

Financial Literacy and Demographic Factors effect on Investor Preferences for Cash Dividend: A Comprehensive Study of Islamabad based Stock Exchange Investors

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ABSTRACT

Objective: The objective of this study is to examine the influence of financial literacy and demographic factor on investor preferences for cash dividend.

Research Design: The data for this study were collected from Rawalpindi and Islamabad region based investors, working in Islamabad stock exchange of Pakistan. The study were conducted by collecting the data from the 167 respondents using the adopted questioner which was measured through the five likert scales. SPSS was used to analyze the influence of financial literacy and demographic factor on the investor preferences for cash dividend. In the light of following theories;(Catering theory, theory of the choice, irrelevance theory and cycle social theory), Hypothesis were made and tested.

Finding of the Study: The finding of the study reveals that financial literacy have significant positive effect on investor preference for cash dividend, whereas demographic factors; such as; gender and age have no effect on investor preferences and cash dividend.

Practical Implication: The study will helps investors in decision making regarding investments, Cash dividends and capital gain. Further the finding of the study will also helps; policy and strategy makers, while finalizing their strategies regarding gender diversity and its effect on investments.

Key Words: Investor Preferences, Cash Dividend, Financial Literacy, Demographic Factors.

INTRODUCTION

Cash dividend is the amount distributed among common shareholders. According to cliental effect; some investors like to consume and utilize its cash dividend while some investors want

to reinvest its dividend to get more capital in future (Baker & Wurgler, 2004). Black (1976) concludes that for consumption and for reinvesting the dividend wealth is available for everyone. While it also depends on that, someone wants how much dividend. The preferences of the investors also play significant role in predicting high dividend from the stock (Elton, Gruber & Busse, 1998). Certain questions arise in the mind of investors about where to invest to get dividend. The previous study of standard finance has explained many dividend questions like, tax preferences and contents of information (Bhattacharya, 1979).

However, the investor's personal traits are also involved in making financial decision. The behavior of the investor has a strong effect on financial decisions and their results regarding cash dividend (Durand, Newby & Sanghani, 2008). The other aspects also effect the decisions of the investors about cash dividend. Bashir et al. (2013) indicate that the demographic variable like gender and culture has a strong impact on risk taking behavior and investment decisions like cash dividend. The decisions of the individual investor lack repurchases of shares in the same firm. The institutional investor likes to involve in more stock repurchases while the individual investor are least concerned to involve in repurchases of shares (Jain, 2007). The dividend policy of the firms is on the basis of various factors. The firms have to pay the dividend on the choice of investor and the firm dividend policy should primarily base on the investor preferences (Baker & Wurgler, 2004). And the dividend policy (DP) also reflects the firm financial position. Changes in dividend payout ratio can only show the past financial position and short term earning but does predict the long term expected earnings (Benartzi, Michealy & Thaler, 1997). Just on time dividend payment enhances the firm financial position. Grullen, Michealy & Swaminathan (2002) states that increase in the dividend payment is an important factor to shift the firm financial position from the initial stages to more stable stage.

Demographic factors like gender and financial literacy can also affect investor preferences for cash dividend. Sucuahi (2013) states that both male and female investors who have more knowledge will be superior to others in making financial decisions regarding cash dividend. Along with other variables of financial literacy motivation has also a positive effect in making financial decisions regarding cash dividend (Mandell & Klein, 2007). By increasing financial literacy through other determinants like microeconomics and mathematics will have always positive effect on making financial decisions about saving of cash dividend (Jappelli & Padula, 2012). In banking sector more knowledge is required about the demography of the customers in order to offer relevant investment opportunities in bonds and shares based on their demographic nature especially gender (Lutfi, 2010).

Bijli (2012) states that due to less financial information and improper guidance about financial decisions leads to make blunders in taking these decision. Demographic variables have a strong impact on initial processes to manage investment decision about cash dividend (Grable & Lytton, 1998). Gender is also involved in making financial decisions. Loibl & Hira (2011) provide understanding of different informative strategies regarding gender which helps in designing the most appropriate technique for providing information that how and where to invest. Bashir, (2013) concludes that gender is least concerned in making financial and non-

financial decisions overconfidently. Male become overconfident than female while making investment decisions which increase their chances of failure while trading more than female.

The main focus of my study is to examine whether preferences for cash dividend among male and female are similar or different, and also about that, what is the impact of financial literacy on individual decisions about cash dividend.

This study is significant in a sense that, Pakistani culture is man dominant culture and society. In Pakistan woman is not that's much independent as compared to other developed countries. Most of the investments and jobs are done by men, while men are also more emotionally trapped than women in Asian societies (Hofstede, 2011). This study will focus on why and why not investors want cash dividends. This study will raise the significance of financial literacy among both male and females.

LITERATURE REVIEW

Cash dividend and Investor Preferences:

Dividend is a portion of company's net profit distributed among the shareholders decided by the company's board of directors. It can be classified as stock dividend and cash dividend. The cash dividend is the cash amount distributed among shareholders as cash dividend focus on low tax rate as compared to capital gains whose benefits comes in upcoming future. According to clientele effect; some investors like to gets cash dividend while some investors want to reinvest its dividend to get more capital gain in future on their investment (Baker & Wurgler 2004). According to dividend puzzle effect; for consumption and reinvesting the Dividend wealth is Available for individual investors (Black, 1976, Din et al, 2020).

MM theory (1961) states in their irrelevance theorem, that paying dividend is irrelevant when determining the value of the firm while in the case of shareholders it depends on their preferences for receiving of cash dividend. Bhattacharyya (2007) argued in his study that renowned dividend puzzle is still not solved. Empirical studies are limited and the investigations for clarification of dividends issues still persist though researcher have provide some experimental evidence but practical implications are neglected.

Abor and Bokpin (2010) found that considerably optimistic affiliation among investment prospect set and dividend Payout strategy is initiated. Dividend payout level seems to be a significant experience, Moreover; inflation has a pessimistic consequence on dividends (Basse & Reddemann, 2011). Hussainey et al. (2011) found a positive relationship is established among dividend yield and stock price changes, and a negative relationship between dividend payout ratio and stock price changes. In adding together, it is revealed that a corporation's growth rate, debt level, size and earnings explain stock price changes.

The preferences of the individual investor also play a significant role in predicting high dividend from the stock (Elton, Gruber, & Busse, 1998). Jain (2007) demonstrates that retail investors like to invest in far above the ground dividend paying firms. Certain questions arise in the mind of investors about where to invest to get dividend. The previous study of standard finance has explained many dividend questions like, tax preferences and contents of information (Bhattacharya, 1979).

Shefrin and Statman(1984), expected to emerge better for individual investors who embrace self-effacing quantity of stock honestly, different institutional and additional great investors, do

not rely greatly on skilled collection consultant. Dimension is also factors that influence the dividend conclusion; superior companies will pay more dividends (Smith & Watts, 1992).

Financial literacy and Investor Preferences:

Financial literacy is ownership of awareness and understanding of financial issues. Financial literacy is mostly exercise in association with individual investment decisions. Financial literacy frequently involves the awareness of accurately building decisions pertaining to specific individual investment constituency. Financial literacy has also greater impact on investor preference for cash dividend and on the sound financial system. Widdowson and Hailwood (2007) originate that with high-quality financial awareness one can be able to manage the financial dealings and provide efficiency in the financial systems. He also concluded that the improved financial literacy will be valuable for individuals and families in controlling their money and helping them in making better financial decisions. Financial literacy facilitates individuals in managing cash dividend and also helps in managing financial crises (Remund, 2010).

It is significant to enhance and value the future suggestion of current fiscal scheduling by youthful grown person nowadays since neglecting the significance of financial literacy may affect intelligent financial decisions (Howlett, Kees, & Kemp, 2008). Administration of household economic indicator depend in outsized division on how efficiently utilize financial knowledge. Verification on contribution, captivating financial decision and refinancing decision recommend that several households are sensibly efficient investors, Even if others who are lack financial knowledge make considerable mistakes (Campbell, 2006).

Financial literacy increase the intensity of financial satisfaction, it is probable when individuals have far above the ground level of financial literacy. Additionally it acts as a mechanism of managing money; thus, it doesn't directly manipulate financial satisfaction itself from beginning to end the prevailing character of financial behaviors (Ali, Shaari, Rahman, & Bakar, 2014). Financial literacy of together male and female manipulate significantly on their saving behavior even though men have more financial knowledge than women (Fonseca et al. (2012). Shih and Ki (2013) conclude that the financial literacy of consumers relates positively financial behavior of investors. Those individuals who works with low financial literacy level experienced difficulty in trying to process in sequence cognitively may create a superior intelligence of risk and therefore additional nervousness in making difficult decisions regarding cash dividend (Wallendorf, 2001). Frijns, Gilbert and Tourani-Rad (2014) concluded that there is an optimistic and fundamental consequence of financial skill on financial literacy and far above the ground financial literacy guide to enhance saving performance of an individual investor. Williams and Satchell (2011) found an encouraging association between literacy and decision making. This affiliation might have been inherent (implicitly or explicitly) to point out that financial education can manipulate financial behavior and decision making, and may explain the crushing belief that financial education programs can improve financial behavior.

Cross-cultural literacy assessment features face two challenges: understanding and writing hold unusual sense in diverse societies, and cultural societies necessitate diverse intensity of literacy to purpose completely (Friestad & Wright, 1994). Christopher, Judy and Annamaria (2013)

conclude that much of the dissimilarity is attributable to variation in the demographic composition of the circumstances, still a handful of situation have moreover high or low level of financial literacy than is clarify by demographics alone. There is a considerable association among the financial literacy of a circumstances and that state's deficiency intensity.

Brown and Graf (2012) found a significant income-gap, education-gap, nationality-gap and gender-gap in financial literacy: female respondents, respondents among low education, overseas national as well as respondents with low income and wealth have extensively worse levels of literacy which appear to be determined by two countervailing effects: Knowledge about inflation is absolutely connected with age, while information about compound interest and risk diversification is negatively correlated with age. Financial literacy facilitates individuals in managing cash dividend and also helps in making decisions regarding cash dividend (Remund, 2010).

H1: Financial literacy has significant impact on the Investors preference for cash dividend

Demographic variables and Investors preferences

Brown and Graf (2012) finds relationship of financial literacy and gender; and says that, financial literacy is smaller among low-income and settler households as well as among women. Obamuyi (2013) finds that with the purpose of the socio-economic characteristics of investors (age, gender, financial awareness, experience and qualification) statistically and considerably subjective the investment decisions of investors. Miller, Martinez, Saad, and Holz (2008) takes government as a main financial investor and establish that secondary education is extensively connected with community expenditure and can be enlarged by the government from first to last transfer dividends from public to private sector.

Poterba (2004) face the same experience was establish that there is a stronger chronological association among asset levels, as measured for example by the price-dividend ratio, and review procedures of the population age composition. As dependable with the behavioral life-cycle theory and the marginal opinion theory of stock price, the dividend premium is absolutely determined by demographic clientele distinction characterize by changes in the quantity of the older population (Lee, 2011).

Gender and investors preferences

There are dissimilarity between men and women in financial decisions. Women are more risk reluctant than men (Croson & Gneezy, 2009). Sucuahi (2013) states that both male and female investors who have more knowledge will be superior to others in making financial decisions regarding cash dividend. Demographic variables like gender have a strong impact on initial processes to manage investment decision concerning cash dividend (Grable & lytton, 1998).

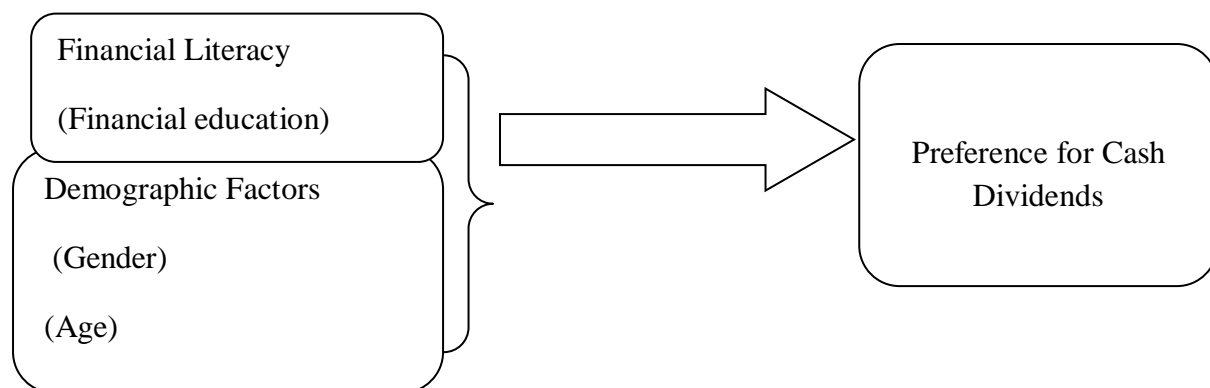
H2: Gender has positive and significant impact on the Investors preference for cash dividend

Age and investor preferences

Demographic factors like gender and age can also affect investor preferences for cash dividend. Lee (2011) also establish that regular through the behavioral life cycle theory and marginal opinion theory of financial stocks, its dividend is absolutely determined by demographic factors distinction like age. Age and financial literacy have relationship in the context of financial decision. Green (2013) establishes that age play a significant role and investor preferences for cash dividend is positively affected by age.

H3: Age has significant association with the Investors preference for cash dividend.

Theoretical Framework:



METHODOLOGY

The current research study collected the data for this research work through the five likert scale to examine the level of financial knowledge and demographic variables which affect the level of decision making of individual investors regarding cash dividend. Data was collected using questionnaires. 350 questionnaires were distributed of which 167 were returned, making the response rate approximately 47 percent. Scoring for each construct was done using a five-point likert scale with 5 representing “strongly agree” & 1 representing “strongly disagree” with each item. The exceptions were demographics (age, gender, qualification, income and experience) for which dichotomous and category scales were used.

Investor’s preferences

Investor’s preferences were measured using the scale developed by Brav, Graham, Harvey, and Michaely (2004). Sample items state, “I would be more inclined to invest in companies that pay a regular dividend than those they don’t”, “I prefer investment in stable and mature companies regardless of their dividend payment pattern”, “I don’t like investing in companies because they don’t pay regular dividend”, “I make dividend decisions after our investment plans are determined”, “Future capital gains are less attractive to me current gains”. A higher score in this scale indicates positive investor preferences for cash dividend and vice versa. Coefficient of Cronbach’s alpha for this measure was 0.791.

Cash dividend

Cash dividends were measured using the scale developed by Brav, Graham, Harvey, and Michaely (2004). Sample items read, “As an equity investor I like to receive a cash dividend”, “I find cash dividends more attractive than bonus share’s”, “A choice restricting cash dividends is unattractive to me”, “I prefer cash dividends over share price appreciation”, “I reinvest most of the cash dividends received in equities”. Alpha reliability for this measure was 0.798.

Financial literacy

Financial literacy was measured using the scale developed by Hira and Loibl (2005). Sample items state, “I have better understanding of how to invest my money”, “I have better understanding of how to manage my credit use”, “I have a very clear idea of my financial needs

during retirement”, “I have better understanding of financial instruments (e.g. bonds, stock, T-bill, future contract, option and etc.)”, “I have the ability to prepare my own weekly (monthly) budget”. Alpha reliability for this measure was 0.757.

Demographic variables

Demographic variables were measured using the scale developed by Grable and Lytton (1998). Sample items states that, “I believe that gender preferences plays very important role in decisions regarding cash dividend”, “share price sensitivity is more common in females than in males”, “Purchase decision is shared jointly by males and females”, “I believe that investor age plays very important role while deciding about cash dividend”, “share Price sensitivity is more common as the age increases”, “Higher age groups enjoying cash dividend more than younger age groups”. Alpha reliability for gender as 0.785 and Cronbach’s alpha for age as 0.794 respectively.

RESULTS

TABLE 1

Correlation analysis

SN	Predictors	Mean	S.D	1	2	3	4	5
1	Investor preferences	3.81	0.66	1				
2	Cash dividend	4.09	0.71	0.47**	1			
3	Financial literacy	3.64	0.51	0.22**	0.07	1		
4	Gender	2.99	0.91	0.03	0.00	0.03	1	
5	Age	3.26	0.99	0.02	0.11	0.12	0.04	1

Significant at the 0.01 level (2-tailed). **p, significant at the 0.01 level (2-tailed). *p

As the figures (**table 1**) indicate an Investor preference is strongly correlated with financial literacy and positive correlated with gender and age, while cash dividend is also strongly correlated with financial literacy positive correlated with gender and age. Cash dividend has the highest mean of 4.09 while gender and age has lowest mean of 2.99 and 3.26. Age and gender has the highest standard deviation of 0.99 and 0.91 that’s why the values of age and gender has more scattered and financial literacy has the lowest standard deviation of 0.51 that’s why the values of financial literacy are less scattered. The values of cash dividend and Investor preferences are coming significant on the base of correlation analysis.

Regression Analysis

Two regressions were executed to see the relationship of investor preferences for cash dividend with financial literacy and demographic variables. In first step demographics other than age and gender are controlled and then in second step first we check the relationship of financial literacy, gender and age with investor preferences (dependent variable) and then with cash dividend (dependent variable). After these analyses we come towards the conclusion.

TABLE 2
Results of regression analysis for outcomes

Predictors	Investor Preferences			Cash Dividend		
	β	R ²	ΔR^2	B	R ²	ΔR^2
Step 1						
Control Variable		0.171			0.106	
Step 2						
Financial literacy	0.193**	0.204	0.033**	0.156**	0.127	0.022**
Gender	0.035	0.172	0.001	0.003	0.106	0.000
Age	0.030	0.171	0.000	0.052	0.108	0.002

N=167; control variables were income, experience, and occupational level.

The H1; investor preferences for cash dividend is positively affected by financial literacy, table 2 showing results; (beta = 0.193 & 0.156, P < 0.05) was found a strong predictor of investor preferences for cash dividend. H2 is reject as the study reveals, that gender has no effect on investor preferences for cash dividend with (beta = -0.035 & 0.003, P > 0.10). Further H3; “investor preferences for cash dividend is positively affected by age” is also rejected with results (beta = -0.030 & 0.052, P > 0.10) and due to these result H2 & H3 are rejected, even as we have not found any effect of age on investor preferences for cash dividend with and these results provide no support for the acceptance of H2 & H3.

DISCUSSION

Financial knowledge and awareness play a significant role in any type of decision making process. Hence investors who don't have enough financial knowledge will always have been suffered and face difficulties in decision making regarding cash dividend and investments (Ali, Shaari, Rahman, & Bakar, 2014). Therefore this research paper was carried out to check the effect of financial literacy and demographic factors on investor preferences for cash dividends, Using linear regression and correlation model results were estimated.

The result of the study indicates that investors characterize with high financial literacy will exhibit strong preferences for cash dividends. These results are consistent with Remund (2010), Statman and Shefrin (1984) and Black (1990). The reason was that they will discount future gains because of time value of money or they simply derive more satisfaction from cash dividend and current gains. In Pakistani context and culture cash dividends are subject to higher tax rate as compared to capital gains therefore cash dividends face tax disadvantaged but investors focus on their current position that's why investors preferred cash dividend and current gain as compared to capital gain or future gain.

The result of the study regarding demographic factors indicates that gender and age have no impact on the investor preferences for cash dividend and on current gains. These results are consistent with Croson and Gneezy (2009), and the results are going against Grable and Lytton (1998). Pakistan is male dominant country. In Pakistani context and culture most of investments are done by men. Only in few cases or less number of investments are done by woman that's why gender has no impact on investor preferences for cash dividend similarly age

has also less impact on investor preferences for cash dividend because no such age level is fixed in Pakistan for investments and more of investments have been done by age level and from 25 to 45 or from 30 to 50 years, means a small number of investors of age below 20 and above 50 exists in Pakistan.

CONCLUSION

The objective of this study was to examine the influence of financial literacy and demographic factor on the investor preferences for cash dividend. For this purpose data were collected from Rawalpindi and Islamabad region based investors, working in Islamabad stock exchange of Pakistan, from 167 respondents using the adopted questioner which was measured through the five likert scales. SPSS was then used to analyze the influence of financial literacy and Demographic on Investor preferences for cash dividend. In the light of following theories; (Catering theory, theory of choice, irrelevance theory and cycle social theory), Hypothesis were made and tested.

The finding of the study reveals that financial literacy have significant positive effect on investor preference for cash dividend, Whereas demographic factors; such as; gender and age have no effect on investor preferences and cash dividend. The study will helps investors in decision making regarding investments, Cash dividends and capital gain. Further the finding of the study will also helps; policy and startegy makers, while finalizing their startagies regarding gender diversity and its effect on investments.

LIMITATIONS

The limitations of the current study are too restricted the population & sample to Islamabad and Rawalpindi based investors only. The major limitation of the research is small sample size, the data is collected only from Islamabad stock exchange investors, that's why the results of the study would not be generalized due to limited sample, finding with larger sample size or if similar research covering a larger sample size may enable the findings to be more significant, and the other limitation of the study is the method of data collection, respondents are not fair and sincere in filling of questionnaire due to which we face problems later on in data analysis.

FUTURE RESEARCH DIRECTIONS

In future research more comprehensive studies about investors from all over Pakistan can be carried out for a more meaningful understanding of the investor preferences, we should to increase the number of hypothesis, should to check the relationship of hypothesis along with mediator variable or moderator variable, we should to check the relationship of investor preferences with the behavior and cognition of the individuals.

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**Financial Literacy and Demographic Factors effect on Investor Preferences for Cash Dividend: A
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