

Corporate Financial Policies: A International Survey

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Abstract

Earlier questionnaire-based studies of corporate finance have concentrated mainly on either the American or the European market, and referred to only a few aspects of corporate financial decisions. This study, in contrast, is based on five countries-the U.S., the U.K., Germany, Canada and Japan, and deals with a broad range of corporate financial issues. We also compare some of the survey results to those based on a sample of S&P500 companies. We found that, as the prevailing theory states, the investment policy is regarded as the most important policy, while the dividend policy is the least important. We also found that the importance of the financing and dividend policies increased with the financial leverage. The most frequently used technique for investment appraisal is the IRR, followed by the NPV. We also found that the use of risk measurement techniques was highest in Japan and lowest in the U.S. This finding may suggest a greater aversion to risk among Japanese managers than among their U.S. counterparts. Japanese companies have the highest financial leverage while U.S. companies have the lowest. 68% of the questionnaire sampled companies pay dividends with a mean payout ratio of 37.32%, while 81.3% of the S&P500 sample pays dividends with a mean payout ratio of 34%. Japan was also found to be unique in its dividend polices preferences. Almost all of the Japanese sampled companies (95.2%) pay a fixed sum per share, compared to only 26.15% for the other countries in the sample.

JEL Classifications: G3, G32, G35

Keywords: Investment Policy, Financing Policy, Dividend Policy, Corporate Finance, Multinational Survey.

1. Introduction

Studies utilizing questionnaires for examining corporate finance in practice have focused mainly on the American capital market. Graham and Harvey (2001), here after GH, for example, surveyed managers of American firms about their investment and capital structure policies. A recent study by Brounen, Jong and Koedijk (2004), hereafter BJK, on the other hand, confined itself to European CFOs only. In our study, we surveyed managers from five countries on three continents (the U.S., the U.K., Germany, Canada and Japan), thus enabling us to provide a broad international perspective. The spectrum of the corporate financial issues addressed here is also more comprehensive than in prior studies. Dividend-policy issues, for example, were not addressed at all by either GH or BJK. In addition, we compared some of the results that were based on the questionnaire data with those based on market data using S&P500 companies and with the results obtained by former questionnaires studies.

The paper is arranged as follows. Section 2 presents the literature review and theoretical background. Section 3 outlines the research methodology and describes the sample. Section 4 discusses the results, and Section 5 provides a summary and conclusion.

2. Literature Review and Theoretical Background

Finance theory identifies three types of policies that corporate managers have to optimize in order to maximize the firm's value: the investment, financing and dividend policies. The investment policy refers to both the magnitude and types of growth pursued and projects undertaken. Once the amount and type of expansion has been determined, the financing policy is set, delineating the spectrum of financing methods or sources of funds used to finance the expansion. Finally, the dividend policy refers to the division of the net income between retained earnings and dividends to the common equity holders. These three policies are briefly reviewed below.

2.1 The investment policy

Of the three major types of policies (investment, financing and dividend), theory predicts that corporate managers would consider the investment policy as the most important policy because it forms the basis for the firm's business operations and growth. In this study, we examine how managers rank the level of importance of the above policies, and discuss some aspects of those policies. In their survey, GH found a rise in the frequency of use of the NPV (Net Present Value) as an investment appraisal technique. They were surprised by the fact that more than half of the respondents used the company's cost of capital for investment appraisal of an international project, even though the risk in a particular project was likely to differ from the firm's overall risk. BJK have found that while large firms use the NPV and the capital assets pricing model when assessing the financial feasibility of an investment, small firms still rely on the pay back criterion. In our international survey, we will examine the extent to which known criteria are used for investment appraisal and compare our results to those of GH and BJK. The investment policy directly affects company value. It will be interesting to examine what managers think about the value of the company they head. Based on the psychological considerations of identifying with the company and valuing their personal contribution to its success, we expect that most managers will state that their company is undervalued.

Another important issue in finance theory that we investigate is the types of risk measures considered by corporate managers. The CAPM implies that the relevant risk measure is the systematic risk coefficient (Beta), not the total risk (Sigma), which, in addition to the systematic risk, contains a specific risk that can be diversified away. In addition to these two common risk measures (Beta and Sigma), there can be cases in which the objective of the corporate manager is survival rather than maximizing the wealth of the shareholders. In such cases, another risk measure that a manager can consider is the probability of not covering the investment costs. Such a risk measure seems consistent with the survival objective.

Determining an appropriate cost of capital for estimating project profitability affects the value of the firm. Theory states that corporations should use the weighted average cost of capital (WACC). The theory also states that when the risk of the specific project or the division of the corporation is different than that of the company, a divisional or project's specific cost of capital should be employed. We examine the

extent to which corporate managers are aware of this issue and the extent to which a relationship exists between the firm's size and the frequency with which it uses the divisional or the specific cost of capital

2.2 Financial policies

The financing policy is known to influence the firm's value and its risk. The value of the firm is affected by capital market imperfections such as corporate taxes, personal taxes and bankruptcy costs. In this study, we examine to what extent these factors and others influence the financing policy. We start by discussing explanatory variables that according to theory should affect the financial leverage, followed by a presentation of the pecking-order theory, and concluding with the use of financial risk hedging techniques.

GH concluded that the tax benefits of debt (in addition to financial flexibility, bond rating, and profit fluctuation) are the most significant factors shaping the company financing policy. Moreover, they found that bond rating and financial flexibility are the primary factors influencing bond-issue policy, while per share profit, dilution effect and share price on the stock exchange are the primary factors influencing decisions regarding stock issues. BJK too have concluded that financial flexibility is the most important factor determining the firm's target capital structure. Molina (2005) has focused on the question of whether firms are under leveraged. He found that leverage has a strong effect on ratings that result in a higher impact on the ex ante costs of financial distress, which can offset the tax benefits of debt.

The preference of alternative financing sources is outlined by the pecking-order theory. According to the theory, firms first utilize internal sources of funds and then they employ external financing - debt and equity in that order. Next they make use of hybrid sources of capital such as convertibles, rights and warrants. In our survey we investigate the financing preferences of corporate managers.

Another important financial decision is how and to what extent firms should hedge their financial risk. Hentschel and Kothari (2001) examined whether companies use financial derivatives to change their risk level. They did not find a significant difference in risk level between firms that use financial derivatives frequently and those that rarely do so, and concluded that financial derivatives do not substantially reduce a firm's financial risk. Graham and Rogers (2002) found that companies hedge

risk in order to improve their ability to borrow money. In addition, they found a positive correlation between the firm's size and its potential bankruptcy on the one hand and its hedging level on the other. Bodnar, Gregory and Marston (1998), examined the frequency with which financial derivatives are used to hedge risks among large companies in the U.S. Their results show that the use of financial derivatives is prevalent among less than half of the companies. Nevertheless, among companies that already use these hedging techniques, a rising trend was seen in their use. In our study, we examine the frequency of derivative use to hedge financial risks.

2.3 The dividend policy

There is a debate in the financial literature regarding the degree to which the dividend policy affects company value. M&M (1958) claim that under perfect capital market conditions, a firm's value is derived from its operating profitability rather than from whether or not it distributes its profits. Other researchers reached the opposite conclusion. Kalay and Michaely (2000), for example, claimed that dividend policy has a positive impact on long-term stock returns. We use our survey to examine how managers perceive the importance of the dividend policy, and to what extent they consider the impact of the dividend policy on the company's stock price.

Kumar and Lee (2001) claimed that dividend smoothing¹ is intended to attract investors to companies in financial distress. Li and Lie (2006) argued that the decision to change the dividend and the magnitude of the change depend on the premium that the capital market places on dividends. In their view, the capital market rewards managers for considering investor demand for dividends when making decisions about the level of dividends. In our study, we examine the major factors influencing the dividend policy and explore the frequency of use of known dividend policies². Brav, Graham and Michaely (2005) argued that perceived stability of future earnings still affects dividend policy as in Lintner (1956). However, they found that the link between dividends and earnings has weakened over time. Many managers now favor repurchases because they are viewed as being more flexible than dividends and can be used in an attempt to time the equity market or to increase earnings per share.

Deangelo et al. (2003) claimed that dividend centralization has increased over the last two decades. That is, while the number of companies distributing dividends has decreased by half, the amount of the actual dividend has increased. The researchers

believe that this increase in dividend centralization results from the fact that companies that used to distribute small dividends have ceased distributing dividends entirely or have been acquired by other companies. In contrast, companies that paid high dividends have increased their dividend payments even more. Deangelo, et al. (2003) found a positive correlation between company profitability and the amount of the distributed dividend. Fama and French (2001) pointed to a drop in the number of companies paying out cash dividends, from 66.5% in 1978 to 20.8% in 1999. This drop, they believe, is due to the change in the nature of companies traded on the American capital market, as a result of changes such as more flexible listing requirements. Consequently, there has been a significant increase in the number of small companies traded on the stock exchange that operate with a small profit margin but offer significant growth opportunities. Such companies usually do not distribute dividends. The researchers also emphasize that regardless of their type, small companies tend to distribute fewer dividends than do large companies. We compare the percentage of dividend paying companies in our S&P500 sample to that of our survey sample and discuss the relation between the firm's size and its tendency to distribute dividends.

Dewenter and Warther (1998) compared the dividend policies of American and Japanese companies and tested the impact of these policies on the stock price. They found that compared to American companies, Japanese companies had fewer problems related to information asymmetry and agency costs. Therefore, share prices in Japan responded more moderately to changes in dividend level as compared to American companies. In our study we compare the dividend policies of Japanese and American companies and attempt to explain these differences.

Fenn and Liang (2001) studied how dividend policy is affected by manager ownership of shares. Their findings indicate that manager ownership is correlated with a high rate of dividend distribution. Moreover, a strong negative correlation was found between the dividend's sum and the volume of options given to managers, and a positive correlation was noted between the repurchase of shares and those same options. According to the researchers, the increase in the number of options offered to managers can explain the increase in repurchases at the expense of dividend distributions. We use our sample data to investigate the link between corporate governance factors and the dividend policy. Moreover, we investigate the relationship between the relative importance of the dividend policy and the following corporate-

governance variables: the percent of public ownership, the percent of ownership held by three senior managers, the percent of ownership held by the three major shareholders and the total number of shareholders.

3. Methodology and Sample

In order to test the relationship between theory and practice in terms of corporate decisions, two major research methods are generally utilized in the experimental literature³. One method is to rely upon market data and financial statements, while the other is to distribute questionnaires directly to financial decision makers. Each of these two methods has some advantages and disadvantages. The main advantages of the questionnaire method are: (a) Questionnaires make it possible to get information “from the source” that is harder to obtain in alternative methods. For example, the intentions upon which decisions are based can be detected more directly by a questionnaire; (b) A manager’s perspective does not always completely correspond to the financial situation reflected in the raw data. However, as a research tool, questionnaires also have several limitations. Discrepancies occur because of partial or tendentious responses or inadequate understanding of the questions asked. Another problem associated with the questionnaire method is the possible lack of reliability and validity.

The approach we adopted here is to compare the findings resulting from the two methods, an approach that does not appear to have been used previously. The questionnaire, briefly discussed later in this section, was sent to chief financial officers (CFOs) of major companies in five countries: the U.S., the U.K., Germany, Canada and Japan. These countries were chosen because they had the highest GDP (Gross Domestic Product) per capita among the OECD countries at the time the questions were asked. The companies were selected using leading stock indexes in each country: TOPIX500 in Japan, S&P500 in the U.S, FT500 in the U.K, DAX and MDAX in Germany and TG1000 in Canada. For each country we selected the 300 largest companies included in the index. The number of responding companies ranged between 21 and 35 for each of the five countries (140 in total), resulting in an average response rate of 9.3%. This rate is similar to the mean response rate obtained in previous studies⁴. The names of the CFOs to whom the questionnaire was sent were found on the companies’ web sites. In order to make sure that the questionnaire was

understandable, we followed GH and ran a pretest on MBA students in advanced finance courses and also consulted with survey specialists. Each manager received a personal letter attached to our survey, describing the importance of his/her response. We also offered to send the results of the study to whoever was interested. Moreover, in order to increase the response rate, we phoned some of the managers and promised them that the information they provided would be used for academic purposes only, and would be kept completely anonymous. We asked participants to return their questionnaires to us by fax, electronic or regular mail within three months of the date of receipt. As had been done in previous studies, we compared the average responses to key questions on the surveys that arrived after three months with those that had arrived on time. We found no statistically significant differences between answers on the early and late questionnaires.

Table 1 summarizes the characteristics of the companies in the survey sample. The table shows that the highest response rate was obtained in Canada (11.7%) and the lowest in Japan (7%).

[Insert Table 1 here]

In the questionnaire, the managers were asked to evaluate different variables such as methods used for investment appraisal and risk measurement, financial risk-hedging techniques, financial leverage and dividends. The questionnaire was divided by topics. First, we asked about the investment policy, followed by the financing and dividend policies. The questionnaire (which appears in the Appendix) consists of 20 questions broken down into 63 sub questions.

In addition to the survey sample, we constructed a market data sample drawn from the U.S. S&P500 index. Of the 500 companies in the index, we found complete data for 413 companies using the Compustat and CRSP data sources.

4. Results

The results will be presented in three separate sections for each type of corporate policy. Accordingly, the investment, financing and dividend policies are discussed here in Section 4.1, 4.2 and 4.3, respectively ⁵.

4.1 The Investment policy

Figure 1 demonstrates that the investment policy is perceived by managers as significantly more important than either the financing or dividend policies. The average answer for the perceived level of importance of the investment policy was 4.23 out of 5 categories (4.23/5), followed by the financing and dividend policies (3.90/5 and 2.78/5, respectively), indicating that the financing policy was perceived as more important than the dividend policy.

[Insert Figure 1 here]

Figure 1 also indicates a correlation between the importance of the financing policy and that of the investment policy with respect to the financial leverage (Debt/Assets). For leverage levels higher than 60%, the survey CFOs regard the financing policy as more important than the investment policy, and this gap is statistically significant for leverage levels that exceed 80%. While the importance of the financing policy increases with the financial leverage, the importance of the investment policy decreases with it. Significant differences between countries were found with respect to the importance of the dividend policy. It was considered more important in Japan (3.57/5) and the U.K. (3.46/5), and less important in Canada (2.06/5) and the U.S. (2.58/5).

4.1.1 Investment appraisal techniques

The questionnaire asked about the following investment appraisal techniques: NPV, PI (Profitability Index), PBP (Pay Back Period), CAPM (Capital Assets Pricing Model), Decision Tree, Sensitivity Analysis and VAR (Value At Risk). Table 2 presents the frequency of the use of the various investment appraisal techniques.

[Insert Table 2 here]

The table demonstrates that the most frequently used technique for investment appraisal is the IRR, followed by the NPV but the difference between the two is not statistically significant. Finance textbooks maintain that the NPV is superior to the IRR, which should manifest itself in more frequent use of the NPV. The widespread use of the IRR found in the survey apparently indicates that it is more convenient for ranking projects. In addition to the IRR and the NPV, managers also use the PBP and Sensitivity Analysis more often than the other techniques. GH were also surprised by how frequently PBP was used because it does not take time into account. BJK have

found in their European survey that PBP is the most commonly used investment appraisal technique, followed by the NPV and the IRR methods. It seems that the relatively high use of PBP can be attributed to its simplicity and convenience. The VAR and the PI were used less frequently. Similar ranking of the investment techniques were found in each of the five countries, although some variations were in evidence. Table 2 also shows that, on average, U.K. managers use investment appraisal techniques more often than the other managers, while the Japanese use those techniques the least. These differences are apparently related to local business and management traditions. Like GH and BJK, we also found a positive relationship between the firm's size and the use of the following well-known investment appraisal techniques: IRR, NPV and CAPM. This finding stems, in our view, from the richer practical experience and the stronger grasp of financial theory among managers in large firms compared to small firms⁶.

4.1.2 The cost of capital

We examined four discount rates to determine which ones were used most frequently to assess investment appraisal. Those rates were: 1) the project's risk adjusted rate⁷. 2) The discount rate of the entire company (the weighted average cost of capital or WACC), 3) the divisional discount rate, and 4) the cost of the specific source of financing planned to fund the new project. We find that, as theory states, the WACC is used most frequently for assessing investment appraisal (3.65/5). In second place was the risk-adjusted rate (2.85/5), followed by the cost of the specific source of funds used to finance the project (2.74/5). The divisional discount rate ranked in last place (2.03/5). BJK found that the divisional discount rate is almost never used in Europe. The more frequent use of the WACC (used by 85% of the managers in the survey) compared to the risk-adjusted rate (used by 68% of the managers) is apparently because the risk in most of the projects assessed is identical to the firm's risk, and the average cost of capital should be used for such projects. Another possible explanation for the less frequent use of the risk-adjusted cost of capital than the WACC lies in the difficulty in estimating the adjusted discount rate for each project. This finding is similar to that of GH in their study of the U.S. market. They found that 58.8% of the U.S. managers use the WACC as opposed to 50.9% who use the project risk adjusted rate. BJK found that 43% of the European companies use the WACC while only 26% use the risk adjusted rate. They added that the CAPM is the

most common method of estimating the cost of equity capital. BJK concluded that 45% of the European managers rely on the CAPM for cost of equity estimation compared to 73.5% of the U.S. managers in GH research. The relatively frequent use of the cost of the specific source of funds, found in our research, indicates a lack of awareness of finance theory. The theory maintains that the average cost of capital, rather than the specific discount rate, should be used. Like BJK, we also found a positive relationship between the firm size and the frequency with which it uses the project risk adjusted discount rate for investment appraisal, but that relationship was not statistically significant. A positive and statistically significant relationship was found between the firm size and the frequency with which the divisional discount rate is used. These findings indicate that managers of large firms are more aware of financial theory than managers of small companies.

4.1.3 Risk measurement techniques

As stated in Section 2.1, the common risk measures that corporate managers may use include the systematic risk factor (Beta) and the standard deviation of the expected cash flow (Sigma). We have also argued in Section 2.1 that consistent with the survival objective, managers may use the probability of not covering the investment costs, as a risk measure. These three risk measures were assessed in our survey. The questionnaire responses indicate that the probability of not covering the investment costs is the most frequently used technique (2.83/5), followed by the standard deviation of the expected cash flow (2.18/5) and Beta (1.99/5). We also found that the use of the risk techniques was highest in Japan (2.8/5) and lowest in the U.S. (1.94/5). This finding may suggest a greater aversion to risk among Japanese managers than among their U.S. counterparts.

4.1.4 Perception of the company's market value

Question 10 asked managers if they believe that their firm is incorrectly valued. The vast majority of them (72.5%) believe that the firm they head is undervalued, 26.5% of them think their firm is correctly valued and only 1% believe their firm is overvalued. No significant differences were found among the countries. As stated earlier, we believe that the assessment of the company's value is a psychological issue deriving from the manager's judgment of the role he/she plays in the company's success, and the self-esteem that comes from that success. These findings are

consistent with those of Heaton (2002), who showed that managers are consistently optimistic and therefore tend to overestimate the firm's chances of success and underestimate its chances of failure.

4.2 Financial Policies

Corresponding to the structure of Section 2.2, the sequence of the issues discussed here would be as follows: (1) the financial leverage and related issues, (2) the relative importance of different variables in making financing decisions, (3) the use of various sources of funds to finance new investments, and (4) risk hedging techniques.

4.2.1 The financial leverage and related issues

The average financial leverage (Debt/Assets) for all the companies surveyed was 0.5 with a standard deviation of 0.26, and half of the companies had a financial leverage exceeding 0.5. For the S&P500 sample, the financial leverage was much higher: 0.67 with a standard deviation of 0.18. The American companies surveyed had a lower financial leverage of 0.42 with a standard deviation of 0.27. At least part of the difference in the level of the financial leverage between the American companies surveyed and the S&P500 companies can be attributed to the large size of the S&P500 companies. Table 3 presents the financial leverage according to country, together with possible related explanatory variables. The table indicates that Japan has the highest leverage, while the U.S. has the lowest. Germany is in the middle, with an average leverage of 0.47.

[Insert Table 3 here]

These results partially correspond to the literature's typical classification of Japan and Germany as credit-based economies, compared to the U.S. and the U.K., which are described as economies based on the capital market⁸. The relatively high financial leverage in Japan is the result of a credit-based financial system and an industrial structure that focuses its business operations around a bank that acts as a financing and ownership partner. Table 6 also points out that the highest corporate tax rate exists in Japan (39.2%) and the lowest in the U.K. (30.1%). Desai et al. (2004) also link the capital structure decision to the firm's ownership partners. They argue that multinational affiliates are financed with less external debt in countries with underdeveloped capital markets or weak creditor rights, reflecting significantly higher

local borrowing costs. They also claim that increased borrowing from parent companies substitutes for three-quarters of reduced external borrowing induced by capital market conditions.

With respect to potential bankruptcy costs, the survey data show that 61% of managers estimate the potential bankruptcy costs in their company as less than 5% of the value of the firm's assets. Only 15% of the managers predict that bankruptcy costs could range between 10% and 20% of assets (This range is similar to the estimate of bankruptcy costs offered by Andre and Kaplan (1998)). The lower rate for our sample may stem from the manager's overly optimistic perception of their ability to liquidate the assets at fair market value. This optimistic perception is also consistent with a related result found in our survey and reported above according to which managers generally perceive their firm as being undervalued.

4.2.2 The relative importance of different variables in making financing decisions

Table 5 summarizes the relative importance of various factors that managers consider in making financing decisions. As mentioned in Section 2.2, theory states that the value of the firm is affected by capital market imperfections such as corporate taxes, personal taxes and bankruptcy costs. The findings in Table 5 indicate that these factors are actually considered by the managers in our survey. However, there are some additional factors that managers regard as more important. One of these factors is the project cash flow. Other factors that were found relevant to the financing decision were: financial flexibility, the market value of the stock, and taxes (corporate and personal).

[Insert Table 5 here]

Some of these results are also similar to those of GH for the U.S. market. They found financial flexibility and the stock price to be the most influential factors. In respect to the credit-ranking factor, our study indicates less importance than in GH. Statistically significant differences were found between countries with respect to the importance of the following variables: corporate tax rate, potential bankruptcy cost and the company's credit rating. BJK established that financial flexibility is the most important factor for determining the proper financial leverage. They also found moderate support for the prediction that firms have a target debt ratio, based on tax and bankruptcy considerations. Childs et al. (2005) found that financial flexibility

encourages the choice of short-term debt, thereby dramatically reducing the agency costs of under and over investment

4.2.3 The use of various sources of funds to finance new investments

Table 4 presents the frequency of use of various sources of capital to finance investments. The results imply that the most common source of capital for financing new investments is retained earnings, while warrants are the rarest. Capital sources not related to ownership dilution (such as retained earnings and debt) are preferred over sources of funds that dilute ownership (such as common stocks, options and convertibles). The table also indicates a clear preference for long-term over short-term debt financing. Though the pecking-order theory suggests a dollar value order of financing preferences whereas our survey refers to frequency of use of different financing sources, these findings may seem consistent with the pecking-order theory outlined in Section 2.2.

[Insert Table 4 here]

4.2.4 Risk hedging techniques

Table 6 summarizes the frequency with which financial techniques are used for risk hedging for both the entire sample and the individual countries. Forwards contracts are the most commonly used method of hedging financial risks, while futures contracts are the rarest. Almost one quarter of the sample companies (21%) rarely use any hedging technique.

[Insert Table 6 here]

The choice of forwards and swaps over futures and options implies a preference for risk-hedging via the banking system as opposed to via the stock market, as well as a preference for risk-hedging instruments that meet the specific needs of the hedging company rather than standard hedging tools. Our results regarding the frequency of use of financial instruments concur with those of Bodner, et al. (1998). They found that more than 50% of companies do not use financial instruments at all for risk-hedging, while the rate of their use increases mainly among companies that have used such financial instruments in the past. To measure the correlation between the rate of use of the various hedging strategies and financial leverage, we used Cronbach's alpha⁹ reliability measure. This method enabled us to measure the degree to which different variables can be united into a single variable based on the similarity of their

distribution. The alpha value was 0.75, indicating that the different hedging methods can be defined as a single variable. In examining the correlation between this single variable and financial leverage, we found a statistically significant positive correlation between the variables ($R=0.330$, $p<0.01$; where R is the correlation coefficient and p is the significance level). That is, as financial leverage increases, hedging techniques are used more frequently. This result coincides with the conclusions of Leland (1998), who claimed that hedging financial risks facilitates greater leverage. In addition, we found a strong and significant positive correlation between the frequency of using hedging strategies and company size ($R=0.508$, $p<0.01$). The larger the company, the greater its use of hedging tools. Graham and Rogers (2002) obtained similar results. They found that the larger and more leveraged a company, the more frequently it uses financial tools for hedging purposes. The researchers believe that this positive correlation is derived from the following: (a) the professional know-how and extensive experience of managers in large companies compared to their colleagues in smaller companies; (b) the indirect costs of bankruptcy which increase with company size; (c) and the higher advantage that large firms have upon small firms in terms of better access to capital. We find a significant positive correlation between the scope of a company's international activities and the frequency with which it uses risk-hedging methods. Companies with more extensive international activities make more frequent use of risk-hedging methods. This finding is not surprising, and it derives from the needs of international companies that are vulnerable to exchange rate risks.

4.3 The Dividend policy

As discussed in Section 4.1, the managers in our survey consider the dividend policy the least important of the firm's three major financial policies. Nevertheless, a relatively detailed discussion of this issue is presented here due to a lack of a discussion of the dividend policy in prior survey studies such as those of GH and BJK, and especially in light of the presence of more theories of the dividend policy despite the fact that practitioners feel it is the least important policy. Significant differences were found among the countries in the sample with respect to their perception of the importance of dividend policy. Japanese and British managers attribute greater importance to the dividend policy than their American counterparts.

These findings are in keeping with the results presented below, which indicate that companies in the U.S. and Canada distribute dividends less frequently than do Japanese and European companies. Moreover, our findings show that the importance of the dividend policy increases as the financial leverage rises. Figure 2 shows the frequency of the use of the dividend policy among the companies in the questionnaire sample.

[Insert Figure 2 here]

Of the 140 companies participating in the study, 32% reported that they do not pay dividends at all. Fama and French (2001) show that the percentage of companies distributing dividends dropped from 66.5% in 1978 to 20.8% in 1999. They explained these results by a change in the makeup of the companies traded on the capital market. Increasing numbers of small companies are being traded on the market; these companies are marked by significant growth rates and, as opposed to established companies, tend not to distribute dividends at all. The results of our international questionnaire sample show that 68% of the companies pay dividends, while 81.3% of the companies in the S&P500 do so. These results reinforce the claim that large companies are more likely to distribute dividends than small companies (as mentioned above, the firms of the questionnaire sample were smaller than those of the S&P500).

Figure 2 also indicates that of the entire sample, the most frequently used policy is a constant sum per share (39%), composed of constant sum of money per share (21%), minor changes in the constant dividend per share (10%) and a constant sum per share plus a special dividend (8%). The second most common method of payout is paying a percentage of net profit (22%). Methods for arriving at this amount include paying a percent of the firm's net income (16%) and a percentage of the firm's net income plus growth factor (6%). Our analysis of the S&P500 companies indicates that the average annual dividend per share distributed by S&P500 companies is \$0.68, which represents an average of 34% of earnings per share (compared to 37.32% for the companies sampled by the questionnaire). Table 7 summarizes the factors influencing the dividend policy. The table shows that forecasted cash flow has the greatest influence on the dividend policy, while the individual tax rates on dividends has the least impact. The effect of the dividend on the stock price also received a high rating as a factor affecting the dividend policy.

[Insert Table 7 here]

4.3.1 The dividend policy and corporate governance

The relation between the ownership structure and the firm's performance has been discussed in the financial literature¹⁰. In this section, we examine the correlation between the dividend policy and corporate governance factors. In the questionnaire, we defined four variables describing how a company is governed: (1) percentage of ownership held by the three largest stockholders, (2) percentage of ownership held by the three senior managers, (3) percentage of public ownership, and (4) total number of shareholders. An χ^2 analysis shows a significant correlation between these corporate governance variables and the dividend policy ($p < 0.5$). One striking result is that the number of companies that do not distribute dividends increases with the percentage of ownership held by the three largest shareholders (similar to the result of Jensen, et al. (1992)), and decreases with the percentage of ownership held by the three senior managers. Managers who are also shareholders prefer to distribute dividends to themselves, while major shareholders (holding a significant ownership share) who are not managers, prefer to retain the profit in order to finance further growth. These findings demonstrate the agency problem, which deals with conflicts of interest between shareholders and managers. Clearly, these conflicts of interest influence the firm's dividend policy. Our findings also resemble those of Fenn and Liang (2001), who examined the impact of manager ownership on dividend policy and found that such ownership is, indeed, related to a high rate of dividend distribution. Correlation tests conducted on the questionnaire data did not reveal a significant correlation between the governance variables of the companies of the questionnaire sample and the rate of dividend distribution.

For comparative purposes we also employed market data of the S&P500 companies. This type of comparison seems important because it contrasts the survey test results with real market data results. The tests of the S&P500 sample yielded the following results: A positive and significant correlation was found between the total number of shareholders and the rate of dividend distribution ($R = 0.311$, $p = 0$), and between the number of shareholders and the dividend yield ($R = 0.387$, $p = 0.2$). No significant correlation was found between the rate of ownership by the three senior managers and the dividend distribution rate. The results for the S&P500 sample suggest that as

company ownership becomes more distributed, the rate of dividend distribution and the size of the dividend yield increase. Moreover, according to the questionnaire data, as ownership becomes more distributed, managers attribute more importance to the impact of the dividend on the share price ($R = 0.304$, $p < .01$). The correlation between dividend policy and ownership distribution can be ascribed to the dividend's distribution serving as a tool for attracting investors (see, for example, Lie 2000).

Using the company governance variables defined above, we employed a regression equation to estimate the relationship between the importance of the dividend policy to the managers in our survey and the governance variables. The findings are summarized by Equation (1) below:

$$DivIMP = 3.938 - .01Pub - .349Pown - .161MS + .196Num \quad (1)$$

(8.72) (-3.25) (-3.31) (-1.55) (2.64)

$$R^2 = .174, N = 138, F = 7.26, p = .084$$

where: *DivIMP* = importance of dividend policy to managers, *Pub* = percent of public ownership, *Pown* = percent of ownership held by the three senior managers, *MS* = percent of ownership held by the three major shareholders, *Num* = total number of shareholders (1=Up to 100, 6=More than 100,000). The null-hypothesis: $Pub < 0$; $Pown < 0$; $MS < 0$; $Num > 0$.

The results in Equation (1) indicate that all the explanatory variables carry the expected sign and they are statistically significant (except for the percent of ownership held by the three largest shareholders). These findings imply that the importance of the dividend policy decreases with the percent of the company's public ownership, the percent of ownership held by the three senior managers and the three largest shareholders, and increases with the total number of shareholders. Table 8 presents the frequency of dividend policy types in the countries studied. The table shows that Japan has the lowest percentage of companies that do not pay dividends (4.8%), while this percentage is particularly high in Canada and the U.S. (60% and 52%, respectively). The high percentage of American companies that prefer not to distribute dividends at all is consistent with the finding of Fama and French (2001),

noted above, where only 20.8% of the companies in their sample distributed dividends.

[Insert Table 8 here]

Table 8 also indicates that the most frequent dividend policy used in Japan and the U.S. is the payment of a fixed amount per share. In the U.K. and Germany, the percent of companies that distribute dividends is higher than among American companies but lower than in Japan. In these countries, the most common policy is to distribute a per share dividend as a fixed percentage of net profit. The high rate of Japanese companies that distribute dividends is, we believe, the result of the ongoing crisis in the Japanese banking system. If in the past banks constructed their investment portfolio in order to achieve long-term returns, today banks favor investments yielding high returns and short-term stability. Hence, in order to attract bank investments, companies must meet the banks' dividend expectations. Most of the managers in Japan and the U.S. did not specify their company's dividend pay out rate. Of the companies that did respond to this question, no significant difference was found between countries with respect to the dividend pay out rate. The highest rate was in Germany (52.17%). In contrast, the lowest rate was in the U.K. (36.3%) and the average of the entire sample was 37.32%. Dewenter and Warther (1998) compared the dividend policies of American and Japanese companies by examining the relation between changes in dividend per share and stock prices. Their study indicates that Japanese stocks are less responsive to changes in the dividend sum, thus facilitating more frequent changes in the dividend sum, and more adjustments to changes in profitability. However, as mentioned above, due to the severe financial crisis beginning in the 1990s, the investment range of Japanese investors became more limited, and today they expect a more rapid return on their investment. Hence, stock prices in Japan are more sensitive now, than in the past, to changes in the dividend sum, even more than stocks prices in the U.S. Approximately 55% of the managers from all the sampled countries claimed that the stock price is not sensitive at all to the dividend sum, or that its sensitivity is weak. In companies where the managers claimed that the stock price was sensitive to the dividend changes, the most common dividend policy was distributing a fixed dividend per share.

No significant difference was found between Japan and the U.S. with respect to the manager's belief about the sensitivity of the stock price to changes in the dividend sum ($T=0.652$). This believed sensitivity level was 2.9/5 for Japanese stocks and

2.62/5 for U.S. stocks. This result contradicts the results of Dewenter and Warther (1998). Moreover, the most common dividend policy in Japan is distributing a fixed dividend amount per share (47.6% of Japanese companies compared to only 24% of American companies). As mentioned above, the difference between Dewenter and Warther's finding and ours results from changes in the Japanese corporate financial policies after 1998 due to the financial crisis in Japan in the 1990s. Today, banks in Japan focus on the immediate outcomes and short-term returns (as opposed to their past focus on long-term investments). Private investors in Japan are also demanding short-term returns, leading to a greater sensitivity of stock prices to changes in dividend amounts. Conroy et al. (2000) used a sample of Japanese companies to examine the effect of the company's profitability and dividend policy on the stock return. They found that the stock return is more affected by the degree of investors' surprise at corporate profitability changes, and less by the dividend information. These researchers believed that the degree of surprise found in the dividend does not significantly affect stock returns in Japan. In the current study, we found that Japanese managers, more so than managers from other countries, are convinced that the stock price of their firm is sensitive to changes in the dividend level. The differences between our findings and those of Conroy et al. (2000) may reflect a gap between manager's perceptions and the actual market data results.

5. Summary and Conclusions

This study has investigated the three main corporate financial policies: investment, financing, and dividend. Notwithstanding the importance of these policies, little is known about how CFOs in various countries actually make corporate financial decisions and the extent to which inter-country differences exists. Previous questionnaire-based studies have concentrated mainly on the American or the European markets and focused on only certain aspects of corporate financial decision. In contrast, our data set is based on questionnaires completed by 140 CFOs from five countries: the U.S., the U.K., Germany, Canada and Japan--and deal with a broad range of corporate financial issues, including dividend policy issues not examined in prior survey studies.

Previous studies have found that actual corporate financial decisions are not always consistent with theoretical predictions. Our inter-country survey research enabled us

to compare corporate financial behavior under various economic circumstances. The research countries were chosen because they had the highest GDP per capita among the OECD countries at the time the questions were asked, and the companies were selected using leading stock indexes in each country.

We found that, in accordance with prevailing theory, the investment policy is regarded as the most important policy, while the dividend policy is the least important policy. The importance of the financing and dividend policies rises with the level of the financial leverage.

The NPV and IRR investment decision criteria are the most frequently used techniques for investment appraisal. The frequency of use of these criteria as well as other well-known techniques varies significantly among the researched countries. Moreover, larger companies make more extensive use of established techniques for assessing investment feasibility. With respect to the discount rate, the most frequently used discount rate is the WACC. A surprising outcome was the relatively frequent use of the cost of the specific source of financing planned to fund a new project, particularly in companies with high levels of financial leverage. Use of this technique seems to stem from a lack of awareness of finance theory, which maintains that the appropriate discount rate is the WACC, not the cost of the specific financial source.

The average financial leverage (Debt/Assets) for all the companies surveyed was 0.5. Japanese companies have the highest financial leverage (0.62) while U.S. companies have the lowest (0.41). Germany is in the middle, with an average leverage of 0.47. These results partially correspond to the literature's typical classification of Japan and Germany as credit-based economies, as opposed to the U.S. and the U.K. which are described as economies based on the capital markets. With respect to the financial risk-hedging methods, we found that managers prefer bank-hedging methods (forwards and swaps) to market hedging (futures and options).

As mentioned earlier, the dividend policy is regarded as the least important policy of the three major corporate financial policies. Its level of importance is negatively correlated with the percent of the company's public ownership, the percent of

ownership held by the three senior managers and by the three largest shareholders, and positively correlated with the total number of shareholders.

Our findings indicate that the most frequent dividend policy is a constant sum of money per share followed by a percent of the firm's net income. An extremely high percent (95.2) of Japanese companies distribute dividends, compared to an average of 62.3% for the other four countries. Moreover, the most common dividend distribution policy in Japan is a fixed amount per share with or without minor changes in the regular dividend or a special dividend (95.2%), compared to 26.15% for the entire sample. Japan's unique dividend policy, we believe, derives from the credit crisis that began in the late 1990s. That crisis forced investors to narrow their investment horizons. The dividend policy favored by American companies is to distribute a fixed amount per share (28%) with or without minor changes, followed by distributing a percentage of net profits (8%). In Germany, which had the highest dividend pay out ratio (52.17%), the most common dividend policy is distributing a fixed percent of net profits. We found that the two factors that have the greatest impact on the dividend policy are forecasted cash flow and the stock price. It is worth noting that the forecasted cash flow factor is the most influential factor in all three major corporate financial decisions (investment, financing and dividends).

This study implies that the actual corporate financial decision-making process is generally consistent with theoretical expectations. However, various types of corporate financial behavior have been observed and can be partially attributed to the variety of economic environments in different countries. Potential extensions of this study can focus on different industries in each country as well as on bull vs. bear capital markets, and developed vs. emerging markets.

Endnotes

1. Fixed dividend per share over time.
2. As noted in the previous section, the dividend policy has not been discussed in either GH or BJK studies. Though it is perceived in the literature as less important than the investment or financing policies, an expanded discussion of this issue is presented here.
3. See, for example, Fama (1998) and Thaler (1999).
4. Graham and Harvey (2001), for example, obtained a 9% response rate on a survey intended for American managers.
5. The question responses of the corporate managers in the survey are summarized in Tables 1-8 and in Figures 1 and 2. Other responses are summarized directly in the text (and do not appear in the tables or figures). Each table and figure presents the responses to different questions.
6. A positive relationship has been also found between the firm's size and the PBP method that can be due, as argued by both GH and BJK, to its simplicity and convenience.
7. The project's risk adjusted rate is a discount rate that reflects the project's risk level regardless of the adjustment method used.
8. See, for example, Blinder (1992).
9. Cronbach's alpha measures the co-variability of different factors.
10. Studies include those of Boubakri et al. (2005) and Brown et al. (2005).

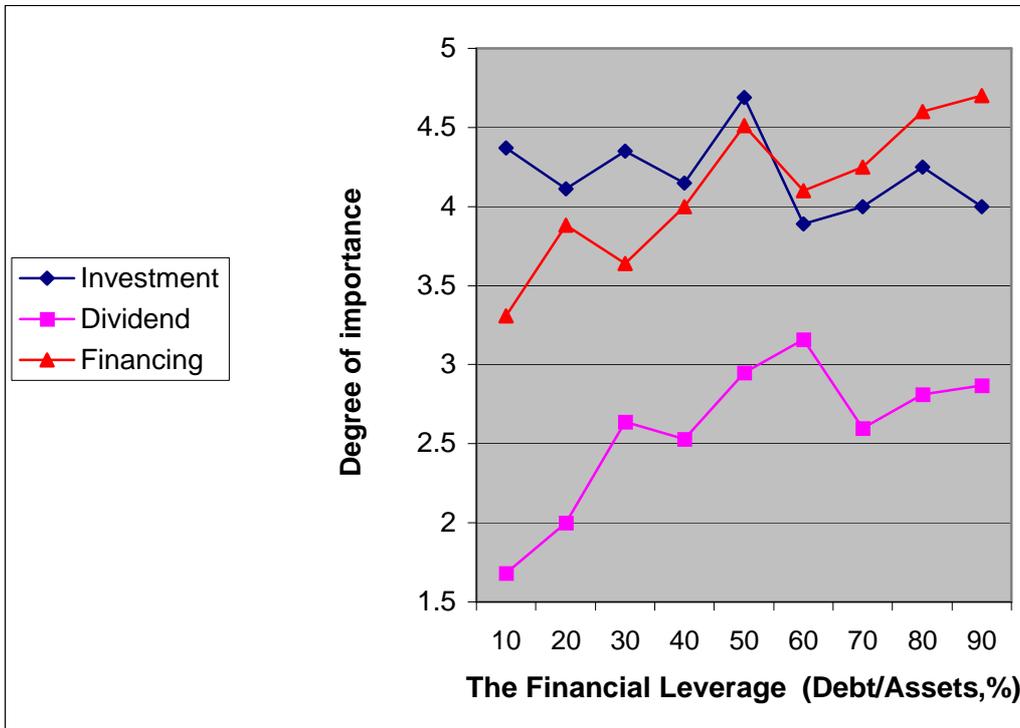
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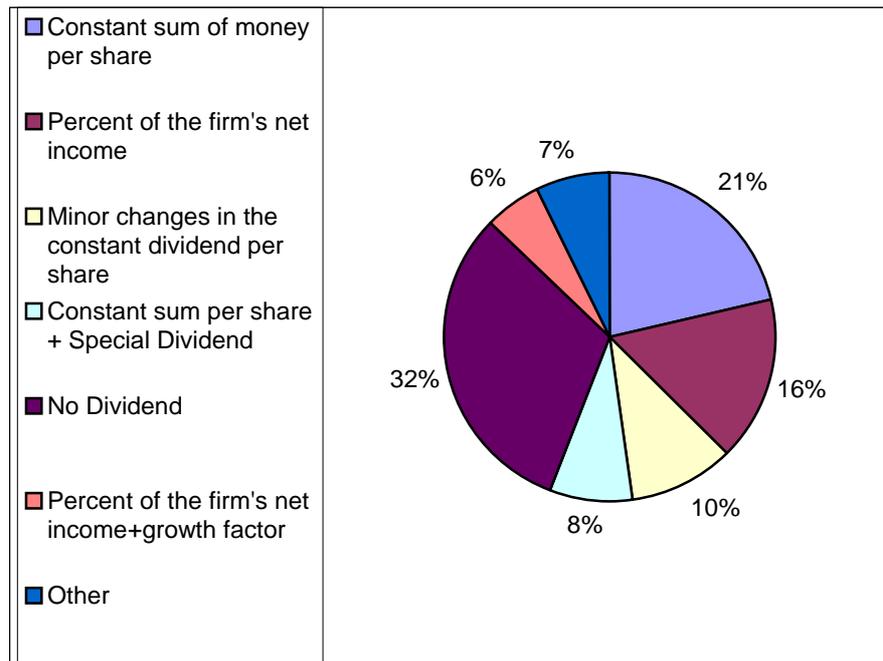
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Figure 1: The Financial Leverage and the Importance of the Investment, Financing and Dividend Policies



- Notes:** 1. The Figure is based on Question 11: How important are the following financial policies to your company? (1=Not important, 5=Very important).
2. The financial leverage data were taken from Question 7 in the questionnaire: what is your firm's ratio of total liabilities/total assets.

Figure 2: The Frequency of Different Dividend Policies for the Survey Sample



Note: The Figure is based on the results of Question 8: Which of the following dividend policies best describes your company's dividend policy?

Table 1: The Characteristics of the Survey Companies by Country

	US	UK	Germany	Canada	Japan	Average
Number of firms	27	28	29	35	21	28
Total sales (M\$)	420	1,200	1,100	350	3,500	1,314
% Of foreign sales	18	40	37	25	19	27.8
% Of public ownership	88	82	57	86	64	75.4
Credit rating of the firm's least risky debt	3.6	2.6	2.13	3.9	2.8	3.0
Number of shareholders relative to size	10.3	12	2.5	7.7	5.1	7.5

- Notes:**
1. The total sales and foreign sales figures are based on Question 16.
 2. The number of shareholders is based on Question 19.
 3. The number of shareholders relative to size is the number of shareholders divided by the total sales.
 4. Credit Rating for the firm's least risky debt; 1=AAA, 2=AA...6=B.

**Table 2: The Frequency of the Use of Investments
Appraisal Techniques by Country**

	US	UK	Germany	Canada	Japan	Average
IRR	4.00	4.16	4.08	4.15	3.29	3.93
NPV	3.88	4.00	3.50	4.09	3.57	3.80
PBP	3.46	3.89	3.33	3.57	3.52	3.55
Sensitivity analysis	3.73	4.04	3.46	3.70	2.62	3.51
CAPM	2.16	2.68	2.35	1.67	2.35	2.24
Decision tree	2.40	1.87	2.04	1.87	1.90	2.02
PI	1.58	2.08	2.38	1.63	2.16	1.96
VAR	1.76	2.20	2.15	1.69	2.00	1.96
Average	2.87	3.11	2.91	2.79	2.67	

- Notes:** 1. The results are based on Question 1 in the questionnaire: How frequently does your firm use the following techniques for investment appraisal (1=Never, 5=Always).
2. VAR = Value at Risk, PBP=(Pay Back Period), PI=(Profitability Index).

Table 3: Mean Values of Selected Corporate Variables (%) by Country

		US	UK	Germany	Canada	Japan	Average
1	Financial leverage	41.6	49.0	47.6	50	62.1	50.0
2	Corporate tax rate	31.2	30.1	35.6	38.2	39.2	34.9
3	Bankruptcy costs	1.5	2.5	2.0	1.9	1.7	1.9

- Notes:** 1. The financial leverage is defined as Debt/Assets.
2. Bankruptcy costs are based on Question 6: What is your estimate of your company's expected (potential) bankruptcy cost as a percent of the value of the assets. (1= less than 5%, 2=5-10%, 3= 10-15%, 4= 15-20% 5= more than 20%).

Table 4: The Frequency of Different Sources of Funds Used to Finance new Investments by Country

	US	UK	Germany	Canada	Japan	Average
Retained earnings	3.50	3.75	4.00	3.40	4.35	3.80
Long term debt	3.13	3.19	3.26	3.71	3.57	3.37
Short term debt	2.79	3.12	2.89	2.73	3.19	2.94
External Common equity	3.09	2.50	2.12	3.03	1.90	2.53
Convertibles	1.88	1.58	1.48	1.12	2.10	1.63
Warrants	1.62	1.48	1.12	1.55	1.57	1.47

Note: 1. The findings are based on Question 4: How frequently does your firm use the following sources of funds to finance a new investment? (1=Never,5=Always)

Table 5: The Relative Importance of Different Factors to Capital Structure Decisions by Country

	US	UK	Germany	Canada	Japan	Average
Projected cash flow	4.52	4.54	4.57	4.71	4.25	4.52
Financial flexibility	3.65	3.25	3.90	3.76	3.90	3.69
The market value of the stock	3.72	3.36	3.28	3.50	3.95	3.56
Corporate tax rate	2.92	3.96	3.45	3.09	3.14	3.31
Transaction costs	3.46	2.87	3.24	3.20	3.25	3.20
Credit rating	2.73	2.83	3.38	2.61	4.24	3.16
Voting control	2.96	2.83	3.12	2.94	3.05	2.98
Bankruptcy costs	1.63	1.83	2.00	1.78	2.57	1.96
Personal taxes	1.44	1.83	2.34	1.48	1.81	1.78

- Notes:** 1. The findings are based on Question 5: Indicate the relative Importance of the following factors when you make a financing decision. (1=Not Important, 5=Very Important).
2. Bankruptcy Costs= Potential Bankruptcy Costs.

Table 6: The Frequency of the Use of Financial-Risk Hedging Methods by Country

	US	UK	Germany	Canada	Japan	Average
Forwards	2.67 (1.58)	3.70 (1.35)	3.16 (1.37)	3.00 (1.65)	3.57 (1.47)	3.22
Swaps	2.83 (1.59)	3.07 (1.38)	3.07 (1.57)	2.13 (1.46)	3.60 (1.31)	2.94
Options	2.04 (1.3)	2.72 (1.49)	2.62 (1.31)	2.07 (1.46)	3.10 (1.21)	2.51
Futures	2.42 (1.67)	2.85 (1.78)	2.36 (1.29)	2.55 (1.58)	2.05 (1.36)	2.44
Average	2.49	3.08	2.8	2.43	3.08	

- Notes:** 1. The results are based on Question 13: How often does your firm use the following hedging methods to control financial risks? (1=Rarely, 5= Often).
2. The number in parenthesis is the standard deviation.

Table 7: The Relative Importance of Different Factors to Dividend Policy Decisions by Country

	US	UK	Germany	Canada	Japan	Average
Forecasted cash flow	3.32	4.00	3.52	3.79	3.50	3.63
Return on investment	2.95	3.45	3.52	2.64	3.10	3.13
Stock price	3.21	3.64	3.00	2.64	3.11	3.12
Cost of raising new funds	2.74	2.58	2.55	2.91	2.30	2.62
Alternative return	2.65	2.86	2.55	1.86	2.58	2.50
Personal dividend tax rate	1.58	2.11	1.89	1.36	1.65	1.72

Note: The results in this table are based on Question 9: indicate the importance of the following factors in forming your company's dividend policy (1=Not Important, 5=Very Important).

Table 8: The Frequency of Different Dividend Policies for the Survey Sample by Country (%)

	US	UK	Germany	Canada	Japan	Average
Constant Sum of money per-share	24.0	14.8	3.4	17.1	47.6	21.4
Percent of the firms net income	8.0	33.3	27.6	11.4	0.0	16.0
Minor changes in the constant dividend per share	4.0	7.4	17.2	0.0	23.8	10.4
Constant sum per-share +special dividend	0.0	0.0	13.8	2.9	23.8	8.1
Percent of the firms net income +growth factor	0.0	14.8	10.3	2.9	0.0	5.6
No dividend	52.0	14.8	24.1	60.0	4.8	31.4
Other	12.0	14.9	3.6	5.7	0.0	7.1
Total	100	100	100	100	100	100

- Notes:**
1. The findings are based on Question 8: Which of the following dividend policies best describes your company dividend policy?
 2. The values in the table represent the percentage of companies in each country that adopted one of the above dividend policies most frequently.

Appendix Questionnaire

1. How frequently does your firm use the following techniques for investment appraisal?

Never						Always						Never						Always
1	2	3	4	5			1	2	3	4	5		1	2	3	4	5	
<input type="checkbox"/>	a) Net Present Value (NPV)		<input type="checkbox"/>	e) Capital Assets Pricing Model	<input type="checkbox"/>													
<input type="checkbox"/>	b) Internal Rate of Return (IRR)		<input type="checkbox"/>	f) Financial Decision Tree	<input type="checkbox"/>													
<input type="checkbox"/>	c) Profitability Index (PI)		<input type="checkbox"/>	g) Sensitivity Analysis	<input type="checkbox"/>													
<input type="checkbox"/>	d) Pay Back Period(PBP)		<input type="checkbox"/>	h) Value at Risk (VAR)	<input type="checkbox"/>													

2. How frequently does your firm use the following techniques to evaluate a project's risk?

Never						Always
1	2	3	4	5		
<input type="checkbox"/>	a) Standard deviation of expected cash flows					
<input type="checkbox"/>	b) The systematic risk factor (β)					
<input type="checkbox"/>	c) The probability of not covering the investment costs					
<input type="checkbox"/>	d) Other _____					

3. How frequently does your firm use the following discount rates when evaluating a new project?

Never						Always
1	2	3	4	5		
<input type="checkbox"/>	a) the project risk adjusted rate					
<input type="checkbox"/>	b) the discount rate of the entire company (WACC)					
<input type="checkbox"/>	c) divisional discount rate					
<input type="checkbox"/>	d) the cost of the specific source of financing planned to fund the new project					

DIVIDEND POLICY

8. Which of the following dividend policies best describes your company's dividend policy? (Check one policy only)

- a) constant sum of money per share
- b) percent of the firm's net income _____%
- c) minor changes in the constant dividend per share
- d) percent of the firm's net income + growth factor
- e) constant dividend per share plus special dividend
- f) other _____

9. Indicate the importance of the following factors in forming dividend policy (1=Not important, 5=Very Important)

- | Not | | | | | Very | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---|
| 1 | 2 | 3 | 4 | 5 | | |
| <input type="checkbox"/> | a) the rate of return on the company's investments |
| <input type="checkbox"/> | b) the alternative return (outside the firm) for shareholders |
| <input type="checkbox"/> | c) the impact of the dividend on the company's stock price |
| <input type="checkbox"/> | d) the dividend tax rate |
| <input type="checkbox"/> | e) the forecasted cash flows |
| <input type="checkbox"/> | f) the cost of raising new funds |
| <input type="checkbox"/> | g) other _____ |

GENERAL QUESTIONS

10. Do you believe that your firm is incorrectly valued?

- No Yes, Undervalued Yes, Overvalued

11. How important are the following financial policies to your company?(1=Not important, 5=Very important)

12. What is your company's average corporate tax rate _____%

- | Not | | | | | Very | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|
| 1 | 2 | 3 | 4 | 5 | | |
| <input type="checkbox"/> | a) Investment Policy |
| <input type="checkbox"/> | b) Capital Structure Policy |
| <input type="checkbox"/> | c) Dividend Policy |

13. How often does your firm use the following hedging methods to control

financial risks?

	Rarely		Often			
	1	2	3	4	5	
<input type="checkbox"/>	a) futures contracts					
<input type="checkbox"/>	b) forward contracts					
<input type="checkbox"/>	c) options					
<input type="checkbox"/>	d) swaps					
<input type="checkbox"/>	e) other _____					

14. Please approximate your firm average price /earning ratio over the past 3 years? _____

15. What is the credit rating for your firm’s least risky debt? (AAA etc..) _____

16. Please choose one item from each category that best describes your company.

<u>Annual Sales Revenue</u>	<u>Industry</u>	<u>% Foreign sales</u>	<u>Ownership</u>
<input type="checkbox"/> a) less than \$25 million	<input type="checkbox"/> a) Retail and Wholesale	<input type="checkbox"/> a) 0%	Public ___%
<input type="checkbox"/> b) \$25-\$100 million	<input type="checkbox"/> b) Construction	<input type="checkbox"/> b) 1-25%	
<input type="checkbox"/> c) \$100-\$500 million	<input type="checkbox"/> c) Manufacturing	<input type="checkbox"/> c) 25-50%	
<input type="checkbox"/> d) \$500 million – \$1billion	<input type="checkbox"/> d) Energy	<input type="checkbox"/> d) >50%	
<input type="checkbox"/> e) \$1 billion- \$5 billion	<input type="checkbox"/> e) Transport		
<input type="checkbox"/> f) more than \$5 billion	<input type="checkbox"/> f) Communication		
	<input type="checkbox"/> g) Bank/Finance/Insurance		
	<input type="checkbox"/> h) Other _____		

17. If all stock options were exercised, what percent of the common stock would be owned by the top three officers?

a) Less than 5 % b) 5-10% c) 10-20% d) More than 20%

18. If all stock options were exercised, what percent of the common stock would be owned by the largest three stockowners?

a) Less than 5 % b) 5-10% c) 10-20% d) More than 20%

19. If all stocks options were exercised, how many people would own the Company’s common stocks?

a) up to 100 b) 100-500 c) 500-1000 d) 1000-10,000 e) 10,000-100,000 f) 100,000+

20. Your company’s headquarters are in what country? _____.

Yes; I am interested in receiving a short summary of the findings of this corporate-finance international research. My E-mail is _____.