then the existence of heteroscedasticity resulted to absurd results. Hence, to solve this problem, robust regressions were used. The reason behind using robust regression is to consider the observations differently grounded on how well behaved these observations are. Roughly speaking, it is a form of weighted and reweighted.

To sum up the results reached, the DPS is the best measure of dividend policy of companies listed on the SEM. The significant variables are the Net Income and the Retained Earnings. The relationship between Retained Earnings and Dividend Policy is significantly negative and this contradicts theories and empirical evidence. Considering companies listed on the Official Market, it is found that Net Income is highly negatively correlated to Dividend Policy while in the DEM; the EPS is highly positively correlated to Dividend Policy.

The study also demonstrated that Cash and Debt to Equity does not have a significant influence in determining the dividend policy of companies listed on the SEM. Furthermore, it is found that while both dividend policy measures follow almost same trend with two similar significant determinants, the markets within the SEM do not.

7.1 Implication of Study

The research findings give clear indication to analysts and potential investors on the way companies determine their dividend policy. They might not understand companies dividend decisions if they base themselves merely on stated theories and empirical evidence. This research actually provides an overview about the factors that may affect dividend policies in Mauritius.

Reference


Appendix

List of companies chosen from the Official Market

<table>
<thead>
<tr>
<th>Companies</th>
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<tbody>
<tr>
<td>1. Belle Mare Holding Limited</td>
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<tr>
<td>2. CIM Financial Services Ltd</td>
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<tr>
<td>3. ENL Land Ltd</td>
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<tr>
<td>4. Gamma Civic Ltd</td>
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<tr>
<td>5. Mauritius Oil Refineries Ltd</td>
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<tr>
<td>6. Mauritius Union Assurance Co. Ltd</td>
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<tr>
<td>7. MCB Group Limited</td>
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<tr>
<td>8. Phoenix Beverages Ltd</td>
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<tr>
<td>9. Plastic Industry (Mtius) Ltd</td>
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<tr>
<td>10. Rockcastle Global Real Estate Company Ltd</td>
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<tr>
<td>11. Rogers &amp; Co. Ltd</td>
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<tr>
<td>12. Swan</td>
</tr>
<tr>
<td>13. The Mauritius Development Investment Trust Co. Ltd</td>
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<tr>
<td>14. Vivo Energy Mauritius Ltd</td>
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</tbody>
</table>

List of companies chosen from the DEM

<table>
<thead>
<tr>
<th>Companies</th>
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</thead>
<tbody>
<tr>
<td>1. ABC Motors Co Ltd</td>
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<tr>
<td>2. Associated Commercial Company Ltd</td>
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<tr>
<td>3. CIEL Investment Ltd</td>
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<tr>
<td>4. Constance La Gaieté Company Limited</td>
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<td>5. Les Gaz Industriels</td>
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<td>6. Les Moulins de la Concorde Limitee</td>
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<tr>
<td>7. Livestock Feed Ltd (Ordinary)</td>
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<tr>
<td>8. Margarine Industries Ltd</td>
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<tr>
<td>9. Morning Light Ltd</td>
</tr>
</tbody>
</table>
10. Phoenix Investment Company Ltd
11. The Anglo-Mauritius Assurance Society Ltd
12. The Union Sugar Estates Co Ltd
13. Tropical Paradise Co. Ltd
14. United Bus Service Ltd
15. United Investments Ltd
16. Vital Water Bottling Co Ltd

Yearly figures are extracted from individual annual reports, amounting to a total of 150 observations.