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**The Factors that Affect Firm's Dividends Policy
"An Empirical Study on the Egyptian Companies
listed on EGX30"**

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The Factors that affect the Firm's Dividends Policy "An Empirical Study on the Egyptian Companies listed on EGX30"

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Abstract

The objective of this paper is to examine factors that affect firm's dividends payment in Egypt. The study examined seven variables, which are: profitability, investment opportunities, financial leverage, liquidity, ownership structure, firm size and industry type to test their effect on the dividend policy. Sample of the study consisted of 25 firms represent 10 sectors that have been listed on the EGX30 during the recent six-year period 2007-2012. The statistical methods used to analyze the data are Descriptive statistics and T- test. The findings showed that, profitability and institutional ownership are positively related to dividends payment. Results also showed that, financial leverage, liquidity, insider ownership, firm size and industry type have no effect on dividends payment.

Keywords: Profitability, Dividends, Financial Leverage, Ownership Structure, EGX30 index,

1. Overview and Research Problem

Dividends policy can be defined as management's long-term decision on how to use cash flows from business activities; how much to invest in the business, and how much to return to shareholders. The dividend policy decision is a complex decision that is related to other financial properties and factors such as; investment opportunities, risk level, taxes, firm's maturity, capital structure and ownership structure. For many years, researchers have argued about the dividend puzzle. There has been a debate between researchers about the determinants of dividends policy and the factors that may affect dividends decision.

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2. Theoretical background.

Dividend policy refers to management's long-term decision on how to use cash flows from business activities. There are four main types of dividends (Kania and Bacon, 2005). The first type of dividends is cash dividends. Regular cash dividends are those paid out of a company's profits to shareholders.

The second type is stock dividends. A stock dividend is a pro-rata distribution of additional shares of a company's stock to owners of the common stock. A company may use stock dividends for a number of reasons including not enough cash on hand or a desire to lower the price of the stock on a per-share basis to prompt more trading and to increase liquidity.

The third type is property dividends. A property dividend is when a company distributes property to shareholders instead of cash or stock. Property dividends can literally take the form of any item with tangible value. Property dividends are recorded at market value on the declaration date- finally type of dividends is special one-time dividends. In addition to regular dividends, there are times a company may pay a special one-time dividend. These are rare and can occur for a variety of reasons such as a major litigation win, the sale of a business or liquidation of an investment. They can take the form of cash, stock or property dividends.

There are five theories of dividends, which are: MM theory, the bird in the hand theory, Tax theories, the signaling theory, and finally, the agency theory of dividend.

2.1 The Miller-Modigliani dividend irrelevance theory (MM theory)

Miller and Modigliani (1961) as cited in DeAngelo et al., (2009) showed that in perfect and complete capital markets, a firm's dividend policy does not affect its value. The argument stated that dividend policy affects only the allocation between ordinary income and capital gains, and has no effect on the total gain to shareholders. The basic premise of their argument is that firm value is affected only by its basic earnings power and its business risk and choosing optimal investments.

The net payout is the difference between earnings and investment. It does not matter if the company distributes these earnings or keep it as retained earnings. Investment decisions affect shareholders wealth more than dividends policy. When cash dividends are paid, some of the assets of the company are sent to the stockholders. When cash dividends are not paid, the company retains the assets and invests in capital projects, which makes the company- and its stock- grow from the perspective of investors. Dividend policy is irrelevant, because investors can replace the level of payments that they want with appropriate purchases and sales.

2.2 The bird in the hand theory

This theory simply explains why a firm should pay dividends to its shareholders. There is an important argument about dividends that reduces risk because it transfers cash to shareholders. The main arguments of the theory are that, first, when the firm pays dividends it transfers cash to shareholders which reduces the uncertainty associated with future cash flows.

2.3 Tax theories

The basic tax hypothesis suggests that the difference between tax rates on dividends and tax rates on capital gains is one of the most important factors that affect dividends decisions. If corporate tax on dividends is higher than those on retained earnings, as a result the expected earnings of the firm that pays dividends may be less than the firm that does not. Therefore if dividends are taxed higher than capital gains, investors should evaluate expected returns on an after tax basis and share prices will change negatively with the firm's payout level. In addition, even if capital gains and dividends are taxed at the same level, capital gains still have tax advantage, because shareholders pay taxes on capital gains when they sell the asset. In other words, shareholder can defer tax payment to the future. This strategy doesn't affect the liquidity of the investor's portfolio. The basic tax hypothesis suggests that additional taxes on dividends make shareholders prefer capital gains than dividends as it less costly. Thus, the basic tax hypothesis proposes that firms should use

share repurchase instead of dividends to return cash to shareholders (Allen and Michaely, 1995).

2.4 The signaling theory

It is based on the idea of information asymmetric between managers and employees association (insiders) and investors (outsiders). Firm's managers usually have superior information about firm's current and future situation compared to investors and other parties concerned. There are two types of information; the first type can be conveyed to the market easily through earnings report and financial statements. Other type is more difficult to convey to market. Dividends can be used as a tool to convey this information to shareholders.

2.5 The agency theory of dividend

There are different groups, which operate within the firm and their interest may conflict. That is the reason behind the agency problem. Dividend policy is one of the most policies that represent these conflicted interests. There are three groups that are most likely to be affected the most by a firm's dividend policy stockholders, management, and debt holders. The first conflict of interest that could affect dividend policy is between management and stockholders. There is an assumption that managers may not necessarily always act to maximize shareholders' wealth as a result of the separation of ownership and control. Therefore if the levels of cash flow are high, managers may use it in activities that benefit them in spite of shareholders interests. Managers may use firm sources in inefficient ways such as investing in bad projects; increase their power base by acquiring more firms or spending on their own welfare (Laporta et al, 2000,). Generally high levels of cash under manager's control may result in overinvestment. The second conflict of interest that may be affected by payout policy is between stockholders and debt holders. Shareholders want payout to be at its highest level. They prefer to receive large dividend as possible because if the firm defaults to pay debt at the end, they at least receive some return before the default.

3. Literature review and hypotheses research

From dividend theories, the study extracted many factors that may affect dividends policy.

3.1 Studies related to the effect of profitability on the dividends policy

A firm's profitability is considered to be an important factor that affects its dividend policy and the level of profitability as one of the most important factors that may influence firms' dividend policy. Dividends are usually paid out of the annual profits, which represents the ability of the firm to pay dividends. Thus, a firm with higher earnings, but with a lower variance associated with it, is willing to pay higher amounts of dividends (Mayers and Bacon, 2004, Amidu and Abor, 2006). Thus, firms incurring losses are unlikely to pay dividends. Not only has the level of earnings affect firm's dividend decision, but also the stability of earnings. A firm with more stable earnings pays a higher fraction of its earnings as dividends compared to a firm with unstable earnings. The pecking order hypothesis suggests that firms finance investments first with the internal finance, and if they need external financing firms prefer to issue debt before issuing equity to avoid the transactions costs. Thus, less profitable firms will not find it optimal to pay dividends. On the other hand, highly profitable firms are more able to pay dividends and use retained earnings to finance investments. Therefore, the pecking order hypothesis may provide an explanation for the relationship between profitability and dividends.

There is a significant difference between the effect of earnings on dividend policies in developed and emerging countries. The effect of profitability variable clearly appears more on emerging countries. Emerging market corporations do not follow a stable dividend policy; dividend payment for a given year is based on firm profitability for the same year (Abdelsalam et al., 2008).

Mayers and Bacon (2004) used data for a sample of 483 firms traded on the NYSE to examine factors that affect firm's dividends policy. They

used profit margin to measure firm's profitability. The results showed that there is a positive relationship between dividends and profitability. Al- Najjar (2005) examined the relationship between profitability and dividends policy. The sample of the study consisted of 86 Jordanian non-financial firms for the period from 1994 to 2003. The results indicated strong significant positive relationship between profitability and dividend payments.

Wahba (2005) examined the relationship between dividends policy and profitability. Sample of the study consisted of Egyptian public limited firms with data for the -period from 1996/1997- 1999/2000. The results showed that profitability is one of the most significant variables that can impact on dividend payout decision.

Kania and Bacon (2005) attempted to identify the effect of certain financial variables on the dividend policy by analyzing the financial data of 10,000 publicly traded firms found through the Multexinvestor.com database using Ordinary Least Squares (OLS) Regression. The results indicated that a higher earnings per share (EPS) growth allows a greater capacity for the firm to increase dividends.

Amidu and Abor (2006) examined the determinants of dividend payout ratios of listed firms in Ghana. Sample of the study consisted of 22 firms that have been listed on the GSE during the recent six- year period 1998-2003. The findings indicated that there is a statistically significant and positive relationship between profitability and the dividend payout ratio. Al Twaijry (2007) tested variables that affect dividends policy using 300 firms randomly selected from the Kuala Lumpur Stock Exchange for the period 2001 to 2005. The study examined the association between earnings and dividend payout as one of eight other factors that affect dividend payout. The results indicated that net earnings affect dividends but less strongly than past and future dividends.

Ling et al. (2007) used data of 100 listed companies in Bursa Malaysia in the period 2002 to 2005 to examine the determinants of dividends decision in Malaysia. The results showed that dividend- paying

firms have higher return on asset, return on equity and higher annual revenue as compared to non-dividend-paying firms.

Renneboog and Trojanowski (2007) examined the relationship between profitability and payout decision. They used a sample of 985 UK firms listed on the London Stock Exchange. Findings showed that profitability is a crucial determinant of payout decisions, but the existence of strong block holders weakens the relationship between the corporate earnings and the dividends payout.

Norhayati et al. (2010) analyzed the determinants of dividend payment for the top 200 companies in terms of market capitalization, listed on the Malaysian share market from 2003 -2005. The results showed that profitability is significant determinants of dividend payments. The study concluded that firms not paying dividends are those with the lowest EPS, ROE as measures for profitability. On the other hand, firms that are paying the highest dividends, their profitability are also the highest. They argued that EPS and ROE, whether used together or separately are useful indicators of profitability. Al-Malkawi (2008) examined the determinants of corporate dividend decisions in Jordan as an emerging market. The sample consisted of 160 publicly quoted companies in Jordan for the period between 1989 and 2003. The results indicated that more profitable firms are much more likely to pay dividends. The results are consistent with the pecking order hypothesis. Abdelsalam et al. (2008) used pooled cross-sectional observations from the top 50 listed Egyptian firms between 2003 and 2005 to examine dividend policies in an emerging capital market. The results showed that more profitable firms distributed more dividends. They explained this association by the argument that profitable firms may use dividend to signal to the market their higher quality; especially in an emerging market in a transitional period. Al-Kuwari (2009) investigated the determinants of dividend policies for firms listed on Gulf Co-operation Council country stock exchanges. The sample consisted of 191 non-financial firms from 1999 to 2003. Return on equity ratio is used to measure firm's profitability. The results showed that profitability

appeared to be a very strong and statistically significant determinant of the dividend payout ratio.

Fodio (2009) investigated the dividend policy of a cross-section of 53 firms quoted on the Nigerian Stock Exchange (NSE) during the period 1993 to 2002. The results showed that earnings have significant positive impact on the firm's dividend policy. Ramli (2009) tested the relationship between profitability and dividend policy. He used ROA as a measure to profitability. The sample consisted of non-financial public listed companies Malaysian Stock Exchange, which consistently listed over the period of 2002 to 2006. The results indicated that profitability level is positively and statistically significantly related to dividend ratio.

Previous studies concluded that a firm's profitability is considered to be an important factor that affects its dividend policy. Not only has the level of earnings affect firm's dividend decision, but also the stability of earnings. There is a significant difference between the effect of earnings on dividend policies in developed and emerging countries.

Hypothesis 1: There is statistical positive relationship between profitability and dividends.

3.2 Studies related to the effect of investment opportunities on the dividends policy

Investment opportunities variable is one of the most determinants of dividend policy. Firms with high growth and investment opportunities need the internally generated funds to finance their investments; thus, it pays little or no dividends. In contrast, firms with slow growth and fewer investment opportunities are likely to pay more dividends. Another argument is that companies with low investment opportunities are likely to have an overinvestment problem (Lang and Litzenberger, 1989). Thus, firms may pay dividends to reduce cash under manager's control and avoid overinvestment problem.

Maturity hypothesis also explains the association between investment opportunities and dividend policy. The main point of the maturity hypothesis is that when firms become mature their investment

opportunities decrease. As a result, there are more free cash flows available to be paid as dividends.

Kanwer (2011) selected a sample of 317 firms Listed on Karachi Stock Exchange in the period from 1992 to 1997 in order to examine factors influence dividend policy. The researcher used market-to- book ratio to measure firm's investment opportunities. The results indicated that investment opportunities available to the firm affect the dividend payout decision significantly. Therefore, if there are good investment opportunities and higher return on investment, the firms intend to increase the shareholder's wealth by retaining and reinvesting the profit.

Amidu and Abor (2006) used Market-to-book ratio to measure firm's investment opportunities. Results of the study indicated that there is a statistically significant and negative association between dividend payout ratios and investment opportunities. The study results supported the assumption that growing firms require more internal funds to finance their growth; and therefore firms retain higher proportion of their earnings by paying lower dividends.

Ling et al. (2007) used Market-to-book ratio to measure firm's investment opportunities. The results showed that non-paying companies have a higher market to book ratio, which mean higher growth and investment opportunities. In contrast, dividend-paying companies have a lower market to book ratio, which mean lower growth and investment opportunities. Findings supported the argument that firms need more internal resource to finance their investments, which lead to lower dividend payouts.

Kouki and Guizani (2007) selected sample contained 203 firm-observations from 29 firms listed on the Tunisian Stock Exchange over the period 1995-2001 to investigate factors that affect dividends policy. They used Market-to-book ratio to measure firm's investment opportunities. The results showed that growth opportunities are related negatively to the level of dividend. They explained the result by that firms retain their earnings to finance their investments and avoid transaction costs of external financing.

Al-Malkawi (2008) results indicated that firms with high growth and investment opportunities tend to retain their income to finance those investments, thus paying less or no dividends. The researcher used firm age as a proxy to investment opportunities to test the maturity hypothesis. The result also provided empirical support for the maturity hypothesis.

Al-Kuwari (2009) results indicated that growth opportunities appeared as insignificant variables. Growth rate is used to measure growth opportunities.

Ramli (2009) showed that there is no statistically evidence that investment opportunities of Malaysian companies have any influence on the level of companies' dividend payout.

Previous researches-examined the relationship between dividends policy and investment opportunities. Results concluded that firms with higher investment opportunities pay fewer dividends compared to firms with lower investment opportunities for two reasons. First, firms with high growth and investment opportunities need the internally generated funds to finance their investments. Second, firms with lower investment opportunities may pay dividends to reduce cash under manager's control and avoid overinvestment problem.

Hypothesis 2: There is statistical positive relationship between investment opportunities and dividends.

3.3 Studies related to the effect of firm size on the dividends policy

Large firms have more ability to find sources of external funds with lower cost compared to small firms. Thus, large firms depend on internal funds less than small firms. As a result, large firms are more likely pay higher dividends to shareholders compared to small firms (Al-Kuwari, 2009). In addition to that, large firms are more likely to be mature and have lower investment opportunities. Another explanation for the relationship between firm size and dividends policy is that small firms depend on retentions to grow faster, which support the positive relationship between the dividend payout ratio and firm size. Several studies explained the association between size and dividend policy using

the agency problem. Large firms usually have widely spread ownership, which increases agency cost. Therefore large companies are more likely to increase their dividend payouts to decrease agency costs (Al-Malkawi, 2008).

Kanwer (2011) used total sales as a measure for firm size. The results supported the positive relationship between firm size and firm's dividend payout. The study showed that firm size has a systematic effect on dividend yields. Larger companies might be expected to have higher dividend yields in comparison to smaller companies. Al- Najjar (2005) found that there is a strong significant positive relationship between firm size and dividend payment decision. Natural log of total assets is used to measure firm size. Kouki and Guizani (2007) results showed that firm size has a negative effect on dividend policy. Results are explained by the fact that larger firms have more liabilities, as debt holders have more confidence in larger firms.

Ling et al. (2007) result also supported the positive association between firm size and dividend payment in Malaysia. Firms total sales are used to measure firm size variable. Eije and Megginson (2007) used firms' total sales to measure firm size variable. The study examined dividend policies of companies headquartered in the 15 member nations of European Union. They used data from 3400 listed industrial companies from 1989 to 2003. The findings indicated that increasing a company's relative size percentile increases both the propensity to pay and the amounts of dividends paid. Al-Malkawi (2008) used natural log of market capitalization as a proxy for firm size. The results indicated that firm size is a determinant of corporate dividend decision in Jordan. The relationship between firm size and dividends payouts is explained by the agency problem theory. Al- Kuwari (2009) used natural log of market capitalization to measure firm size. The results showed that firm size is a determinant of dividend policy. The study explained the positive association by two reasons, the agency problem and the large firm's ability to raise funds with lower costs for external financing.

Previous researches examined the relationship between dividends policy and firm size. Results concluded that large firms are more likely pay higher dividends to shareholders compared to small firms for three reasons. First, large firms have more ability to find sources of external funds. Second, large firms are more likely to be mature and have lower investment opportunities. Third, Large firms usually have widely spread ownership, which increases agency cost.

Hypothesis 3:

There is statistical positive relationship between firm size and dividends.

3.4 Studies related to the effect of financial leverage on the dividends policy

The financial structure of a firm consists of both debt (external source) and equity financing (internal source). According to tax advantages, dependence on debt financing can lever-up shareholder's return on equity. On the other hand leverage increases risk because when firm depend on debt financing it bears fixed financial charges. If the firm defaults that may force the firm to liquidation. The risk associated with high degrees of financial leverage may lead to lower dividend payout. In other words, firms with high financial leverage retain their earnings to avoid defaults risk (Kouki and Guizani, 2007).

Another argument is that firms with high financial leverage have lower dividends payout to reduce transaction costs, which were caused by dependence on external sources of finance (Al-Malkawi, 2008). In addition, creditors may have restrictions on dividend payments of firms with high leverage.

Another explanation of the association between firm leverage and dividends policy is related to agency problem. Firms can use debt as a tool to reduce agency cost instead of using dividends (Rozeff, 1982 as cited in DeAngelo et al., 2009). This result due to two reasons, first, interests payment lead to decline in cash available to managers. Second, debt subjects managers to the scrutiny of creditors. For those two reasons firms can use debt as a substitute device for dividends in reducing the

agency costs. Therefore highly levered firms are expected to have low dividend payouts.

Han et al. (1999) selected sample of 303 firms listed on the COMPUSTAT Annual File with no missing data during the 1988- 1992 period. The results indicated that there is a weak evidence for a negative relationship between dividends and debt. The study concluded that the sample firms are mostly large firms due to the sample criteria and large firms, which borrow more, are likely to have more cash flows and pay more dividends.

Mayers and Bacon (2004) results indicated positive relationship between firm's financial leverage and dividends payment. The result is explained by the reason that firms may pay large dividends to insure a strong financial reputation, making it easier to firms to access external financing sources.

Wahba (2005) examined the relationship between dividends policy and debt ratio. Sample of the study consisted of Egyptian public limited firms with data for the period from 1996/1997- 1999/2000. The results showed that changes in dividend policy are affected by debt ratio. Kania and Bacon (2005) used debt to equity ratio to measure firm's financial leverage. The results indicated that there is an unanticipated, significant positive relationship between payout ratio and firm's financial leverage.

Kouki and Guizani (2007) results indicated that financial leverage has a negative influence on the dividends policy. They explained results by the fact that debt has a negative impact on dividends because of debt covenants and related restrictions imposed by debt holders. Ling et al. (2007) used debt to equity ratio to measure firm's financial leverage. The results showed that the debt over equity of dividend-paying companies is significantly lower than the non dividend-paying companies. The study concluded that high leverage firms tend to pay lower dividends in comparison to low leverage firms. Eije and Megginson (2007) used debt to equity ratio to measure firm's financial leverage. The results indicated that higher leverage reduces both the propensity to pay and the amount of dividends paid by payers. Al-Malkawi (2008) used debt to equity ratio to

measure firm's financial leverage. Empirical results showed that financial leverage is negatively related to dividend payout. The coefficients on debt-to-equity ratio are negative and significant indicating that a higher level of financial leverage leads to decrease in dividends payments. Al-Kuwari (2009) used debt to equity ratio to measure firm's financial leverage. The results showed that there is a strong statistically significant and negative association between the dividend payout ratio and financial leverage.

Results of the studies showed that firms with high financial leverage are more likely pay lower dividends. The studies explained this relationship by three reasons. First, The risk associated with high degrees of financial leverage. Second, creditors may have restrictions on dividend payments of firms with high leverage. Third, firms can use debt as a substitute device for dividends in reducing the agency costs.

Hypothesis 4: There is statistical positive relationship between financial leverage and dividends.

3.5 Studies related to the effect of liquidity on the dividends policy

Liquidity is expected to have a strong effect on firm's dividend policy. Cash dividend distribution not only depends on the profitability of firms but also on the free cash flow. Free cash flows is cash flows, which are excess of funds required for all projects that have positive net present values after those projects are discounted at the cost of capital. However, many empirical researches have concentrated only on profit flow and ignored the effect of cash flow. If the free cash flow is more than the cash dividend, the firm has residual cash, if cash dividend is more than the free cash flow then; the firm needs external financing to meet the requirement of cash dividend. Therefore, most managers do not increase dividends until they are confident that sufficient cash will flow in to pay it (Amidu and Abor, 2006, Norhayati et al., 2010). The relationship between the free cash flow and the dividend payout ratio is expected to be positive.

Mayers and Bacon (2004) results showed negative but insignificant relationship between current ratio and dividend payout. The study

concluded that firm's leverage affect the relationship between liquidity and dividend payout. Firms with higher level of debt need higher level of liquidity to carry out their obligations. Therefore firms may lower dividend payments to increase liquidity. Al- Najjar (2005) used current ratio to measure firm's liquidity. Results indicated that there is no evidence of a relationship between liquidity and dividends payments.

Amidu and Abor (2006) used firm's net cash flow to measure firm's liquidity. The findings showed that there is a significant positive relationship between cash flow and dividend payout ratios and the liquidity position is an important determinant of the dividend payout ratio. Norhayati et al. (2010) findings showed that free cash flow is a significant determinant of dividend payments. The study actually separated the effect of earnings and cash flow on dividend payment and found that firms not paying dividends are those with the lowest cash flow as a proxy for liquidity. On the other hand, firms, which pay the highest dividends their liquidity, are also the highest.

Results of most of the studies showed that there is a positive relationship between firm's dividend policy and firm's liquidity. They explained results by the fact that if a firm decides to pay high dividends without enough free cash flow; the firm has to reduce its investment plans or resort to creditors for additional debt.

Hypothesis 5: There is statistical positive relationship between liquidity and dividends.

3.6 Studies related to the effect of ownership structure on the dividends policy

The ownership structure is defined by not only the distribution of equity with regard to votes and capital but also by the identity of the equity owners. To examine the effect of ownership structure on firm's dividend policy, the study divided this variable into two subsidiary variables, which are institutional ownership and insider ownership.

3.6.1 Institutional ownership

The relationship between the institutional ownership and dividend policy is related to three hypotheses agency theory, tax theory and signaling hypothesis.

First, the institutional ownership for a firm has an effect on its agency cost. Institutions are professional decision-makers who know how to evaluate the performance of the firm and to monitor the management (Al- Najjar, 2005). Therefore, institutional ownership can be used as a device to reduce agency costs instead of dividends payment. Furthermore, institutional investors may force *the* firm to distribute more dividends to avoid agency problem. Second, institutional ownership affects the firm's taxation costs. Under the U.S. tax system in which a significant portion of dividend income is exempt from taxation for institutions. Institutional investors prefer to receive dividends to capital gains (Han et al., 1999). Thus, according to tax theory there is a positive relationship between institutional ownership and dividends payment. Third, institutional investors are more professional and have more experience than individuals. Therefore, the existence of high degree of institutional investors may act as a good performance-signaling device (Al- Najjar, 2005).

Han et al. (1999) used percentage of shares held by institutions to measure institutional ownership. The results pointed out that dividends are positively related to institutional ownership, thus supporting the tax-based hypothesis that institutional shareholders prefer dividends to capital gains because of the differential tax treatment. Al- Najjar (2005) used the number of shares owned by institutional investors to measure institutional ownership. Findings showed negative relationship between the number of shares owned by institutions and dividend payments. Result of the study is consistent with the signaling theory.

Kania and Bacon (2005) results showed that institutional ownership varied negatively with dividend payout. Li and Huang (2005) used data from 364 Chinese manufacturing listed companies from 2001 to 2003 to investigate the effect of the percentage of institutional

ownership on dividends decision. They used the number of shares owned by institutional investors to measure institutional ownership. The results concluded that institutional ownership has positive relation with the payout of cash dividends. The study concluded that if institutional investors have higher holdings percentage, they might make more influence on the corporation decisions and force managers to distribute more cash dividends. Amidu and Abor (2006) used the percentage of shares held by institutions to measure institutional ownership. The results indicated that there is a negative but insignificant association between institutional shareholding and dividend payout ratios. The higher the percentage of institutional holding leads to a lower dividend payout ratio.

Karathanassis and Chrysanthopoulou (2012) used data of 55 Greek firms listed on the Athens Stock Exchange for the period 2006 to 2008. The study examined the explanatory power of three alternative models of dividend policy, the full adjustment, partial adjustment models and the earnings trend model modified in order to incorporate factors representing ownership by institutional investors and managers. The results showed a statistically significant and negative relationship between the strong presence of institutional portfolios and the high degree of concentration of the managerial ownership and the dividend payments. Dummy variables are used to represent institutional ownership, which is one when the percentage of ownership by institutional investors is higher than 3% and equals 0 otherwise. Kouki and Guizani (2007) used the percentage of shares held by institutions to measure institutional ownership. The results showed that Tunisian companies pay out lower dividend when they have higher Institutional ownership. The study concluded that in the majority of cases institutional investors are banks. Banks are shareholders and creditors at the same time. Therefore, they may prefer paying interests to themselves than distribute dividend to all shareholders.

Abdelsalam et al. (2008) used the percentage of shares held by institutions to measure institutional ownership. The results indicated that there is a significant positive association between dividends and

institutional ownership. Previous researches examined the relationship between dividends policy and institutional ownership. Some studies showed a positive relationship between dividends policy and institutional ownership and explained this result by two reasons. First, the tax-based hypothesis which suggests that institutional shareholders prefer dividends to capital gains because of the differential tax treatment. Second, if institutional investors have higher holdings percentage, they may make more influence on the corporation decisions and force managers to distribute more cash dividends. Other studies showed a negative relationship between dividends policy and institutional ownership and explained this result by two reasons. First, institutional ownership can be used as a device to reduce agency costs instead of dividends payment. Second, institutional ownership and dividends payment are two alternative signaling devices.

3.6.2 Insiders ownership

Insider ownership is the portion of stock held by managers. According to agency theory managers should increase their portion of stock-ownership to reduce agency costs. It means that insider ownership can be used as a device to reduce agency cost instead of using dividend payments. Thus, agency theory assumes a negative relationship between the degree of insider's ownership and dividend payments (Chen and Dhiensiri, 2009).

Another argument is that insider ownership and dividends payment are two alternative signaling devices. The level of insider holding is a signal of firm value. Firms with higher levels of insider holdings have less need to signal firm value through dividends. Thus, according to signaling hypotheses also there is a negative association between the level of insider ownership and dividends payment.

Han et al. (1999) results showed that insider ownership has no significant impact on dividend policy. Mayers and Bacon (2004) results indicated that there is a negative relationship between insider ownership and dividends policy. The results are explained by the reason that firm's managers hold incentive compensation packages including stock options.

Therefore, they may reduce payout ratio in order to increase stock value of their option. Farinha and Foronda (2005) used data from 931 European and US companies over the period 1996-2000 to provide new international evidence on the relationship between dividend policy and insider ownership. The results showed that in Common Law countries there is a negative relation between insider ownership and dividend payouts at ownership levels below 36% or above 95%, and a positive one between those two critical levels. In Civil Law countries they found that dividend payments increase as insider ownership becomes more concentrated until a critical level of 46% ownership. A positive association between dividends and insider ownership becomes observable when insider ownership rises above the level of 77%. Al-Malkawi (2008) study results showed that, for Jordanian firms, insider's holdings do not affect the decision to pay dividends. Chen and Dhiensiri (2009) selected a sample of 75 firms listed in NZSE from a variety of industries over the period 1991 to 1999. The results indicated that there is a negative relationship between insider ownership and dividend payout. The study concluded that a higher level of insider ownership leads to a lower agency problem and thus reduces the role of dividends as a monitoring tool to control for agency costs.

Previous researches examined the relationship between dividends policy and insider ownership. Most of the studies showed a negative relationship between dividends policy and insider ownership and explained this result by two reasons. First, insider ownership can be used as a device to reduce agency cost instead of using dividend payments. Second, insider ownership can be used as a signaling device instead of using dividend payments.

Hypothesis 6: There is statistical positive relationship between ownership structure and dividends.

3.7 Studies related to the effect of industry type on the dividends policy

The type of industry in which a firm operates is likely to have a significant effect on its financing and dividend behavior. This effect

could influence investor perceptions about dividends of firms in different industries. For example, firms operating in mature industries have a higher propensity to pay dividends than firms operating in high-growth industries. Howe and Shen (2010) found no evidence of intra-industry information effect associated with the announcement of dividend initiation and for this concluded that dividend initiation is a firm-specific event. Saxena (1999) found that the payout ratio for the regulated firms is likely to be higher than payout ratio for the unregulated firms. The findings showed that regulated firms are less risky, have lower growth rates and fewer investment opportunities. Frankfurter and Wood (2002) found no evidence of a systematic relationship between dividend policy and industrial classification. They suggested that variations in dividend policy by industry might be the sole effect of firm size.

Hypothesis 7: There is no statistical relationship between industry type and dividends.

4. Sample and research Methodology

4.1 Sample

The study period is between 2007-2012, it is enough period to test the paper hypotheses see for example (Al Twaijry, 2007, Ling et al., 2007, Norhayati et al., 2010, Al-Kuwari, 2009,). The sample consists of firms listed on EGX30 index, which includes the top 30 Egyptian firms in terms of liquidity and activity. The study excludes banks and financial services firms because of the difference between used to calculate financial ratios in banks and financial services compared to firms in other sectors. The the study use secondary data; which are collected from the most recent available financial statements of the firms; which are selected in the sample. The researcher depends on the Egypt exchange disclosure book to collect data.

Table 1: Sample firms names and sectors

Sector		Firm name
1-Food & beverages	1	International agricultural products
	2	Egyptian poultry
2-Oil & gas	3	Maridif for oil and maritime services
3-Basic resources	4	El Ezz steel rebars
4-Personal & household products	5	Arab cotton ginning
	6	Nile cotton ginning
	7	Arab Polvara spinning & weaving co.
	8	El Nasr clothes & textiles (capo)
	9	Alexendria spinning & weaving
5- industrial goods, services & automobiles	10	El Swedy cables
	11	Egyptian electrical cabels
6-Chemicals	12	Egyptian financial & industrial
7-Construction & materials	13	Orascom construction industries
	14	South valley cement
	15	Upper Egypt contracting
8-Real estate	16	T M G holding
	17	Palm Hills development
	18	6 October development & investment
	19	Medinet Nasr housing
	20	Al Kahera housing
	21	Egyptians for housing& development

Sector		Firm name
9-Travel & leisure	22	Egyptian for tourism resort
10-telecommunications & technology	23	Telecom Egypt
	24	Mobinile
	25	Orascom telecom holding

4.2 research Methodology.

The data analysis methods used to analyze the data are descriptive statistics and T-test. Based on *literature review*, the study selected seven independent variables, which are: profitability, investment opportunities, financial leverage, liquidity, ownership structure, firm size and industry type to test their effect on the dependent variables, which is dividend policy.

4.3 Dependent Variable

Many studies focused on factors that affect firms decision to pay dividends or not and used dummy variables as a proxy for dividends payment. For example (Kanwer, 2011, Al- Najjar, 2005, Eije and Megginson, 2007, Al-Malkawi, 2008, Fodio, 2009). Other studies focused on the amount of dividends paid by the firm and used different measures to measure the portion of firm's profit, which is paid as dividends. One of these measures is dividend per share (DPS), which is the total dividends paid out over the year divided by the number of outstanding ordinary shares issued. See for example (Karathanassis and Chrysanthopoulou, 2012, Al Twaijry, 2007, Norhayati et al., 2010, Kouki and Guizani, 2007,)

One of the most important other measures is payout ratio. Payout ratio is equal dividends per share divided by earnings per share. It indicates how well earnings support the dividend See for example (Mayers and Bacon, 2004, Omran and Pointon, 2004, Kania and Bacon, 2005, Amidu and Abor, 2006, Ling et al., 2007, Al-Kuwari, 2009,). Dividend yield is a

financial ratio that shows how much a company pays out in dividends each year relative to its share price. It is calculated by dividing dividends per share by share price. Many the study used dividend yield as a measure to amount of dividends such as (Han et al., 1999, Al-Malkawi, 2006, Ling et al., 2007, Abdelsalam, 2008,). The researcher chose to use dummy variables, which is one if the firm paid dividends and zero if the firm didn't pay dividends.

4.4 Independent variables

Independent variables are the factors that may affect dividends policy which are profitability, investment opportunities, financial leverage, liquidity, ownership structure, firm size and industry type.

4.4.1 Profitability

There are many measures for profitability that have been used in empirical studies. For example earnings per share (EPS) can be used to measure profitability. Earnings per share ratio is the portion of a company's profit allocated to each outstanding share of common stock. Many empirical studies used earnings per share to measure profitability such as; (Mayers and Bacon, 2004, Karathanassis and Chrysanthopoulou, 2012, Al Twaijry, 2007, Norhayati et al., 2010, Al-Malkawi, 2008,)

Another measure for profitability is return on equity ratio (ROE). Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated by dividing net income after taxes by owners' equity. See for example (Al- Najjar, 2005, Kania and Bacon, 2005, Ling et al., 2007, Al-Kuwari, 2009,). Return on assets (ROA) is also one of the most important measures for profitability. ROA is an indicator of how profitable a company is, relative to its total assets. ROA Calculated by dividing a company's annual earnings by its total assets. Many empirical studies used (ROA) as a measure to profitability factor such as (Ling et al., 2007, Ramli, 2009,). The the study uses both of (ROE) and (ROA) to measure firm's profitability.

3.4.2 Investment opportunities

According to maturity hypothesis, age of the firm can be used as a proxy to growth and investment opportunities. Mature firms are expected to have lower investment opportunities compared to non- mature firms (Al-Malkawi, 2008).

Market-to-book ratio is one of the widely used proxies to investment opportunities variable. Market-to-book ratio is a ratio used to find the value of a company by comparing the book value of a firm to its market value. It is calculated by dividing the market value of the company by its book value. Several studies used this proxy such as (Kanwer, 2011, Al- Najjar, 2005, Amidu and Abor, 2006, Ling et al., 2007, Kouki and Guizani, 2007,). The researcher used Market-to- book ratio to measure firm's investment opportunities.

4.4.3 Firm size

Natural log of market capitalization is one of the proxies for firm size. Market capitalization is a measure of firm size. It is equal to the share price times the number of outstanding shares. Market capitalization represents the public opinion of a company's net worth and is a determining factor in stock valuation. Many Literatures used this proxy such as (Omran and Pointon, 2004, Al-Malkawi, 2008, Al- Kuwari, 2009,). Firm size can be measured also by total assets see for example (Al- Najjar, 2005, Kouki and Guizani, 2007, Al Twaijry, 2007, Ramli, 2009, Fodio, 2009). Another proxy for firm size, which is widely used, is the total sales. Large firms are expected to have larger revenue than small firms. See for example (Kanwer, 2011, Ling et al., 2007, Eije and Megginson, 2007,). In this study, total assets are used as a measure for firm size.

4.4.4 Financial leverage

Debt-to-equity ratio indicates what portion of equity and debt the firm is using to finance its assets. It is calculated by dividing total liabilities by shareholders equity. Many studies used debt to equity ratio as a measure to firm's financial leverage for example, (Ling et al., 2007,

Al-Malkawi, 2008, Al-Kuwari, 2009,). Debt to assets ratio shows the portion of firm's assets, which are financed through debt. It calculated by dividing total liabilities by total assets. Other studies used debt to assets ratio such as (Han et al., 1999, Al- Najjar, 2005, Kania and Bacon, 2005, Eije and Megginson, 2007). The the study used debt-to-equity ratio to measure firm's financial leverage.

4.4.5 Liquidity

Current ratio is the ratio is used to give an idea of the company's ability to pay back its short-term liabilities with its short-term assets. Current ratio was used as a measure to liquidity in many studies, see for example (Mayers and Bacon, 2004, Omran and Pointon, 2004, Al-Najjar, 2005, Kania and Bacon, 2005,). The the study' measures firm's liquidity using current ratio.

4.4.6 Ownership structure

4.4.6.1 Institutional ownership

The percentage of shares held by institutions is the most widely used measure for institutional ownership. Many empirical studies used this measure for example (Han et al., 1999, Mayers and Bacon, 2004, Kania and Bacon, 2005, Amidu and Abor, 2006, Kouki and Guizani, 2007, Abdelsalam et al., 2008,). Some other studies used the number of shares owned by institutional investors see for example (Al- Najjar, 2005, Lee and Huang, 2005,). There are also studies that used dummy variables to represent the institutional ownership such as (Karathanassis and Chrysanthopoulou, 2012, Al-Malkawi, 2008,). In this study the researcher uses the percentage of shares held by institutions to measure institutional ownership.

4.4.6.2 Insiders ownership

Researcher depends on the percentage of shares held by insider to measure insider's ownership. Many researchers used this proxy for example (Han et al., 1999, Mayers and Bacon, 2004, Kania and Bacon, 2005, Al-Malkawi, 2008,).

5. Data Analysis and Empirical Results

5.1 Data Analysis

The data analysis methods used to analyze the data are descriptive statistics and T-test. Descriptive statistics show the mean characteristics of the data and data normality. T-test shows the differences between firms that adopt dividends payment and those, which do not adopt dividends payment.

5.2 Descriptive statistics

Table2: Return on assets descriptive statistics

			Statistic	Std. Error
Return on assets (ROA)	Mean		.076588	.0114885
	95% Confidence Interval for Mean	Lower Bound	.053707	
		Upper Bound	.099470	
	5% Trimmed Mean		.067557	
	Median		.061000	
	Variance		.010	
	Std. Deviation		.1008109	
	Minimum		-.0987	
	Maximum		.6970	
	Range		.7957	
	Interquartile Range		.0965	
	Skewness		3.340	.274
	Kurtosis		18.592	.541

The return on assets median is .061000 where the median is the value which 50% of the sample is below and the other 50% is above, and

the mean of the return on assets is .076588 where the mean is average with a minimum of -.0987 and maximum of .6970.

Table 3: Return on equity descriptive statistics

		Statistic	Std. Error	
Return on equity (ROE)	Mean	.181457	.0263316	
	95% Confidence Interval for Mean	Lower Bound	.129013	
		Upper Bound	.233901	
	5% Trimmed Mean	.154858		
	Median	.105200		
	Variance	.053		
	Std. Deviation	.2310586		
	Minimum	-.1310		
	Maximum	1.0400		
	Range	1.1710		
	Interquartile Range	.2473		
	Skewness	1.883	.274	
	Kurtosis	4.150	.541	

The return on equity median is .105200 and its mean is .181457 with a minimum of -.1310 and maximum of 1.0400.

Table 3: The log of total assets descriptive statistics

			Statistic	Std. Error
The log of total assets	Mean		6.323390	.0894212
	95% Confidence Interval for Mean	Lower Bound	6.145292	
		Upper Bound	6.501487	
	5% Trimmed Mean		6.325314	
	Median		6.099000	
	Variance		.616	
	Std. Deviation		.7846678	
	Minimum		4.7370	
	Maximum		7.9770	
	Range		3.2400	
	Interquartile Range		1.1905	
	Skewness		.296	.274
	Kurtosis		-.631	.541

The log of total assets median is 6.099000 and its mean is 6.323390 with a minimum of 4.7370 and maximum of 7.9770.

Table 4: The dept to equity ratio descriptive statistics

		Statistic	Std. Error	
The debt to equity ratio	Mean	1.338117	.1671814	
	95% Confidence Interval for Mean	Lower Bound	1.005146	
		Upper Bound	1.671088	
	5% Trimmed Mean	1.149654		
	Median	.866000		
	Variance	2.152		
	Std. Deviation	1.4670110		
	Minimum	.1080		
	Maximum	7.5080		
	Range	7.4000		
	Interquartile Range	1.6715		
	Skewness	1.962	.274	
	Kurtosis	4.653	.541	

The debt to equity ratio median is .866000 and its mean is 1.338117 with a minimum of .1080 and maximum of 7.5080.

Table 5: The market to book value descriptive statistics

		Statistic	Std. Error	
The market to book value	Mean	2.799519	.3929470	
	95% Confidence Interval for Mean	Lower Bound	2.016898	
		Upper Bound	3.582141	
	5% Trimmed Mean	2.258525		
	Median	1.578000		
	Variance	11.889		
	Std. Deviation	3.448095		
	Minimum	.2800		
	Maximum	18.3500		
	Range	18.0700		
	Interquartile Range	2.0400		
	Skewness	2.964	.274	
	Kurtosis	9.777	.541	

The market to book value median is 1.578000 and its mean is 2.799519 with a minimum of 0.2800 and maximum of 18.3500.

Table 6: The institutional ownership descriptive statistics

		Statistic	Std. Error	
The institutional ownership	Mean	.371639	.0316816	
	95% Confidence Interval for Mean	Lower Bound	.308540	
		Upper Bound	.434738	
	5% Trimmed Mean	.367575		
	Median	.321600		
	Variance	.077		
	Std. Deviation	.2780047		
	Minimum	0		
	Maximum	.8205		
	Range	.8203		
	Interquartile Range	.5503		
	Skewness	-.014	.274	
	Kurtosis	-1.502	.541	

The institutional ownership median is .321600 and its mean is .371639 with a minimum of 0 and maximum of .8205.

Table7: The insider ownership descriptive statistics

		Statistic	Std. Error	
The insider ownership	Mean	.121338	.0230992	
	95% Confidence Interval for Mean	Lower Bound	.075332	
		Upper Bound	.167344	
	5% Trimmed <i>Mean</i>	.098801		
	Median	.026000		
	Variance	.041		
	Std. Deviation	.2026944		
	Minimum	.0000		
	Maximum	.6627		
	Range	.6627		
	Interquartile Range	.1135		
	Skewness	1.756	.274	
	Kurtosis	1.5 59	.541	

The insider ownership median is .026000 and its mean is .121338 with a minimum of 0 and maximum of .6627.

Table 8: The current ratio descriptive statistics

			Statistic	Std. Error
The current ratio	Mean		2.32966	.268893
	95% Confidence Interval for Mean	Lower Bound	1.79411	
		Upper Bound	2.86520	
	5% Trimmed Mean		2.06339	
	Median		1.41500	
	Variance		5.567	
	Std. Deviation		2.35952	
	Minimum		.0900	
	Maximum		13.0600	
	Range		12.9700	
	Interquartile Range		2.1125	
	Skewness		2.086	.274
	Kurtosis		5.250	.541

The current ratio median is 1.415000 and its mean is 2.329662 with a minimum of .0900 and maximum of 13.0600.

5.3 T-Test

According to T-test in Table 9, it can be concluded that:

- There are significant differences between firms that pays dividends versus those which don't pay any dividends, in terms of return on assets, return on equity, market to book value, and institutional ownership at significant level less than (0.05) for direction tends to firms adopt dividends payment.

- There are insignificant differences between firms, which pay dividends versus those firms that do not pay any dividends, in terms of return on sales, the log of total assets, debt to equity ratio, and insider ownership, current ratio at significant level greater than (0.05).

Based on the empirical study, the paper found that the main seven variables that were chosen to test their effect on dividends payment

Table 9: T-test to measure the significant differences between firms adopt dividends payment versus firms don't adopt any dividends payment

NO.	Dimension	Dividends Payment	Mean	SD	T-test	Significant level
1	Return on assets	Yes	0.1092	0.113	3.381	0.001***
		No	0.0407	0.079		
2	Return on equity	Yes	0.2643	0.250	4.288	0.001***
		No	0.0622	0.205		
3	Return on sales	Yes	0.5360	0.925	0.351	0.727
		No	0.4362	1.742		
4	The log of total assets	Yes	6.3321	0.862	1.658	0.101
		No	6.0444	0.820		
5	Debt to equity ratio	Yes	1.7148	1.959	1.134	0.260
		No	1.2811	1.763		
6	Market to book value	Yes	4.6464	6.730	2.598	0.011*
		No	1.7587	1.431		
7	Institutional ownership	Yes	0.4388	2.875	2.356	0.021*
		No	0.2942	0.250		

NO.	Dimension	Dividends Payment	Mean	SD	T-test	Significant level
8	Insider ownership	Yes	0.1320	0.205	0.443	0.659
		No	0.1117	0.206		
9	Current ratio	Yes	2.2179	2.145	0.154	0.878
		No	2.2874	2.325		

*, **, and *** refer to 1%, 5%, and 10% significance levels, respectively.

decision in Egypt, there are only two variables proved to be significant and have a positive relationship with dividends. These two variables are return on equity and intuitional ownership.

1- Return on equity is a proxy for profitability, which means that profitability is positively related to dividends payment. Thus, firm's profit increase leads to increase the propensity to pay dividends and vice versa. This could be explained as dividends are usually paid out of the annual profits, which represents the ability of the firm to pay dividends. Thus, a firm with higher and more stable earnings is willing to pay higher amounts of dividends; on the other hand, firms incurring losses are unlikely to pay dividends. Another explanation is that profitable firms may use dividend in order to signal to the market their higher quality, 'especially in an emerging market. Thus, less profitable firms will not find it optimal to pay dividends.

This result is compatible with results reached by (Mayers and Bacon, 2004, Al- Najjar, 2005, Wahba 2005, Kania and Bacon, 2005, Ling et al., 2007, Norhayati et al., 2010, Al-Malkawi, 2008, Abdelsalam et al., 2008, Al-Kuwari, 2009, Ramli, 2009). On the other hand, this result is different from Kanwer (2011) who found that higher net profit after tax does not necessarily ensure higher dividend payment.

2- Institutional ownership proved to be positively related to dividends payment. Thus, institutional ownership percentage increase leads to an increase the propensity to pay dividends and vice versa.

This result is compatible with agency theory. Obviously, this result shows that Egyptian firms do not depend on one mechanism to reduce agency problem. Thus, although Institutions are professional decision-makers who know how to evaluate the performance of the firm and to monitor the management, Egyptian firms with high percentage of institutional investors use dividends also to avoid agency problem. This result can be explained as if institutional investors have higher holdings percentage; they perhaps make more influence on the corporation decisions and force managers to distribute more cash dividends in order to reduce agency cost. This result can be also explained by the fact that high percentages of institutional investors in Egypt are mutual funds, which prefer to invest portion of their investments on firms that pay dividends.

Although, institutional investors are more professional and more experienced than individuals and the existence of high degree of institutional investors may act as a good performance-signaling device, this result shows that high percentage of institutional investors is not enough to signal firm's value to the Egyptian markets. Thus, Egyptian firms with high percentage of institutional investors use dividends also in order to signal firm's value to the market. This result is compatible with the results reached by (Han et al., 1999, Mayers and Bacon, 2004, Li and Huang, 2005, Abdelsalam et al., 2008) and different from (Al- Najjar, 2005, Kania and Bacon, 2005, Amidu and Abor, 2006, Karathanassis and Chrysanthopoulou, 2012, Kouki and Guizani, 2007) whom found a significant negative relationship between institutional ownership and dividends payment.

- 3- The log of total assets as a proxy for firm size proved to be insignificant. This result is compatible with the results reached by Fodio (2009) who didn't find any statistical evidence to support the existence of a relationship between firm size and dividends payment.
- 4- Debt to equity ratio as a proxy for firm's financial leverage proved to be insignificant.
- 5- There is no statistical evidence that there is a relationship between insider ownership and dividends policy in Egypt. This result is compatible with the results reached by (Han et al., 1999, Al-Malkawi, 2008,) whom found that insider ownership has no influence on the probability to pay dividends.
- 6- Current ratio, which is used to measure liquidity, proved to be insignificant. This result is compatible with results reached by (Mayers and Bacon, 2004, Al- Najjar ,2005).
- 7- There is no statistical evidence that industry type affect on dividends payment according to Anova test. This result is compatible with the results reached by (Howe and Shen, 2010, Frankfurter and Wood, 2002,) and different from the results reached by (Baker et al., 1985, Saxena, 1999, Baker and Smith, 2005,).

6- Conclusion

The results showed that from the seven selected variables; there are only two variables proved to be significant which are profitability and institutional ownership and both variables proved to be positively related to dividends payment. These results indicate that Egyptian firm's depended on annual profits to pay dividends and they may use dividends in order to signal their quality. In addition to that, institutional investors may make more influence on the corporation decisions and force managers to distribute more cash dividends in order to reduce agency cost. Generally, the results support agency theory and the pecking order theory.

Results also showed that there are significant differences between firms which pay dividends versus those which do not pay any dividends in terms of investment opportunities, profitability and institutional ownership.

There is no statistical evidence that Firm size, financial leverage, insider ownership, liquidity and industry type affect on dividends payment in Egypt. These results can be explained by the reason that large Egyptian firms have not widely spread ownership and Egyptian small firms have slow growth and few investment opportunities. These results also indicate that Egyptian firms do not put default risk on consideration when they pay dividends and Egyptian firms do not depend on debt as a tool to reduce cash under manager's control instead of using dividends. Furthermore, the results show that Egyptian firms just depend on profitability to make dividends decision disregarding firms liquidity.

These results indicate that agency theory and the pecking order theory is the most applied in theories Egypt, this is illustrated through that profitability and institutional ownership have a positive effect on dividends payment.

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