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Impact of Corporate Cash Flows on Dividend Payouts: Evidence from South Asia

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Abstract: Present study investigated the impact of free cash flow on corporate dividend policy in four emerging economies of South Asia i.e. Bangladesh, India, Pakistan and Sri Lanka. The data of 250 listed companies collected form published annual reports from 2006-10. Based on the estimated results it was evident that liquidity plays major role in distribution of cash dividend and in order to pay regular dividends firm needs to maintain strong cash reserves. The results showed that cash flow from operations is an important factor affecting the firm's ability to pay dividends especially in India and Pakistan. However, the dividend payout of firms from Sri Lanka and Bangladesh was not affected much from the cash flow from operations.

Key words: Dividend Policy · South Asia · Cash Flow

INTRODUCTION

Financial texts have long been describing the two most important financial decisions a finance manager has to take i.e. investment and financing decisions. Investment decision involves the acquisition of real assets while financing decision entails the use of optimal sources of funds which could be utilized to acquire such assets. However, there is a third decision which arises at the time when company earns profit. This decision is related with the retention or distribution of corporate profits in order to enhance or at least maintain company's share value. The ultimate goal of finance manager is to ensure that every corporate decision must lead the company to achieve its target of shareholder's wealth maximization therefore, while deciding among distribution and retention rates of profit, finance manager must not only consider the future investment needs of the company but also take in to account the possible impact of his decision on company's share value. More than optimal dividend payout may improve company's image to the investors but this will reduce the plough back rate of profit, which is commonly known as retention rate, to the company as a result there could be a fair chance that company would not be able to meet the future investment needs. Abnormally high distribution rate is not only hard to maintain in the long run but also exerts negative pressure on company's reserves, as a result break-up value of shares goes down. On the other side, a low profit distribution rate signals weak financial position and mismanagement in financial affairs of business, which not only jeopardized company reputation in the market but also create hurdles in raising funds from capital markets.

There are innumerable factors, both internal and external, which shapes the dividend policy of a particular factors and singling out any one factor as the most important determinant of dividend policy is not only difficult but also unjustifiable. However, existing literature provides a list of factors like ownership structure, profitability and leverage as the important determinant of dividend payout and many researchers have presented their legendary work based on empirical analysis of data to investigate the impact of these factors on payouts but the evidence on relationship of free cash flow with dividend payouts of companies is virtually non existent especially in listed companies of South Asia. The companies financial and liquidity position is an important factor in shaping its dividend policy. Financially constrained firms, facing liquidity constraints, may be more reluctant to pay high dividends then a company available with excess liquidity.

Stock dividend can be preferred over cash dividends in scenario where firm is facing liquidity problems.

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According to the free cash flow hypothesis presented by Jensen [1] dividend is paid out of the residual left after investment in profitable projects. From company's point of view, the most important source of payment of cash dividend is cash generated from operations. If the company's operating cash is not sufficient to pay cash dividend then such company would not be able to maintain its payout ratio over a long period of time. Especially in a situation where company is financially constrained and cannot access the capital market to raise the funds on easy and affordable terms. Such firms become cash flow sensitive which further reduces their potential and willingness to pay cash dividends.

The above discussion shows the importance of free cash flow for a company in paying cash dividend to its shareholders. Many researchers have highlighted the issue of importance of cash flow in determining cash dividends in different countries but very few have addressed the issue in a cross country context. Especially, in context of listed companies of South Asia the empirical evidence on importance of cash flow in determining the dividend payout is non existent. The present study is therefore, intended to address this issue by taking data of listed of companies from four South Asian Countries i.e. Bangladesh, India, Pakistan and Sri Lanka.

Rest of the paper is organized as follows; the next section will provide the review of relevant literature where the third section will explain the research model and variables of the study. The results are discusses in fourth section while last section will give the conclusion.

Literature Review: Existing literature provides a list of factors like ownership structure, profitability and leverage as the important determinant of dividend payout and many researchers have presented their legendary work based on empirical analysis of data to investigate the impact of these factors on payouts. Covering this huge literature is neither possible nor under the scope of the study, however following discussion highlights some important empirical evidences on cash flow and its relationship with corporate payout. A range of theoretical arguments and empirical evidences need to be considered for explaining the factors that affect the dividend policy. Researchers agreed that dividend policy of the company can't be explained by individual factor [2] and large number of different firm and country specific variables jointly determine the dividend payout of a company. According to academicians of finance (see for example; Michel and Shaket 1986; Glen *et al*. [3]; Travlos *et al*., [4]; Kang and Lee, [5] and Kang, (2004), different dividend policies are implemented by companies operating in different countries based on their varying cultural, economic, institutional and legal scenarios. In different countries these factors respond differently towards the decisions made by management to pay dividend. In majority of South Asian countries, only few major shareholders are responsible for management of company's affairs and ownership is greatly concentrated. Still there is a need to investigate how dividend policy is structured within the legal and cultural framework of the county by managers.

The issue of agency cost was raised by Jensen and Meckling [6] who argued that payment of cash dividend curtails the funds under the control of managers, which enforces them to acquire funds from external capital market, thus put them under the strict scrutiny by market experts. The reduction in free cash flow also reduces the owner's responsibility to manage the quality of investment and expenditure on manager prerequisites i.e. reduced agency problem. As a result of reduced cash flow the firms ability to pay high dividends also negatively affected. The agency problem is due to the excess cash flow left after financing all positive NPV projects that can be used inefficiently by the managers. This argument is line with Berle and Means [7] that reported that the basic reason of conflict of interest between management and shareholders is the unutilized free cash available to managers.

Bradley *et al*. (1998) investigated the importance of expected volatility of cash flow in determining dividend policy of 75 REIT firms during 1985 to 1992. Based on empirical findings they concluded that firms with higher expected cash flow volatility pay low dividends as compared to firms with lesser cash flow volatility. They used size, leverage and diversification level as control variables. They found the results in line with information based explanation of dividend policy but not with agency cost hypothesis.

Pappadopoulos and Dimitrios (2007) investigated the impact of firm's specific characteristics on dividend payout on the sample of 72 companies listed at Athens Stock Exchange from 1995 to 2002. After splitting the sample in to industrial and retail firms they found no statistically significant difference in dividend payout among them. Based on the results they argued that cash flow is the most important dividend payout determinants and is positively related with proportion of earnings distributed as dividend. However, the relationship of size, capital structure, leverage, profitability and liquidity remained undermined.

More recently in Pakistan, Ahmed and Attiya [8] analyzed determinants of dividend payout in Pakistan.

Based on the analysis of 320 firms listed at Karachi Stock Exchange during the period 2001 to 2006 they found that Pakistani companies rely more on current earnings and past dividend to fix their dividend payment. The estimated results showed that profitability along with earning stability contributes towards cash flows due to which profitable firms pay higher dividends.

The cross country investigation of determinants of dividend policy, conducted so far has mainly focused developed economies. Although some studies have also considered emerging economies like India and Jordan etc along with developed ones but the evidence from South Asian economies, particularly Pakistan, Sri Lank and Bangladesh, are very limited. The present study attempt to fill this gap by taking a cross sectional comparison of four emerging economies of South Asia. The results of the study are expected to provide an insight in to the trends and dynamics of dividend policy in South Asian economies.

Research Methodology: Total population of the study includes all non financial listed companies of the leading stock exchanges of Bangladesh, India, Pakistan and Sri Lanka. Financial data of listed companies are collected from Dhaka Stock Exchange, Bangladesh; Bombay Stock Exchange, India, Karachi Stock Exchange, Pakistan; Colombo Stock Exchange, Sri Lanka. Only those companies are selected for study that fulfills the following selection criteria:

- Firms must remain in business for the whole study period i.e. 2006 to 2010.
- Should remain enlisted during the whole study period.
- Should not have merged, due to any reason.
- Should not be in loss for the all years under study.
- Should not be a State Owned Enterprise (SOE).
- Should not have missed dividend in more then 3years out of all 6 years of study.
- Must have disclosed ownership structure in its annual report.
- Annual reports must be available for all years of study.

The main difficulty in data collection arises due to non availability of companies' annual reports, therefore, stratified random sampling techniques was applied where companies were selected from common sectors of stock exchanges of all four countries. The data for the present study is collected from published annual reports of 250 companies for the period from 2006 to 2010. Primarily, ordinary least square (OLS) regression technique is used for estimation of results and secondly censored regression tobit model is also applied for robustness of results. Decision to pay or not to pay dividends is analyzed using Binary logistic regression (Logit) models. The proxies used corporate dividend policy is dividend payout and dividend intensity, while cash flow from operations is used as independent variable along with control variables of size, leverage and profitability.

Operating cash is the main source of cash dividends. If firms' source of operating cash is strong and managers are confident to maintain the given level of increased cash flows from operations in the future then they would not be reluctant to pay high dividends. On the other side, if firms are unable to generate sufficient cash flow from operations than management would not be able to increase cash dividend. It is important to note the firm is available with two more sources of cash i.e. cash flow form investing activities and cash flow from financing activities but firm available with excess cash flow from operations is in better position of pay high dividends even after capturing positive NPV projects, because it is not feasible to finance cash dividend by selling asset or shares of company. From view point of company operating cash flow plays an important role in dividend decision. Among all three sources of cash flows i.e. operating, investing and financing, operating cash flow is considered as most attractive source of payment of cash dividends. Present study hypothesized a positive relationship between operating cash flow and dividend policy. This relationship is estimated using the equation given below:

$$DIV_{it}=\alpha+\beta_1(OCF)_{it}+\beta_2(SZ)_{it}+\beta_3(LVG)_{it}+\beta_4(PRFT)_{it+}\varepsilon_{it} \quad (1)$$

All variable of the study are summaries in Table 1 below:

Statistical Analysis: In the light of existing literature the present study has applied different estimation techniques to investigate the importance of cash flow in determining payout of a firm. Before applying any other estimation model the study has analyzed the correlations structure of the variables. The primary purpose of correlation analysis is to identify potential determinants of dividend payout policy and take help for final model building. Secondly, it is also meant to detect multicolinearity in the data. Table 2 shows correlation analysis of firm's level variable

Table 1: Variables of the study

Symbol	Variable description	Proxy	Expected relationship
Dependent Variable (Dividend Policy)			
DPO	Dividend per share / Net Earnings per share	Dividend Payout	N/A
DYLD	Dividend per share / Market Price per share	Dividend Yield	N/A
DINT	Total Dividend Paid/ Total Assets	Dividend Intensity	N/A
Independent/Control Variables			
OCF	Operating Cash Flow / Total Assets	Operating Cash Flow	Positive (+)
SZ	Log of Assets	Size	Positive (+)
LVG	Total Liabilities / Total Assets	Leverage	Negative (-)
PRFT	Earning Per Share	Profitability	Positive (+)

Table 2: Correlation

	Panel A			Panel B		
	----------Bangladesh----------					
	DPO	DYLD	DINT	CFO	SZ	LVRG
CFO	*0.032*	*0.095*	*0.141*	*1.000*		
SZ	*-0.154*	*0.015*	*-0.096*	*-0.171*	*1.000*	
LVG	*-0.024*	*-0.119*	*-0.072*	*-0.115*	*-0.028*	*1.000*
EPS	*0.054*	*-0.037*	*0.054*	*0.102*	*0.147*	*-0.059*
	----------India----------					
	DPO	DYLD	DINT	CFO	SZ	LVRG
CFO	*0.126*	*0.294*	*-0.040*	*1.000*		
SZ	*0.204*	*0.074*	*0.086*	*0.109*	*1.000*	
LVG	*-0.243*	*-0.290*	*-0.091*	*-0.010*	*0.018*	*1.000*
EPS	*0.093*	*0.175*	*0.335*	*0.067*	*0.303*	*-0.222*
	----------Pakistan----------					
	DPO	DYLD	DINT	CFO	SZ	LVRG
CFO	*0.092*	*0.000*	*0.240*	*1.000*		
SZ	*0.048*	*0.099*	*0.025*	*-0.124*	*1.000*	
LVG	*-0.113*	*-0.172*	*-0.149*	*-0.072*	*-0.195*	*1.000*
EPS	*0.138*	*0.279*	*0.256*	*0.080*	*0.176*	*-0.190*
	----------Sri Lanka----------					
	DPO	DYLD	DINT	CFO	SZ	LVRG
CFO	*0.259*	*-0.257*	*0.101*	*1.000*		
SZ	*0.079*	*0.044*	*0.363*	*-0.003*	*1.000*	
LVG	*0.061*	*0.181*	*-0.292*	*-0.091*	*-0.020*	*1.000*
EPS	*-0.058*	*-0.076*	*0.141*	*0.365*	*-0.120*	*-0.031*

Table 3: Cash Flow Model

	[----Bangladesh-----]		[--------India--------]		[----Pakistan----]		[----Sri Lanka----]	
Constant	*0.130*	*-0.981*	*20.616*	*17.916*	*0.234*	*0.201*	*.383*	*-1.803*
	[2.516]	*[-1.972]*	*[15.907]*	*[4.037]*	*[5.111]*	*[0.591]*	*[3.728]*	*[-1.571]*
	(0.014)	*(0.053)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.555)*	*(.000)*	*(.121)*
CFO	*0.572*	*0.901*	*10.325*	*9.800*	*0.277*	*0.220*	*.367*	*.121*
	[1.761]	*[2.397]*	*[2.015]*	*[2.860]*	*[2.171]*	*[2.690]*	*[.369]*	*[.119]*
	(0.083)	*(0.020)*	*(0.045)*	*(0.004)*	*(0.031)*	*(0.004)*	*(.713)*	*(.906)*
SZ	---	*0.053*	---	*0.491*	---	*0.022*	---	*.109*
	---	*[2.287]*	---	*[0.636]*	---	*[0.265]*	---	*[2.038]*
	---	*(0.026)*	---	*(0.525)*	---	*(0.791)*	---	*(.046)*
LVG	---	*-0.201*	---	*-0.016*	---	*-0.161*	---	*-.150*
	---	*[-1.208]*	---	*[-1.112]*	---	*[-0.688]*	---	*[-.378]*
	---	*(0.232)*	---	*(0.267)*	---	*(0.492)*	---	*(.706)*
PRFT	---	*0.000*	---	*0.007*	---	*0.005*	---	*-.001*
	---	*[-0.629]*	---	*[0.380]*	---	*[2.494]*	---	*[-.181]*
	---	*(0.532)*	---	*(0.704)*	---	*(0.013)*	---	*(.857)*
R^2	*0.044*	*0.122*	*0.012*	*0.018*	*0.012*	*0.036*	*0.045*	*0.074*
Adj R^2	*0.030*	*0.063*	*0.009*	*0.006*	*0.009*	*0.026*	*0.002*	*0.017*
D/W	*1.805*	*1.875*	*1.778*	*1.988*	*1.354*	*1.653*	*1.827*	*1.957*
F-STAT	*3.102*	*2.079*	*4.061*	*1.484*	*4.712*	*3.443*	*2.565*	*3.767*
Sig- F	*0.083*	*0.095*	*0.045*	*0.207*	*0.004*	*0.009*	*0.713*	*0.057*

Dependant Variable: Dividend Payout (DPO); Parentheses contain [t-statistic]; (P-Value).

Table 4: Cash Flow Model (Dividend Yield and Dividend Intensity as Dependent Variables)

	[----Bangladesh-----]				[--------India--------]				[----Pakistan----]				[----Sri Lanka----]			
	DYLD		*DINT*		*DYLD*		*DINT*		*DYLD*		*DINT*		*DYLD*		*DINT*	
Constant	0.016	-0.043	-0.003	0.162	0.032	0.038	0.017	0.019	0.026	0.048	0.019	0.055	.022	.004	-.115	-.105
	[1.751]	[-0.798]	[-0.093]	[0.463]	[10.502]	[3.739]	[7.871]	[2.578]	[7.089]	[1.878]	[3.177]	[1.244]	[2.781]	[.040]	[-3.218]	[-3.108]
	(0.086)	(0.429)	(0.926)	(0.645)	(0.000)	(0.000)	(0.000)	(0.010)	(0.000)	(0.061)	(0.002)	(0.214)	(.007)	(.969)	(.001)	(.003)
CFO	0.035	0.051	0.490	0.663	0.008	0.009	0.050	0.050	0.005	0.008	0.094	0.077	.171	.165	.011	.015
	[0.582]	[1.274]	[2.143]	[2.369]	[0.678]	[0.765]	[6.028]	[5.797]	[0.471]	[0.786]	[5.527]	[4.576]	[2.367]	[2.200]	[2.214]	[2.524]
	(0.563)	(0.209)	(0.036)	(0.021)	(0.498)	(0.445)	(0.000)	(0.000)	(0.638)	(0.432)	(0.000)	(0.000)	(.021)	(.032)	(.043)	(.032)
SZ	---	0.002	---	-0.010	---	-0.003	---	0.000	---	-0.004	---	-0.006	---	.000	---	.006
	---	[0.945]	---	[-0.607]	---	[-1.462]	---	[-0.281]	---	[-0.597]	---	[-0.536]	---	[-.001]	---	[4.031]
	---	(0.350)	---	(0.546)	---	(0.145)	---	(0.779)	---	(0.551)	---	(0.592)	---	(.999)	---	(.000)
LVG	---	0.000	---	0.119	---	-0.001	---	0.001	---	-0.028	---	-0.044	---	.067	---	-.034
	---	[-0.004]	---	[0.955]	---	[-0.508]	---	[-0.685]	---	[-1.590]	---	[-1.459]	---	[1.714]	---	[-2.900]
	---	(0.997)	---	(0.344)	---	(0.612)	---	(0.494)	---	(0.113)	---	(0.145)	---	(.092)	---	(.005)
PRFT	---	0.000	---	0.000	---	0.000	---	0.002	---	0.001	---	0.001	---	.000	---	.001
	---	[0.516]	---	[-1.160]	---	[3.471]	---	[0.121]	---	[6.243]	---	[5.062]	---	[-.526]	---	[3.687]
	---	(0.608)	---	(0.251)	---	(0.001)	---	(0.940)	---	(0.000)	---	(0.000)	---	(.601)	---	(.000)
R^2	*0.006*	*0.047*	*0.067*	*0.125*	*0.009*	*0.046*	*0.095*	*0.094*	*0.004*	*0.123*	*0.076*	*0.158*	*0.083*	*0.132*	*0.403*	*0.201*
Adj R^2	*0.002*	*0.021*	*0.052*	*0.060*	*0.002*	*0.032*	*0.092*	*0.083*	*0.001*	*0.114*	*0.074*	*0.149*	*0.064*	*0.073*	*0.364*	*0.161*
D/W	*1.898*	*1.050*	*1.676*	*1.801*	*1.992*	*1.087*	*2.114*	*2.221*	*1.682*	*1.955*	*1.729*	*1.987*	*1.789*	*1.853*	*1.422*	*1.762*
F-STAT	*1.339*	*1.555*	*4.593*	*1.952*	*0.495*	*3.355*	*36.335*	*8.602*	*0.222*	*12.545*	*30.547*	*17.182*	*5.602*	*2.244*	*10.316*	*12.374*
Sig- F	*0.563*	*0.696*	*0.036*	*0.120*	*0.498*	*0.011*	*0.000*	*0.000*	*0.638*	*0.000*	*0.000*	*0.000*	*0.021*	*0.075*	*0.000*	*0.000*

Dependent Variable: Dividend Yield (DYLD); Dividend Intensity (DINT) Parentheses contain [t-statistic]; (P-Value).

of the study for Bangladesh, India, Pakistan and Sri Lanka. Panel A (shaded area of table) shows the correlation between dependent variables and independent variables while panel B (un-shaded right hand side of table) presents the correlation among dependent variables. In Table 2, cash flows, CFO has a positive correlation with dividend payout proxies, which is inline with research hypothesis of this study. Intuitively, free cash flow is the main source of dividend payments and dividend increases with increase of cash flow from operations.

Table 3 shows the estimated results of equation 1 based on listed companies of selected South Asian countries. The results are in line with the hypothesized relationship in table 1. The cash flow from operating activities has a significant positive relationship with dividend payouts in all South Asian countries except Sri Lanka where the relationship between cash flow and payout is insignificant. On determinants of dividend policy in Bangladesh, Huda and Farah (2011) considered cash balance and reported positive relationship between dividend payout and cash balance. Similarly, Farooque *et al*. [9] investigated the relationship of operating cash flow with ownership structure, but no significant study in context of Bangladesh was found which studied the relationship between operating cash flow and dividend payout. Present study found significantly positive impact of cash flow on dividend payouts in Bangladesh, India and Pakistan but the relationship remains insignificant in case of Sri Lanka.

Table 4 gives the estimated result of cash flow model using dividend yield and dividend intensity as dependent variables. Similar results have been observed which confirms the estimated results from dividend payout model. This proves that cash flow from operations plays an important role in determining dividend payouts. Intuitively, cash flow from operations is among the three main sources from which cash can be generated. Firm may not use the source of investments or financing to pay regular dividend because these sources are not sustainable and business cannot relay on them in long run. Using the logic developed by Lintner [10] managers would only be ready to increase dividends as a result of increased earnings if they believe that this increase in earnings is sustainable. In the same way, business should not use that source of cash flow to pay dividends which is not sustainable. For example, if firm uses cash generated from investing activity i.e. sale of assets or financing activity i.e. by note payable, firm would not be able to pay future dividends using this source as this will severely damage the financing strength of business. Therefore, operating cash flow is the only source which should be used to pay dividend and firm must put its efforts in strengthening the source of operating cash so that it can maintain dividend payout over a long period of time.

Based on the value of coefficient of determination it is evident that in Sri Lankan companies 40% of the total changes in dividends is the result of changes in cash flow from operations but this determination power of operating

Table 5: Cash Flow Model (Tobit and Logit Estimation)

	[----Bangladesh-----]		[--------India--------]		[----Pakistan----]		[----Sri Lanka----]	
	Tobit	Logit	Tobit	Logit	Tobit	Logit	Tobit	Logit
Constant	32.591	1.505	12.313	-0.598	-.1500	1.134	-6.782	-5.352
	[1.64]	{4.506}	[2.11]	{0.550}	[-0.26]	{3.107}	[-1.50]	{.005}
	(0.104)	(0.755)	(0.035)	(0.217)	(0.795)	(.233)	(0.137)	(.161)
CFO	2.322	5.121	7.360	-0.183	.477	4.010	-4.923	2.696
	[2.11]	{167.528}	[1.07]	{0.833}	[2.37]	{55.163]	[-1.28]	{14.818}
	(0.036)	(0.212)	(0.287)	(0.037)	(0.018)	(.000)	(0.204)	(.376)
SZ	-1.625	-0.108	2.389	0.384	.049	-.101	.332	.341
	[-1.79]	{0.897}	[2.41]	{1.468}	[0.34]	{.904]	[1.58]	{1.406}
	(0.076)	(0.631)	(0.017)	(0.000)	(0.732)	(.670)	(0.118)	(.064)
LVG	.189	1.039	-6.204	-0.498	-1.052	-3.478	-.999	-3.329
	[0.11]	{0.561}	[-4.87]	{0.608}	[-2.59]	{.031}	[-0.58]	{.036}
	(0.910)	(2.826)	(0.000)	(0.000)	(0.010)	(.000)	(0.565)	(.015)
PRFT	.0139	0.028	-.0042	0.008	.0174	.029	.016	.043
	[0.95]	{0.085}	[-0.18]	{1.008}	[4.78]	{1.030}	[0.97]	{1.044}
	(0.343)	(0.085)	(0.854)	(0.022)	(0.000)	(.000)	(0.336)	(.058)
Pseudo R^2	0.0073	---	0.0178	---	0.0622	---	0.0179	---
Log Likelihood	-276.330	64.922	-1246.58	305.443	-397.58	373.256	-133.066	72.847
LR $Chi^2(4)$	4.08	---	45.06	---	52.77	---	4.86	---
P-Value Chi^2	0.3950	---	0.0000	---	0.000	---	0.3017	---
Cox and Snell	---	0.194	---	0.203	---	0.250	---	0.197
Nagelkerke R^2	----	0.278	---	0.299	---	0.334	---	0.278
Wald test	----	11.099	---	72.245	---	31.697	---	10.297
Sig-Wald	----	0.001	---	0.000	---	0.000	---	0.000

Dependent Variable: Dividend Payout (DPO); Parentheses contain [t-statistic]; (P-Value);{Exp-B}

cash in case of Pakistan and India is just 12% approximately. The coefficients of control variables do not present additional information then what is depicted in table 3. In Bangladesh the operating cash flow model with dividend yield and intensity as dependent variables, is not complete fit in terms of significance of ANOVA F value.

Table 5 presents the result of cash flow model using tobit regression model and also to judge the impact of operating cash flow on decision to pay or not to pay dividend, binary logistic or logit regression model results are also presented.

Estimated results from tobit and logit models reconfirm the previous results except in India and Sri Lanka where the coefficient of CFO is insignificant. Regarding decision to pay or not to pay dividend only in Pakistan the increase in operating cash flow seems to have an increasing affect on probability to pay dividends. The control variable of size gives mixed results, however it is positive in India which is in line with the research hypothesis of this study. While the role of cash flow in decision to pay or not to pay dividends is found to be significant only in Pakistan and India.

CONCLUSION

The ultimate goal of finance manager is to ensure that every corporate decision must lead the company to achieve its target of shareholder's wealth maximization therefore, while deciding among distribution and retention rates of profit, finance manager must not only consider the future investment needs of the company but also take in to account the possible impact of his decision on company's share value [11]. More than optimal dividend payout may improve company's image to the investors but this will reduce the plough back rate of profit, which is commonly known as retention rate, to the company as a result there could be a fair chance that company would not be able to meet the future investment needs.

Conclusion: Liquidity plays vital role in distribution of cash dividend and in order to pay regular dividends firms need to maintain strong cash reserves. The payment of regular dividends limits the firms' ability to make investments in highly profitable projects but as we assume the a rational firm always follows residual dividend policy therefore, the argument is restricted only

up to the availability of free cash flow and cash flow sensitivity and its role in enhancing the dividend payouts. From the estimated results the cash flow emerges as an important factor affecting the firm's ability to pay dividends especially in India and Pakistan. The firms from Sri Lanka and Bangladesh do not seem to be affected much from the cash flow from operations.

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