

A Zero Cash Dividend Policy: The UK Experience

Abstract

We investigate the perceptions of corporate managers of non-dividend-paying firms listed on the London Stock Exchange (LSE) to identify the factors and explanations leading to a zero cash dividend policy. Our survey evidence shows that the main reasons for not paying dividends involve poor profitability, the firm's life cycle stage and profitable growth opportunities. Managers consider shareholder preferences when setting a zero cash dividend policy, but neither taxes nor share repurchases (as substitutes for cash dividends) explain this policy. High insider ownership and transaction costs also do not explain why some UK companies pay no cash dividends. However, respondents confirm that the cost of raising new external funds (debt) is an important factor in not distributing cash dividends. Our results are inconclusive on the potential signaling effect of not paying dividends. Finally, the findings indicate that the COVID-19 pandemic did not affect the decision to follow a zero cash dividend policy in the United Kingdom.

JEL Classification: G35

Keywords: Cash dividends; zero cash dividend policy; survey approach; London Stock Exchange; the United Kingdom.

1. Introduction

The debate over dividend policy has long been one of the most perplexing issues in corporate finance. Black (1976) described it as a “puzzle” with pieces that do not seem to fit. A common belief is that dividend policy decisions are crucial for overall corporate strategy and creating firm value, making them important for shareholders. Dividend policy can impact share prices and shareholder wealth because it influences a firm's investment and capital structure decisions (Smith and Watts, 1992; Barclay et al., 1995; Bishop et al., 2000). It involves distributing corporate earnings to shareholders or keeping them as retained earnings for reinvestment, which lowers a firm's leverage ratio (Ward, 1993; Lease et al., 2000; Brealey and Myers, 2003). Williams (1938) developed a discounted cash flow (DCF) model that shows a firm's intrinsic stock value is the present value of a growing stream of dividends. Gordon (1959) further refined this concept, and the DCF model gained widespread acceptance among academics and practitioners.

However, Miller and Modigliani (M&M) (1961) challenged the prevailing belief that dividends directly impact firm value. They argued that in a perfect capital market, a firm's valuation depends solely on its investment policy, rendering dividend payments as residual and thus "irrelevant" to firm value. Although M&M's theory is logically sound in a perfect capital market, its applicability is questionable in the real world where market imperfections, such as differential tax rates, information asymmetries, agency problems, transaction costs, and flotation expenses, are prevalent.

Given these market imperfections, finance scholars have considered various theories to explain why companies should or should not pay dividends and to what extent dividend policy may affect firm value. For example, some argue that optimal dividend payments can serve as a useful tool to reduce agency problems (Jensen and Meckling, 1976; Rozeff, 1982; Easterbrook, 1984) and signal insider information (Bhattacharya, 1979; John and Williams, 1985; Miller and Rock, 1985) to the market, thus minimizing imperfections and enhancing firm value. Lintner's (1956) pioneering study found that US managers follow deliberate dividend policies, adjusting toward a target payout ratio to pursue stable dividend payments. Numerous studies have supported Lintner's findings, demonstrating consistency across different markets and periods (e.g., Fama and Babiak, 1968; Dewenter and Warther, 1998; Aivazian et al., 2003; Chemmanur et al., 2010; Javakhadze et al., 2014; Al-Najjar and Kilincarslan, 2017; Kilincarslan, 2021).

In practice, corporations adopt various dividend payout policies. Some companies maintain a stable dividend policy, while others distribute the remaining funds after desired investments. Some use dividend payments as a disciplinary tool to address agency problems or signal financial performance. Mature and profitable companies tend to have higher payout levels, while smaller and highly leveraged companies may not distribute profits as cash dividends. Additionally, some companies adjust their dividend policies based on investor demand. However, despite the conventional emphasis on cash dividends, some companies consistently choose "not to pay cash dividends."

1.1 Motivation and objectives

The dividend policy literature encompasses various theories and extensive empirical research on the practice of paying cash dividends. However, a notable paucity of studies is available addressing why some companies consistently refrain from distributing cash dividends (Baker et al., 2012; Baker and Kilincarslan, 2019). Existing research predominantly relies on economic

modeling approaches, which attempt to mathematically describe dividend behavior and link dividend policies to share-price levels. This standard empirical methodology, which uses statistical analysis of published information (secondary data), offers clear advantages such as large datasets, objectivity, and the capacity to control for various factors (Edmans et al., 2023). Nevertheless, without direct evidence from policymakers, economic models can only reveal correlations between variables, falling short of capturing the motivations behind dividend decisions. As Frankfurter et al. (2002, p. 202) argue, “one cannot understand the motivation and perception of people by simply analyzing market data.” Similarly, Chiang et al. (2006, p. 78) assert that “the cardinal thrust of academic research must turn toward learning about motivation and on what perceptions this motivation is based.”

Questionnaires can be employed to address this gap by collecting primary data from corporate decision-makers thus providing insights unavailable through public sources. Survey methodology, therefore, facilitates examining policymakers' views on various dividend theories and explanations, thereby enhancing our understanding of dividend policies. Some researchers have adopted a survey-based approach to explore corporate managers' motivations and perceptions regarding dividend decisions across different countries. Despite the growing body of survey research on dividend policy, most studies focus on the perceptions of managers at dividend-paying firms, seeking to learn why firms opt to distribute cash dividends. However, survey evidence addressing “why companies refrain from paying cash dividends” remains sparse. To date, the only survey-based studies exclusively investigating the perspectives of executives at non-dividend-paying firms in the United States, Canada, and Turkey are those by Baker (1989), Baker et al. (2012), and Baker and Kilincarslan (2019). This research gap motivated us to extend survey research to understand why certain firms consistently adopt a “zero-cash-dividend policy” – a subject largely neglected in the existing literature.

We focus on the UK market, which presents a unique context for studying cash dividends. The UK stock market is distinguished from other developed markets, such as those in the United States, Japan, Germany, Canada, and Australia, by two primary features. First, despite dispersed ownership, financial institutions are the dominant investor group in the United Kingdom, holding substantial equity stakes (Mayer, 2000; Franks et al., 2001; Renneboog and Trojanowski, 2007; Kilincarslan and Ozdemir, 2018; Ozdemir and Kilincarslan, 2021). According to the Office for National Statistics (ONS) (2022), UK-based financial institutions owned approximately 28.6% of UK firms' ordinary shares, while overseas financial investors held around 49.2% of beneficial ownership in 2020.

Second, UK-listed firms have notably high dividend payout rates (Short et al., 2002; Khan, 2006; Armitage, 2012; Kilincarslan and Ozdemir, 2018) as they prioritize regular dividend payments (Renneboog and Trojanowski, 2007; Kilincarslan, 2021; Kilincarslan and Demiralay, 2021). Renneboog and Trojanowski (2011) found that over 80% of listed firms in the United Kingdom paid cash dividends between 1992 and 2004, in stark contrast to just above 20% of their counterparts in the US market distributing dividends during the same period (Fama and French, 2001; Julio and Ikenberry, 2004). In an international study, Denis and Osobov (2008) observed that dividend policy in the United Kingdom displayed stickiness, indicating a certain degree of path dependence in dividend payments. Similarly, a recent study by Kilincarslan (2021) investigating the impact of the 2008 global financial crisis reported that UK firms maintained high dividend payout rates despite the credit crunch and volatile earnings, demonstrating a stable dividend policy. Thus, exploring the factors influencing the decision to maintain a “zero cash dividend policy” in the UK market, where a strong inclination exists to prioritize dividends over other forms of returns, is a worthwhile topic.

Accordingly, we conducted a survey targeting top-level corporate managers of firms listed on the London Stock Exchange (LSE) that have a “long-standing policy of not paying cash dividends.” Our objectives are to provide comprehensive insights into (1) the primary factors influencing the decision not to pay cash dividends, (2) whether shareholders' preferences are considered in this decision, (3) corporate managers' perceptions regarding the relationship between a zero-cash-dividend policy and share prices, (4) the most significant theories and explanations for not paying cash dividends, (5) the role of share repurchases in relation to a zero-cash-dividend policy, and (6) the impact of the COVID-19 pandemic on the decision to maintain a zero-cash-dividend policy. To our knowledge, no existing survey research directly addresses why companies do not pay cash dividends in the UK context. Thus, this study aims to fill this research gap and extend survey-based research to the United Kingdom, offering new insights into the rationale behind zero-cash-dividend policies.

1.2 Contribution to the literature

Our study builds on the dividend literature by specifically examining “why companies consistently pay no cash dividends” in the UK context. This research aligns with a limited number of survey-based studies that explore the perspectives of corporate managers at non-dividend-paying firms, such as Baker (1989) in the United States, Baker et al. (2012) in Canada, and Baker and Kilincarslan (2019) in Turkey. Using a questionnaire similar to these studies

facilitates direct comparisons between our findings and those of the previously mentioned research. Such comparisons are valuable for identifying similarities and differences in dividend practices among firms in the United Kingdom and those in other countries, each characterized by unique features. For example, the ownership structure of publicly listed companies in Canada and Turkey is typically highly concentrated and family-dominated, contrasting with the dispersed ownership seen in the United States and the United Kingdom. Despite this dispersed ownership, financial institutions are the primary investors holding substantial equity stakes in the UK market. Although the United States, United Kingdom, and Canada are well-developed economies, Turkey is an emerging market. Furthermore, UK firms exhibit significantly higher dividend payout ratios compared to other developed markets. In contrast, share repurchases have become a popular payout method in the United States, often replacing cash dividends.

Against this backdrop, despite similarities to previous survey articles, our study contributes to the dividend policy literature in several novel ways. First, we expand the growing body of survey studies on dividend policy into the UK market, providing new and current evidence. Recent survey data are crucial by offering information unavailable from other sources, bridging the gap between theoretical models and practical applications. Second, although previous survey-based studies have examined the perceptions of managers at dividend-paying firms to understand their reasons for paying dividends, little is known about the motivations of firms that choose not to pay cash dividends. Thus, we focus on how managers of non-dividend-paying firms make their dividend policy decisions, providing the first such evidence for the United Kingdom. Relatedly, we present primary evidence on the key factors and theories underpinning zero-cash-dividend policies. Third, we offer insights into the views of LSE corporate managers about the relationship between share repurchases and the decision not to pay cash dividends. Fourth, we investigate whether the COVID-19 pandemic influenced the decision to abstain from paying cash dividends.

As previously noted, relying solely on secondary (market) data does not fully elucidate the dividend puzzle as it fails to capture the motivations of decision-makers directly. As Bruner (2002, p. 50) emphasizes, “The task must be to look for patterns of confirmation across approaches and studies much like one sees an image in a mosaic of stones.” Similarly, Baker et al. (2011) maintain that using multiple approaches or methodologies to validate dividend determinants is likely to yield more robust and generalizable results than relying on a single approach. Therefore, we employ a hybrid approach by using both survey and market data.

Accordingly, our study contributes to the dividend literature by using a triangulation approach. Finally, it complements the few previous survey studies on non-dividend-paying firms in other markets (i.e., the United States, Canada, and Turkey). Our study confirms earlier findings while exploring specific nuances of the UK market. Consequently, we provide the first comprehensive UK survey, supplemented by statistical analysis using secondary data, on listed non-dividend-paying LSE firms.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature and formulates our research questions, while Section 3 details our research methodology. In Section 4, we present and discuss our survey results. Section 5 offers additional analyses and Section 6 concludes the paper.

2. Literature Review and Research Questions

2.1 Theoretical explanation for a no-cash dividend policy

In their seminal paper, Miller and Modigliani (1961) demonstrate that in a perfect capital market (PCM), investors are indifferent between receiving dividends and capital gains. In such a frictionless market, dividend payments do not impact firm value; instead, a firm's value is determined solely by its ability to generate income, irrespective of its distribution method. This concept is known as the "dividend irrelevance theory." However, real-world capital markets are characterized by imperfections such as information asymmetry, taxes, agency problems, and transaction costs, making M&M's argument highly debatable. Consequently, the dividend literature presents numerous competing theories to explain why firms pay or refrain from paying dividends.

One prominent perspective is the "signaling theory," developed by Bhattacharya (1979), John and Williams (1985), and Miller and Rock (1985). This theory posits that managers confident in their firm's current and future performance will pay higher cash dividends as a credible signal to the market. Conversely, firms with less favorable inside information, such as poor profitability and low earnings, tend not to distribute dividends due to their weaker financial condition. Another perspective, the "tax-effect hypothesis," considers the differential tax treatment between dividends and capital gains (Brennan, 1970; Elton and Gruber, 1970; Litzenberger and Ramaswamy, 1979). According to this hypothesis, if the income tax rate exceeds the capital gains tax rate, firms should minimize dividend payments to reduce shareholders' tax burden.

Under PCM assumptions, Miller and Modigliani (1961) contend that investors can neutralize a firm's dividend decisions by creating "homemade dividends" through the sale of shares or by reinvesting unwanted dividends in the firm's stock. However, in real-world markets, factors such as taxes, transaction costs, and flotation costs render this process costly. Thus, firms should align their dividend policies with shareholder preferences to avoid additional charges. Shareholder preferences may also evolve over time. Based on this notion, Baker and Wurgler (2004a, 2004b) developed the "catering theory" of dividends, which suggests that managers should adjust dividend payments according to shifts in investor demand, distributing higher dividends when preferred or omitting them when investors favor non-dividend-paying stocks.

"Agency theory" proposes that high dividend payments can mitigate agency problems by reducing the free cash flow available to managers, thereby returning it to shareholders (Jensen and Meckling, 1976; Easterbrook, 1984; Jensen, 1986). This view is particularly relevant in ownership structures with dispersed shareholders, as seen in Anglo-American markets, where managers hold significant control. However, when corporate directors or insiders possess a substantial percentage of stocks, agency concerns diminish due to concentrated ownership (Rozeff, 1982). Likewise, "institutional investors," who are typically more sophisticated and hold more substantial stakes, have the expertise and incentive to monitor management effectively (Grossman and Hart, 1980; Shleifer and Vishny, 1986). These ownership structures often reduce the need for cash dividends as a disciplinary mechanism, leading to lower or no dividend payments.

Another explanation is the "firm life cycle (maturity) hypothesis," advanced by Grullon et al. (2002) and DeAngelo et al. (2006). This hypothesis asserts that dividend policy is closely related to a firm's stage in its life cycle. As firms mature, their investment opportunities and growth rates decline, resulting in increased cash generation. Consequently, mature firms are more likely to pay higher dividends. In contrast, young, growing firms with numerous positive net present value (NPV) projects require substantial funds for expansion and, thus, typically do not pay cash dividends. The "flotation cost theory" (Bhattacharya, 1979; Rozeff, 1982; Miller and Rock, 1985) posits that paying dividends may necessitate raising additional external funds to meet investment needs after using internal funds for dividend payments. The costs associated with external financing (e.g., interest payments, underwriter fees, administrative costs, management time, and legal expenses) can be substantial. Consequently, firms may face

significant flotation costs or forgo positive NPV projects, adversely affecting firm value and shareholder wealth.

Overall, the preceding discussion highlights that no single theory fully explains the rationale behind a zero-dividend policy. Corporate decision-makers must consider multiple factors and arguments when opting not to pay cash dividends. The following sub-section reviews survey-based studies focusing exclusively on non-dividend-paying firms.

2.2 Survey evidence on non-dividend-paying firms

Most survey research concentrates on understanding why managers of dividend-paying firms choose to distribute cash dividends. However, a notable lack of survey-based studies exploring why firms consistently pay “no cash dividends” is available.

Baker (1989) investigates the views of corporate executives of New York Stock Exchange (NYSE) companies with a long-standing policy of not paying cash dividends. The survey findings indicate that the primary factors leading to a no-cash dividend policy include the availability of profitable investment opportunities, the lack of available cash, and the cost of raising external funds. The responses from NYSE managers demonstrate minimal support for considering investor preferences in the decision not to distribute cash dividends. Additionally, the study provides inconclusive evidence regarding the perceptions of non-dividend-paying corporate managers on the relationship between dividend policy and stock prices and the signaling role of dividends.

Baker et al. (2012) examine the perceptions of managers from non-dividend-paying firms listed on the Toronto Stock Exchange (TSX) in Canada. Their survey results highlight that growth opportunities, low profitability, and cash constraints are the major factors for a no-dividend policy. The authors find tax considerations to be a secondary factor in the decision to pay no dividends. Furthermore, these managers do not view share repurchases as alternatives to dividends. Consistent with Baker’s (1989) study, the findings from Canadian managers are also inconclusive concerning the link between dividend policy and stock prices and the signaling role of dividends.

Baker and Kilincarslan (2019) explore why companies do not pay cash dividends in the Turkish market by surveying managers of non-dividend-paying firms listed on Borsa Istanbul (BIST). Their survey results identify cash constraints, growth opportunities, low profitability

and earnings, and the cost of raising external funds as the main reasons for a zero-cash-dividends policy. Additionally, their evidence shows that non-dividend-paying BIST managers take shareholder preferences into account when deciding not to pay cash dividends. However, taxes are not considered an important factor, and stock repurchases are not viewed as substitutes for cash dividends. The study suggests that non-dividend-paying BIST firms are likely to be smaller, younger (in earlier stages of their life cycles) with high growth opportunities or have low profitability (or even losses) and small (negative) earnings.

Despite the limited number of survey-based studies on non-dividend-paying firms, commonalities occur across different markets. Our study aims to provide new insights by surveying the perceptions of managers from non-dividend-paying firms listed on the LSE in the UK market.

2.3 The UK context, COVID-19 and research questions

The United Kingdom boasts one of the largest stock markets outside the United States. As previously discussed, the significant equity stakes held by financial institutions considerably influence UK corporate managers to maintain high dividend payouts. Particularly, tax-exempt UK financial institutions, such as pension funds and insurance companies, prefer dividend income over capital gains due to their favorable tax treatment on dividends (Bond et al., 1995; Short et al., 2002). Financial investors may demand substantial dividends for other reasons as well. These institutions, governed by common institutional charters and prudent-person rule restrictions as fiduciaries investing other people's money, find high, stable dividend payouts beneficial for meeting their ongoing liquidity needs and providing a source of income for reinvestment (Allen et al., 2000; Short et al., 2002; Grinstein and Michaely, 2005; Khan, 2006). Consequently, the predominance of institutional shareholders in equity ownership has traditionally led to substantial dividend distributions in the UK stock market. However, some firms consistently choose “not to pay cash dividends.”

[Insert Table 1 about here]

Table 1 displays the patterns of cash dividend payments and net earnings among our initial sample of UK-based listed firms (excluding financial and utility companies) from 2009 to 2020. This sample, comprising both dividend-paying and non-dividend-paying companies, is detailed in the "3.1 Sample description" subsection. The data reveal that nearly 60% of the sampled UK firms distributed cash dividends, with minor fluctuations throughout the study

period. Comparatively, Renneboog and Trojanowski (2011) report that over 80% of listed UK firms paid cash dividends between 1992 and 2004, indicating a notable decline in dividend-paying firms over the last two to three decades. This trend underscores the importance of studying the factors leading to a zero-cash-dividends policy in a market that traditionally prioritizes dividends. Additionally, the mean aggregate net earnings and mean earnings per share (EPS) figures exhibit significant volatility. Although the annual mean aggregate cash dividends show an upward trend with occasional fluctuations, the yearly mean dividends per share increased gradually. However, both metrics experienced a sharp decline due to the COVID-19 pandemic at the end of 2019. Figure 1 graphically illustrates these patterns.

[Insert Figure 1 about here]

Investors are heterogeneous, encompassing individuals, institutions, insiders, families, and governments, with varying dividend preferences based on factors such as consumption needs, tax circumstances, flotation costs, and risk tolerance. Therefore, an essential consideration is whether corporate managers of non-dividend-paying UK firms account for their shareholders' preferences when deciding not to distribute dividends. Conventional wisdom suggests that managers avoid cutting or omitting dividends to prevent signaling earnings volatility, which can imply poor financial performance and negatively affect share prices and firm value. This situation raises questions about the perspectives of non-dividend-paying firms listed on the LSE regarding the relationship between no cash dividends and stock prices and how concepts like signaling, taxes, insider ownership, flotation costs, and transaction costs influence their zero-cash-dividends policies.

Share repurchases have emerged as an alternative method of returning cash to shareholders. Early dividend literature by Lintner (1956), Miller and Modigliani (1961), and Black (1976) did not consider stock repurchases, which gained prominence in the 1980s and have since grown substantially, particularly in the United States (Fama and French, 2001; Grullon and Michaely, 2002; Julio and Ikenberry, 2004; Brav et al., 2005; Skinner, 2008; Gaspar et al., 2013). Although Chay and Shuh (2009) observed that fewer firms repurchase shares in countries like Australia, France, Germany, and the United Kingdom compared to the United States, von Eije and Megginson (2008) noted a rising trend in share repurchases across Europe. Studies on the UK market (Rau and Vermaelen, 2002; Oswald and Young, 2004; Ferris et al., 2006; Renneboog and Trojanowski, 2007) report an increase in share repurchase activities, albeit to a lesser extent than in the United States. Thus, examining whether share

repurchases are substituting cash dividends, leading LSE executives to adopt zero cash dividend policies, is pertinent.

Dividend payment decisions are not solely within the purview of managerial judgment; they are also influenced by regulatory constraints, legal environments, institutional frameworks, and economic conditions (La Porta et al., 2000; Aivazian et al., 2003; Al-Najjar and Kilincarslan, 2017; Kilincarslan, 2021). For instance, the COVID-19 pandemic, a global health crisis, severely affected economies and businesses worldwide (Baker et al., 2020; Ataullah et al., 2022). According to a Janus Henderson Investors (2021) report, global dividend payouts fell by 12.2% in 2020 to \$1.255 trillion, equivalent to a decline of 10.5% due to the pandemic. Similarly, Link Group's (2021) UK Monitor report noted a 41.6% drop in UK dividends, with cuts and cancellations totaling £44.8 billion over the 12 months ending March 2021. Given the significant adverse effects of the pandemic, examining its impact on the financial positions of non-dividend-paying UK firms, and their decisions to set no regular cash dividends is crucial.

Accordingly, based on the above discussion, we propose six research questions (RQs):

- RQ1:* What are the most critical factors influencing corporate managers of LSE-listed firms to pay no cash dividends?
- RQ2:* Do corporate managers of LSE-listed firms consider their shareholders' preferences when setting a zero cash dividends policy?
- RQ3:* What are the perceptions of corporate managers of LSE-listed firms about the relation between a no-cash dividends policy and share prices?
- RQ4:* Do corporate managers of LSE-listed firms perceive that paying no cash dividends involves signaling, tax rates, insider ownership, flotation costs, and transaction costs?
- RQ5:* What views do corporate managers of LSE-listed firms have about the relation between a zero cash dividends policy and share repurchases?
- RQ6:* How has the state of the economy, such as the COVID-19 pandemic and Brexit, affected the perceptions of corporate managers of LSE-listed firms about paying no cash dividends?

3. Data and Methodology

3.1 Sample description

Using the official LSE website, we identified 1,988 companies listed on the FTSE-All Shares Index as of September 30, 2020. Following Baker (1989), Renneboog and Trojanowski (2011), Baker et al. (2012), and Baker and Kilincarslan (2019), as well as prevalent practices in the corporate finance literature, we selected our sample as follows. We first removed firms not incorporated in the United Kingdom, reducing our pool to 1,423 British corporations. Next, we excluded financials (e.g., banks, insurers, pension funds, and investment trusts) and utilities (e.g., gas, electric, and water) due to their distinct regulatory frameworks and differing investment, capital structure, and dividend policies. These exclusions narrowed our sample to 888 non-financial and non-utility firms listed on the LSE.

We then further refined our sample by including only those companies with a minimum of five years of listing history on the LSE before the fiscal year 2020, specifically between 2015 and 2019. This criterion ensured a sufficient timeframe to analyze the dividend policy decisions of corporate executives. Consequently, our “initial sample” comprised 723 UK firms listed on the LSE (including both dividend-paying and non-dividend-paying companies) from the LSE Main Market (MAIN) and the LSE Alternative Investment Market (AIM), covering eight broad industries as classified by Industry Classification Benchmark (ICB) codes. We sourced our financial data from Thomson Reuters’ Datastream database and validated it against the Bureau van Dijk’s Osiris database.

Our study focused on UK firms from the initial sample that consistently did not pay cash dividends. Thus, we categorized the firms into "non-dividend-paying" and "dividend-paying" groups. Specifically, we classified companies that did not distribute cash dividends from January 2015 to January 2020 as "non-dividend-paying" and those that paid at least one cash dividend during the same period as "dividend-paying." This categorization resulted in a “final sample of 301 non-dividend-paying” firms. Table 2 presents the sample selection criteria (Panel A) and the distribution of the sample across markets (Panel B) and industries (Panel C).

[Insert Table 2 about here]

3.2 Survey design

We administered a survey to collect primary data and modeled our questionnaire after Baker (1989), Baker et al. (2012), and Baker and Kilincarslan (2019). Using a similar questionnaire allowed for comparing the views of corporate executives of LSE firms with those reported in the three previous studies related to the determinants of paying no cash dividends. We made minor modifications to adapt the questionnaire to the UK context. We also incorporated questions on the potential share repurchases effect following Baker et al. (2003). Other questions reflected the possible impact of recent developments – particularly the COVID-19 pandemic and Brexit, on the LSE firms' decision not to pay cash dividends.

The final version of our survey consists of four groups of questions.¹ The first group solicited background information about the responding managers and their firms. The second group included questions (e.g., factors, explanations, and theories) about the responding firm's no cash dividend policy. The third group asked managers about their firm's share repurchases. The fourth group of questions sought information about the effect of the COVID-19 pandemic on the responding firms in various financial aspects and their decisions not to pay cash dividends. The survey contained both closed-ended and open-ended questions. To measure the importance of various factors, we employed a five-point Likert scale (0 = none, 1 = low, 2 = moderate, 3 = high, and 4 = very high). We gauged the level of agreement with various statements using another five-point scale (-2 = strongly disagree, -1 = disagree, 0 = neutral, 1 = agree, and 2 = strongly agree). We included open-ended questions to supplement the information from LSE top-level executives. We offered an executive summary of the findings to all interested respondents who completed the questionnaire.

Ensuring the validity and reliability of our survey instrument (questionnaire) was crucial. To achieve this, we employed several techniques. First, we used well-established measurement items that have been validated in previous studies and different contexts. Second, we pilot-tested the questionnaire with a group of professors and senior academics experienced in dividend policy research to ensure its accuracy and relevance to our research questions. Third, we contacted a sample of participants to verify the clarity and appropriateness of the questions in the UK context and to lessen potential misunderstandings or inaccurate responses. Finally, we assessed the internal consistency (reliability) of the five-point Likert scale questions

¹ The survey instrument is available from the authors upon request.

using Cronbach's alpha. We performed this assessment on each subscale rather than the entire questionnaire, as recommended by Simms and Watson (2007). The results demonstrated high reliability, with all subscales exceeding the threshold value of 0.7. Overall, these precautions minimized any measurement errors.

3.3 Data collection and the response rate

We obtained the company e-mail addresses, telephone numbers, and names of top managers (i.e., CEO, CFO, chairperson, financial manager/director, and other senior executives) for our final sample of 301 non-dividend-paying firms from the Osiris database and each company's official website. Subsequently, we searched for the professional LinkedIn profiles of these LSE executives. We successfully verified at least one top executive's LinkedIn account for all companies, often identifying multiple contacts for most firms.

After identifying potential respondents, we created an online version of our survey using Qualtrics XM software. In the second week of November 2020, we began distributing the questionnaire link to the executives of the 301 non-dividend-paying LSE firms through LinkedIn. This link provided essential information about the survey, such as its purpose, the criteria for selecting participants, and the estimated time required to complete the survey. The link also assured respondents of the confidentiality of their responses, stating that we would use data only in summary form without disclosing specific information about them or their firms.

We sent two rounds of follow-up messages via LinkedIn to non-respondents. By the end of April 2021, we had received 67 responses from the non-dividend-paying firms. In May 2021, we expanded our outreach by calling the non-responding companies' telephone numbers and sending emails to their official email addresses, asking them to forward our survey to individuals involved in their firms' dividend policy-making process. This effort resulted in an additional 20 responses by the end of July 2021. In the first week of August 2021, we sent follow-up messages and a final reminder to the remaining non-responding managers through LinkedIn. By the end of November 2021, we had collected 18 more responses from executives of non-dividend-paying firms. In total, we received 105 usable responses, yielding an overall response rate of 34.9%. Table 3 provides a detailed breakdown of the response rates across different markets (Panel A) and industries (Panel B).

[Insert Table 3 about here]

As illustrated in Table 4, our response rate is considerably higher than those obtained in previous survey-based studies targeting dividend-paying firms, such as Pruitt and Gitman (1991), Graham and Harvey (2001), Brav et al. (2005) and Dhanani (2005) with 11.4%, 9.0%, 16.0%, and 16.4%, respectively. Our response rate is comparable to other similar survey studies on non-dividend-paying firms, like Baker (1989) (38.9%) and Baker et al. (2012) (32.0%), though lower than the rate of Baker and Kilincarslan (2019) (57.3%).

[Insert Table 4 about here]

To assess potential non-response bias, we used the standard technique of comparing the characteristics of responding and non-responding companies across 13 firm features based on 2019 data. These features included: (1) market capitalization, (2) total assets, (3) sales, (4) net earnings, (5) return on assets, (6) market-to-book ratio, (7) leverage ratio, (8) current ratio, (9) board size, (10) board gender diversity, (11) board independence, (12) blockholder ownership, and (13) insider ownership. As Table 5 shows, the *t*-tests and Wilcoxon tests reveal minimal differences between the responding and non-responding companies, suggesting they are significantly similar. Thus, this evidence mitigates concern about potential non-response bias.

[Insert Table 5 about here]

4. Survey Results

4.1 Profile of respondents and firms

Our research sample comprises large international firms listed on the LSE MAIN and smaller but growing firms listed on the LSE AIM. As displayed in Table 3, the distribution of the responding firms across both markets and industries mirrors the overall sample distribution. Of the 105 non-dividend-paying LSE responding firms, 13 are listed on the MAIN (12.4%), and 92 are listed on the AIM (87.6%). This finding indicates that most non-dividend-payers are smaller and growth-oriented AIM firms. The non-dividend-paying respondents span eight broad industries: basic materials (23.8%), energy (16.2%), healthcare (16.2%), industrials (15.2%), technology (11.4%), consumer discretionary (10.5%), telecommunications (3.8%), and customer staples (2.9%).

Figure 2 provides an overview of the respondents' profiles. The most common executive positions among respondents are CEO (31.4%), CFO (26.7%), chairperson (12.4%), non-executive director (12.4%), and director of finance (6.7%). Other participants include

directors of investor relations, general counsel and company secretaries, and executive directors (Panel A of Figure 2). Most of these executives (92.4%) are actively involved in their companies' dividend policy decisions (Panel B of Figure 2). Thus, this finding highlights that survey respondents are high-ranking and knowledgeable corporate managers experienced in corporate management. Additionally, 73.3% of the managers identify their CEO (42.9%), CFO (19.0%), or chairperson (11.4%) as the most influential in shaping dividend policy. In comparison, 26.7% believe that all board directors are equally important in this process (Panel C of Figure 2).

[Insert Figure 2 about here]

We also asked participants about their firms' dividend policies to provide background information, as detailed in Figure 3. The majority of non-dividend-paying LSE company executives (67.6%) review their dividend policies annually, with 7.6% doing so semi-annually. The remaining 24.8% re-examine their payout policies every three to five years or when the firm becomes profitable and generates sufficient cash or pays off accumulated losses. Some firms re-examine their policies on an ad-hoc basis (Panel A of Figure 3). Furthermore, the survey questioned if firms inform shareholders that not paying regular cash dividends is their corporate policy. Most respondents (70.5%) affirmed this (Panel B of Figure 3), utilizing various communication channels to express such information. Annual or quarterly reports (85.1%) and shareholder meetings (50.0%) are the most common methods, followed by presentations (43.2%), analyst profiles (32.4%), and press releases (29.7%). Additional methods include prospectuses (12.2%), shareholder letters (8.1%), and rating services (1.4%) (Panel C of Figure 3).

[Insert Figure 3 about here]

4.2 Factors for a no-cash dividend policy

RQ1 investigates the most critical factors that influence firms' decisions not to pay cash dividends. Table 6 summarizes the level of importance (i.e., 0 = none, 1 = low, 2 = moderate, 3 = high, and 4 = very high) given by respondents to 18 potential factors in determining their firm's zero cash dividend policy (hereafter called F1 through F18) by reporting the descriptive statistics (frequencies, means, and standard deviations).

[Insert Table 6 about here]

We first evaluate the scale's internal consistency (reliability) of the 18 factors using Cronbach's alpha (α). Following the recommendation by Simms and Watson (2007), we apply Cronbach's α to each subscale instead of the entire questionnaire due to the presence of different questions and subscales. A Cronbach α of 0.824, well above the 0.7 benchmark, indicates a high reliability for these factors. Second, we use the Friedman 2-way ANOVA test, as suggested by Baker et al. (2012), to determine if the importance of these factors differs significantly and, if so, their rank order. The test statistic of 794.9 and Kendall's concordance coefficient W of 0.445, both with probabilities lower than 0.001, indicate a significant agreement among responding managers about the ranking order of the 18 factors.

Next, we conduct a one-sample *t*-test for the null hypothesis that the mean importance level of each factor equals 2 (moderate importance). Table 6 reports the results, ranking the factors by their mean scores and corresponding *t*-statistics. The *t*-tests identify six factors (F1, F3, F2, F11, F6, and F8) as the most influential – perceived as having high/very high importance with positive and statistically significant *t*-values at the 1% level. Hence, we focus on these six factors.

The top three factors are the availability of cash (F1), the stage in the firm's life cycle (F3), and the level of current earnings (F2) (82.8%, 78.1%, and 77.1%, respectively). The fourth and fifth highest-ranked factors are the preference to reinvest cash flows instead of paying cash dividends (F11) (60.0%) and the anticipated level of future earnings (F6) (59.0%). The sixth factor is the availability of profitable investment opportunities (F8) (53.3%). Three of the six highest-ranked factors for not paying cash dividends concern earnings and cash availability. This finding implies that poor profitability means low earnings, less cash available, or even cash shortages, leading to low or no cash dividends. Other influential factors for not paying cash dividends are the firm's life cycle phase and growth/investment opportunities. Consistent with the firm life cycle (maturity) hypothesis proposed by Grullon et al. (2002) and DeAngelo et al. (2006), companies in their growth stage have many positive NPV projects that could benefit from using internally generated funds to grow and expand rather than paying these funds as dividends. Similarly, corporations with profitable growth opportunities typically require more funds to finance their investments. Thus, using internal funds to invest in new projects instead of paying this cash to shareholders is logical.

We also calculate the Spearman rank correlation coefficients (r_s) to assess the association between factor rankings, leading to paying no cash dividends among corporate

managers from the LSE and their counterparts in the NYSE (the United States), TSX (Canada), and BIST (Turkey). Table 6 illustrates rankings from survey-based studies on non-dividend-paying firms: the NYSE from Baker (1989), TSX from Baker et al. (2012), and BIST from Baker and Kilincarslan (2019). The related Spearman rank correlation coefficients are 0.773 for LSE-NYSE, 0.936 for LSE-TSX, and 0.866 for LSE-BIST, all significant at the 1% level. These high correlations indicate that LSE executives' rankings on the given factors align closely with their international peers in the United States, Canada, and Turkey despite differing market characteristics (e.g., institutional environment, corporate governance practices, ownership structures, and political, social, and financial stability).

To supplement the findings from the 18 closed-end questions in Table 6, we posed an open-ended question to executives, asking them to identify other significant factors influencing their dividend policy. About 59.0% of the respondents either answered “No” or did not specify any factors. The remaining 41.0% highlighted several key reasons: (1) being pre-revenue exploration or no-profit R&D companies (e.g., mining, energy, and healthcare firms), (2) inability to pay due to incurring losses, (3) insufficient cash flows or reserves – so not being legally in a position to pay dividends, (4) the need to finance investments and growth as they are in early stages of their firm life cycle, and (5) the necessity to repay debt or cover pension deficits.

We also asked managers of non-dividend-paying firms to select three primary reasons from a list of eight for not paying cash dividends. As presented in Figure 4, the top reason is the need for funds for growth and expansion (85.7%), followed by low profitability and earnings (56.2%) and limited excess cash flows (41.0%). These findings are consistent with the most critical factors identified in Table 6 regarding the most critical factors for a no-cash dividend policy. Other reasons selected by more than 10% of respondents include the preference to limit raising external funds due to costs (15.2%), investor preferences (15.2%), and contractual constraints like debt covenants (12.4%). The least supported reasons are the preference to distribute cash using stock repurchases (7.6%) and industry practice (5.7%).

[Insert Figure 4 about here]

An “Other” option allowed respondents to indicate additional reasons for not paying dividends. About 35.2% of managers cited reasons such as accumulated losses, debt repayment, financial instability, pension deficits, shareholder tax implications, and negative

reserves, often linked to earlier stages in the business life cycle (pre-revenue); hence, they are not legally eligible to distribute dividends. These results align with our previous findings.

4.3 Theories and explanations for a no-cash dividend policy

We surveyed LSE corporate managers regarding 11 statements (S1 through S11) about various dividend policy issues of their firm and those of firms in general. Respondents indicated their answers with “Yes,” “No,” or “Don’t Know.” Table 7 shows the results for these statements in Panel A (S1 to S6) and Panel B (S7 to S11) by reporting percentage distributions along with the corresponding chi-square (χ^2) test statistics.

[Insert Table 7 about here]

First, we calculate Cronbach’s α to assess internal consistency. The alpha coefficient of 0.743 suggests an acceptable reliability level for these statements. Second, we conduct non-parametric χ^2 tests for the null hypothesis that there are no differences in the percentage distributions of responses for each of the 11 statements. As shown in Table 7, all χ^2 statistics are statistically significant (at least at the 5% level), leading us to reject the null hypothesis. Consequently, this evidence illustrates that the respondents’ answers between the three categories (“Yes,” “No,” or “Don’t Know”) significantly differ for all statements.

4.3.1 Shareholder preferences

RQ2 examines whether LSE corporate managers take their shareholders’ preferences into account when setting a no-cash dividend policy. Figure 4 presents that approximately 15.2% of respondents state investor preferences as a reason for choosing not to distribute cash dividends. To delve deeper, we asked three specific questions (S1, S4, and S5) to gauge how responsive LSE executives are to shareholders’ preferences while opting not to pay dividends.

As shown in Panel A of Table 7, nearly half of the respondents (48.6%) believe their shareholders prefer a no-dividend policy (S1). Similarly, around two-thirds (66.7%) think their shareholders prefer capital gains over dividends (S5). When asked if their firms are responsive to shareholder preferences (S4), more than half of the managers (55.2%) responded affirmatively. Contrary to Baker (1989), who found that NYSE managers show little consideration for shareholder preferences regarding no-cash dividend policies, our evidence suggests that LSE-listed firms’ zero-cash dividend policies align with shareholder preferences.

This evidence is consistent with studies by Baker et al. (2012) in Canada and Baker and Kilincarslan (2019) in Turkey.

4.3.2 No cash dividend policy and stock price

To address RQ3, we investigate the opinions of LSE corporate managers on the relationship between no cash dividends and stock prices by asking two specific questions (S2 and S3). When asked whether “paying no dividends positively affects the price of their firm’s common stock (S2),” 22.9% of managers answered “Yes,” 58.1% responded “No,” and 19% indicated “Don’t Know.” We also asked if participating managers believed their “firm’s stock price would increase upon announcing a cash dividend (S3)”. About 56.2% of responding managers said “Yes,” 26.7% opted for “No,” and 17.1% answered “Don’t Know.” The distribution of responses to these two questions suggests that most non-dividend-paying LSE managers believe dividend payments affect firm value and that distributing a cash dividend positively influences firm value. However, these findings imply that other factors outweigh the decision to pay dividends, as discussed earlier in sub-section 4.2.

4.3.3 Signaling, tax, insider ownership, flotation and transaction costs effects

RQ4 aims to uncover how LSE managers perceive different theories and explanations (i.e., signaling, tax considerations, insider ownership, and flotation and transaction costs) affecting their decision to withhold cash dividends. In relation to the signaling theory, we asked respondents whether the reason for a no dividend payment policy is because “a firm has little need to signal its immediate prospect by paying dividends (S9).” About 48.6% said “Yes,” 37.1% stated “No,” and 14.3% answered “Don’t Know.” Similarly, when asked whether they believe that “paying no dividends serves as a message from management about the prospects of their firm (S6),” the distribution of the responses yields mixed results, with 39.0% stating “Yes,” 46.7% responding “No,” and 14.3% answering “Don’t Know.” Thus, these results indicate that the potential signaling effect on the decision to pay no dividends remains inconclusive.

Furthermore, tax considerations apparently are not a major reason for LSE managers when deciding not to pay dividends. Only about one-quarter (24.8%) of respondents believe that a firm should refrain from distributing a cash dividend if “the majority of firm owners have high marginal tax rates (S7).” In contrast, almost half of them (46.7%) disagreed. This evidence aligns with our previous finding because about two-thirds (67.6%) of participating managers

place “None” to “Low” importance on shareholder characteristics, such as their tax circumstances (F12 in Table 6).

We asked LSE non-dividend-paying managers about their opinions regarding the impact of high ownership concentration among insiders on the decision not to distribute cash dividends (S8). More than half of the respondents (59.0%) answered “No.” This evidence indicates that a high level of insider ownership is not necessarily a reason for a no-cash dividend policy. Concerning flotation and transaction costs, we asked responding executives whether a firm would not distribute dividends if “it faces high flotation costs of raising new external capital (S10),” and over half (52.4%) of executives show strong agreement. Conversely, when asked if a firm would not pay a cash dividend if “the majority of the owners face high transaction costs of selling their stocks (S11),” more than half (53.3%) of the responding LSE managers disagreed. This evidence suggests that while the cost of raising external funds (debt) is a critical reason for inducing LSE companies not to distribute cash dividends, transaction costs that shareholders might incur are not deemed significant.

4.4 Share repurchases for a no-cash dividend policy

RQ5 examines whether share repurchases influence the choice not to pay cash dividends. Since share repurchases are another popular way of distributing cash to shareholders, they might act as a substitute mechanism, potentially reducing the necessity to pay dividends. To explore this issue, we asked corporate managers of LSE non-dividend-paying firms if their company had repurchased shares in the past five years. Of the 105 responding firms, 97 (92.4%) reported not repurchasing shares, whereas only 8 (7.6%) confirmed they did. This evidence is consistent with our previous finding where responding managers ranked the preference for using share repurchases over dividends very low (fifteenth out of 18 factors) in influencing the decision not to pay cash dividends (F15 in Table 6). Hence, share repurchases apparently do not play a significant substitution role in the decision for a no-cash dividend policy in the United Kingdom.

Additionally, we inquired further with the respondents from the eight firms that repurchased shares about their views on nine different theories/explanations for share repurchases. Due to the small number of firms involved, we have not included these specific findings in this paper, but they are available on request.

4.5 The effect of the economy on a no-cash dividend policy

To answer *RQ6*, we asked LSE corporate managers about how the state of the economy affects their perceptions of consistently paying no cash dividends. A significant majority (85.7%) indicated that the current economic conditions (i.e., the COVID-19 pandemic and Brexit) do not impact their decision to maintain a no-dividends policy.² However, we attempted to examine the effect of the COVID-19 pandemic on non-payers in more detail by asking LSE executives how the pandemic affected their business in various aspects, as reported in Table 8.

[Insert Table 8 about here]

A Cronbach α coefficient of 0.767 confirms the reliability of responses across 10 financial aspects. We employ a one-sample *t*-test for the null hypothesis that the mean managers' response to the impact of COVID-19 for each of the 10 aspects equals 0 (no effect). We exclude "Don't Know" answers. Thus, the sample size varies slightly for each aspect, as shown in column 6 of Table 8. The *t*-test results reveal statistically significant impacts in four areas at the 5% or 1% levels. For instance, non-dividend-paying LSE corporate managers confirm a general decline in net earnings and an increase in debt levels due to the pandemic. Despite this evidence, the respondents report a positive impact on shareholder confidence and profitable investment opportunities. However, we note no significant effects on business risk and the level of cash reserves since the time COVID-19 hit the economy. Similarly, most non-dividend-paying LSE executives believe that the pandemic had no significant impact on share repurchase decisions (81.0%) and amounts (86.7%), as well as on the decisions (74.3%) and amounts (81.0%) of cash dividend distributions since they had already adopted zero-cash-dividend policies.

Besides the information obtained from the closed-end questions, we also asked respondents an open-ended question to identify how the coronavirus pandemic affected their no-cash-dividends policies. About 45.7% of managers did not respond, but the remaining

² Of the remaining respondents, only 13.3% stated that the economy did affect their decision, and 1.0% were uncertain. Among the 13.3% of managers (only 14 firms out of 105) who acknowledged economic influence, 42.9% reported that Brexit did not affect their dividend-paying potential, while 50.0% noted a negative impact. Also, 78.6% of the same respondents indicated that the COVID-19 pandemic had negatively or strongly negatively affected their potential to distribute cash dividends.

54.3% stated that COVID-19 had no impact on their no-cash dividend policies. This response is because their companies were already unable to distribute dividends for various pre-existing reasons before the coronavirus affected the economy. Finally, we asked whether the COVID-19 pandemic will affect their firms' policy of paying no regular dividends during the next 12 months and a period of longer than 12 months. Most non-dividend-paying LSE corporate managers think the coronavirus pandemic would not influence their no-cash dividend policies within a year (84.8%) or longer (85.7%).

4.6 Additional remarks

To enhance our survey findings, we inquired if participants had any additional comments about their firm's zero cash dividend policy. We also gathered more insights through LinkedIn messages and emails on this question. The responses highlighted several common reasons for not distributing dividends. First, most respondents mentioned that their companies are in a rapid growth stage, thus prioritizing reinvestment of profits into expansion over dividend payouts. One participant noted, "It is often said when businesses, especially AIM businesses, start paying dividends, it is a clear sign that the management has run out of ideas for growth." In general, the participating managers believe that using cash for growth initiatives leads to a higher share price, which benefits shareholders. They indicated that their shareholders prefer to see a return on excess capital through realized gains rather than dividends. One respondent explained, "Our shareholders break out as retail investors who are typically event-driven day traders and more sophisticated high-net-worth individuals and institutions who adopt a higher risk/reward strategy, so they take an opportunistic view (market cap and share price) regarding their investments." Another participant added, "We have large and influential private shareholders who prefer capital gain via increased share price to dividend income for tax reasons."

Another common reason for maintaining a regular zero cash dividend policy is related to the firm's life cycle stage. For instance, managers from sectors such as natural resources (e.g., oil, gas, and gold exploration) or R&D-focused healthcare (e.g., biotech companies) often highlighted that they are pre-revenue and non-profitable companies in their early growth stages. These firms have significant cash commitments, making dividend distributions impractical at this time. One executive explained, "We are not legally allowed to declare a dividend since we have no distributable profit." Another said, "We are unable to pay cash dividends due to accumulated losses. That's the key reason."

The most common explanations for not paying regular dividends are interconnected: accumulated losses, low or no profitability, insufficient cash, and the absence of distributable revenues. These comments are consistent with our previous findings. Additionally, some managers cited other reasons, such as merger and acquisition strategies. For example, one manager mentioned, “They are creating a ‘war chest’ for strategic acquisitions putting cash aside to buy other businesses, or if they want to be acquired, their cash is an attractive component then shareholders will get their rewards on a buy-out.”

5. Further Analysis

5.1 Firm characteristics and survey responses

We conduct additional tests to determine whether managerial responses to the factors influencing the decision not to pay cash dividends vary according to firm characteristics. This method provides more insight into the survey responses. Initially, we divided our sample into groups based on (1) high versus low profitability, (2) old versus young firms, (3) high versus low growth, (4) high versus low leverage, and (5) large versus small firms. We then applied non-parametric Wilcoxon tests to check if the responses differ between each pair in these five groups across 18 factors. Table 9 contains the results.

[Insert Table 9 about here]

The results indicate that few differences exist in managers’ perceptions of these factors between the pairs in the five groups – the evidence reveals only a few notable differences involving the six most influential factors (i.e., F1, F3, F2, F11, F6, and F8). We found significant differences in only four of the 30 comparisons, with three differences linked to the firm’s life cycle stage (F3). LSE managers of low profitability, high growth, and younger firms particularly highlight the importance of the firm-life cycle factor. The fourth difference involves the preference to reinvest cash instead of paying dividends (F11), a factor emphasized by managers of high-profitability firms.

5.2 Industry classification and survey responses

Given that our participating firms span eight major industries, we also conduct further tests to explore whether managerial responses to the factors influencing a zero dividends policy vary across different industries. This variation is expected because industries face unique regulations, levels of capital intensity, and competitive pressures, leading to different industry

practices regarding investment, capital structure, and dividend policies. As shown in Table 10, we use non-parametric Kruskal-Wallis tests to identify significant differences among the eight industries across 18 factors.

[Insert Table 10 about here]

The results reveal only a few significant differences in managerial responses across industries, with only two out of the 18 factors showing noteworthy variations. One of these factors (F3) is among the six most influential in the decision not to pay dividends. Similar to our earlier findings, the responses related to the firm's life cycle stage differ among industries. Specifically, LSE executives in the basic materials, energy, and technology sectors place greater emphasis on their firm's life cycle when deciding on a no-regular cash dividends policy compared to executives in other industries.

5.3 Statistical tests

We also supplement our survey-based findings (primary data) with regression analysis on existing published information (secondary data). The reason is twofold. First, our statistical tests on secondary data from various modeling using different econometric techniques help verify the consistency of our survey results, thus confirming the robustness of our main findings. Second, survey responses reflect corporate managers' perceptions, which might not directly correspond to corporate actions (Dhanani, 2005; Baker and Kilincarslan, 2019). Therefore, analyzing secondary data from LSE-listed firms allows us to compare actual corporate actions with managerial perceptions gathered through our survey. This triangulation approach strengthens the validation of our data by cross-verifying it from multiple sources.

For the statistical analysis, we focused on our initial sample of 723 LSE-listed firms with 7,836 firm-year observations from eight broad industries between 2009 and 2020. We used this approach to examine the differentiating firm characteristics of non-dividend-paying and dividend-paying LSE firms. Relatedly, our initial sample consists of 301 firms that did not pay cash dividends (non-payers) and 422 firms that distributed a cash dividend at least once (dividend payers). Accordingly, we developed three research models based on our survey findings. We used three dependent variables and different regression techniques to provide more robust results.

First, we used a logit model to estimate the probability of paying cash dividends – that is, if a firm pays dividends (1) or does not pay dividends (0). Thus, a logit regression model is a suitable econometric technique for a binary dependent variable (0/1). Second, we used Tobit regression models to estimate two other dividend measures: the dividend payout ratio (an accounting measure) and dividend yield (a market measure). This approach is to check whether the results hold for the intensity of paying cash dividends. These measures are left-censored at zero, mixing discrete (zero for non-payers) and continuous (positive for payers) values. Next, we specify a set of independent variables derived from our survey findings and the relevant literature. Since our research sample represents eight broad industries and covers an extended period, we account for industry-specific effects and time-varying factors by including industry and year-fixed effects in our models.

We formulate the corresponding logit and Tobit models as follows:

$$\begin{aligned} \text{Model 1: } \text{Logit } (\text{DIV_PAY})_{i,t} = & \alpha_0 + \beta_1 \text{ROA}_{i,t-1} + \beta_2 \text{FIRM_AGE}_{i,t-1} + \beta_3 \text{GROWTH}_{i,t-1} + \\ & \beta_4 \text{LEVERAGE}_{i,t-1} + \beta_5 \text{FIRM_SIZE}_{i,t-1} + \\ & \sum_{j=1}^N \beta_j \text{INDUSTRY}_{j,i,t} + \sum_{t=1}^T \beta_t \text{YEAR}_{i,t} + \varepsilon, \end{aligned} \quad (1)$$

$$\begin{aligned} \text{Model 2: } \text{Tobit } (\text{DIV_POUT})_{i,t} = & \alpha_0 + \beta_1 \text{ROA}_{i,t-1} + \beta_2 \text{FIRM_AGE}_{i,t-1} + \beta_3 \text{GROWTH}_{i,t-1} + \\ & \beta_4 \text{LEVERAGE}_{i,t-1} + \beta_5 \text{FIRM_SIZE}_{i,t-1} + \\ & \sum_{j=1}^N \beta_j \text{INDUSTRY}_{j,i,t} + \sum_{t=1}^T \beta_t \text{YEAR}_{i,t} + \varepsilon, \end{aligned} \quad (2)$$

$$\begin{aligned} \text{Model 3: } \text{Tobit } (\text{DIV_YIELD})_{i,t} = & \alpha_0 + \beta_1 \text{ROA}_{i,t-1} + \beta_2 \text{FIRM_AGE}_{i,t-1} + \beta_3 \text{GROWTH}_{i,t-1} + \\ & \beta_4 \text{LEVERAGE}_{i,t-1} + \beta_5 \text{FIRM_SIZE}_{i,t-1} + \\ & \sum_{j=1}^N \beta_j \text{INDUSTRY}_{j,i,t} + \sum_{t=1}^T \beta_t \text{YEAR}_{i,t} + \varepsilon, \end{aligned} \quad (3)$$

where DIV_PAY is the probability of paying a cash dividend (a binary code that equals 1 if the firm pays a dividend and 0 otherwise), DIV_POUT is the dividend payout ratio (dividends per share to earnings per share), and DIV_YIELD is the dividend yield (dividends per share to price per share). The independent variables are as follows: ROA is the return on assets ratio (profitability); FIRM_AGE is the natural logarithm of years since incorporation (firm maturity); GROWTH is the market-to-book ratio (investment opportunities); LEVERAGE is the fraction of long-term debt to total assets (debt ratio), and FIRM_SIZE is the natural logarithm of total assets (firm size). Moreover, INDUSTRY is a vector of dummy variables representing eight different industry classifications. YEAR denotes yearly dummies between 2009 and 2020, taking a value of 1 for the particular year and 0 otherwise. To address

endogeneity concerns, we used one-year lagged values of all independent variables (except industry and year dummies). Using the lag values prevents the simultaneity bias since the current dependent variable cannot impact any of the past independent variables. This approach also avoids a situation in which independent variables are correlated with the error term because no correlation can occur between the lag values and the current year's error.

Panel A of Table 11 presents descriptive statistics for the research variables. Panel B reports the results of Pearson's correlation matrix and variance inflation factor (VIF) values for the independent variables to check for multicollinearity. Although the results illustrate significant correlations between the research variables, there is no high correlation between them. No VIF exceeds the rule-of-thumb threshold of 10, and none of the tolerance (calculated as $1/\text{VIF}$) values are lower than 0.1. Hence, these results suggest that multicollinearity is not a concern among the independent variables.

[Insert Table 11 about here]

Table 12 demonstrates the results of the logit (Model 1) and Tobit (Model 2 and 3) model estimates for the probability of paying cash dividends, dividend payout ratio, and dividend yield of LSE-listed firms, respectively. Besides reporting the logit and Tobit coefficients (statistical significance), we also computed the marginal effects of independent variables (economic significance). All models are statistically significant at the 1% level, with the Pseudo R^2 values suggesting a good indication of the prediction power of all the models. Furthermore, all independent variables exhibit statistical significance in the hypothesized directions.

[Insert Table 12 about here]

The estimates from both logit and Tobit models in Table 12 reveal a strong positive effect of profitability (ROA) on dividend payment decisions across all models. This evidence indicates that highly profitable LSE firms are more likely to distribute cash dividends. Additionally, it aligns with our survey findings that poor profitability leads LSE managers not to pay cash dividends. Similarly, the results detect another positive relationship between firm age (FIRM_AGE) and dividend payment choices. Consistent with the firm life-cycle theory, this finding implies that more mature LSE firms distribute higher dividends. Also, corporate executives of non-dividend-paying LSE firms confirm that the earlier stage in their firm life cycle induces them not to pay a cash dividend.

Conversely, investment opportunities (GROWTH) and debt levels (LEVERAGE) have a negative impact on corporate dividend decisions. These results are consistent with our survey evidence that the availability of profitable investment opportunities is relevant for a no-cash dividends policy in the UK market. This evidence suggests that high growth encourages UK managers to reinvest earnings rather than pay a cash dividend to shareholders. Likewise, the need to repay debt leads LSE firms to pay no or low dividends since they will likely use their earnings to cover their financial obligations. Finally, the results report a positive impact of firm size (FIRM_SIZE) on all three dividend measures, indicating that larger LSE firms are more likely to pay dividends than their smaller counterparts. Most non-dividend-paying LSE firms in our sample are small and growing AIM firms. Therefore, this finding is logical and consistent with the view that the earlier stage in their firm life cycle and smaller business size result in zero cash dividend policies. Overall, our statistical results are consistent with our survey evidence.

5.3.1 Endogeneity and propensity score matching (PSM)

Our findings may be subject to potential unobserved selection bias. This type of endogeneity problem occurs when an omitted variable correlates with both the test variable(s) (treatment) and the dependent (outcome) variable, which in turn leads to a biased estimate of the impact of the test variable(s) (treatment effect) on the outcome of interest. We address this situation by employing PSM using our initial sample of 723 LSE-listed firms consisting of 301 non-payers and 422 dividend payers to assess the robustness of treatment estimates to unobserved selection bias and report the results in Table 13.

[Insert Table 13 about here]

Specifically, we generated a dummy variable (ROA_Dummy), taking a value of 1 if a firm's ROA (profitability) exceeded the sample median and 0 otherwise. We then regressed this ROA_Dummy on other observable characteristics (i.e., the other independent variables), controlling for industry and year-fixed effects. Using these results, we calculated the propensity score indicating a firm's likelihood of higher profitability. This score facilitated matching a highly profitable firm (treated group) with a low profitability firm (control group) using the nearest-neighbor approach, allowing a maximum PSM difference between at the 1% level. This matching process, which aligns firms on several observable characteristics except profitability, helped isolate the impact of profitability on our three dividend policy measures (i.e.,

DIV_PAY, DIV_POUT, and DIV_YIELD). Table 13 reveals that all average treatment effects (ATEs) for treated groups based on the profitability (ROA_Dummy) are positive and significant at the 1% level. This evidence indicates that the treatment effect (i.e., higher profitability) is associated with a greater tendency to pay cash dividends, supporting our main findings.

Furthermore, we applied the same PSM procedure to other test variables – notably for old and young firms (FIRM_AGE_Dummy), high and low growth firms (GROWTH_Dummy), high and low levered firms (LEVERAGE_Dummy), and large- and small-size firms (FIRM_SIZE_Dummy). The ATEs for these treatment groups are statistically significant at the 5% or 1% levels, consistent with our predictions. Mature and larger firms tend to distribute larger dividends, whereas high growth and high leverage negatively impact cash dividends. Although not reported here, we also conducted covariate balance tests to ensure the average values of the covariates are similar across treated and control groups. These tests revealed no significant differences, confirming that the PSM procedures effectively eliminated observable differences. Therefore, the PSM results corroborate our main findings, confirming their robustness.

5.3.2 Consideration of share repurchases

Share repurchases have emerged as an important means of payout, gaining prominence in the 1980s. Since then, repurchases have grown substantially, especially in the United States, and are now seen as an alternative to cash dividends (Grullon and Michaely, 2002; Julio and Ikenberry, 2004; Brav et al., 2005; Gaspar et al., 2013). Indeed, recent studies (e.g., King and Teague, 2022; Bonaime and Kahle, 2023; Jakob and Valta, 2023; Boubaker et al., 2024; Gopal et al., 2024) have shown that US firms have shifted from paying dividends to repurchasing as their primary method of cash disbursement. However, our survey responses from LSE corporate managers revealed that share repurchases do not play a significant substitution role in the decision for a no-cash dividend policy in the United Kingdom.

To explore this issue further, we incorporate a variable accounting for share repurchases into our regression models (i.e., Models (1)-(3)). We measure the variable, REPURCHASE (the repurchases ratio), as the ratio of total shares repurchased to total assets (Dang et al, 2021; Eulaiwi et al., 2024; Friberg et al., 2024). By doing this, we aim to identify (1) whether share

repurchases affect dividend payment decisions and (2) whether the effects of other test variables remain consistent after controlling for repurchases.

[Insert Table 14 about here]

The results in Table 14 indicate that the coefficients for REPURCHASE are insignificant across all regressions. At the same time, the other test variables (i.e., ROA, FIRM_AGE, GROWTH, LEVERAGE, and FIRM_SIZE) remain highly significant with consistent directional signs, as previously reported. These findings suggest that share repurchases do not have a notable impact on cash dividend payment decisions, further reinforcing and clarifying our main conclusions.

6. Discussion and Conclusions

6.1 Discussion of the findings

The UK stock market distributes higher cash dividends and prioritizes dividends over returns. Despite this fact, some UK companies consistently do not pay cash dividends. To understand this phenomenon, we conducted a survey targeting corporate managers of LSE-listed firms with a long-standing policy of setting a zero cash dividend policy. Our study contributes to the literature by providing direct evidence from dividend policymakers. It differs from existing survey-based studies that examine why companies pay dividends. Accordingly, our survey findings of non-dividend-paying corporate managers of LSE firms lead to several important conclusions.

First, our survey evidence highlights the primary reasons some LSE-listed firms adopt a zero cash dividend policy. These reasons include the availability of cash, stage in a firm's life cycle, level of current earnings, preference to reinvest cash flows instead of paying cash dividends, anticipated level of future earnings, and availability of profitable investment opportunities. These findings suggest that poor profitability (even incurring losses) means low earnings, less cash available, or even cash shortages, leading LSE firms to pay no or low cash dividends. Furthermore, consistent with the maturity (firm life cycle) hypothesis, LSE-listed companies in their growth stage and with profitable growth opportunities typically require more funds for investments. Thus, they use their internal funds to invest in new projects instead of paying this cash to shareholders.

Second, the major factors leading to a no-cash dividend policy in the United Kingdom are similar to those of non-dividend-paying peers in the United States, Canada, and Turkey, despite the differing market characteristics (e.g., institutional environment, corporate governance practices, ownership structures, and political, social, and financial stability). For example, although ownership is widely dispersed among public firms in the United Kingdom and the United States, it is highly concentrated in Canada and Turkey. The first three markets are well-developed, whereas Turkey is still an emerging economy. Despite dispersed ownership, financial institutions dominate the UK stock market, unlike the other two developed US and Canadian markets. Additionally, the United Kingdom, the United States, and Canada are wealthy common-law countries providing good legal protection for investors. By contrast, Turkey is a civil law-originated country. Although Turkey attempts to use common laws to integrate with world markets, its legal protection is relatively weaker. Against this background, learning that some consistency exists in the findings of non-dividend-paying companies across different countries is meaningful, enabling generalization of the results. This information would be unavailable without our survey.

Third, non-dividend-paying LSE managers generally believe that dividend payments positively affect firm value. However, other factors outweigh the decision to pay dividends. Fourth, we find no support for the argument that firms use share repurchases as substitutes for cash dividends. According to the surveyed managers, share repurchases do not significantly impact their decision to implement a no-cash dividend policy in the United Kingdom. Finally, our survey findings show that the state of the economy (i.e., the COVID-19 pandemic and Brexit) does not affect the no-cash dividend policies of LSE firms. Although the COVID-19 pandemic severely impacted UK businesses, it did not notably influence their decision not to distribute cash dividends. This evidence suggests that these companies could not distribute dividends before the coronavirus affected the economy. These firms often have recurring losses or insufficient funds. They are also small firms in the growth stage of their life cycle.

We performed additional tests to explore if managerial responses differ based on firm characteristics (i.e., profitability, firm age, growth, leverage, and firm size) and industries. We detected few variations, suggesting no significant differences in the distribution of survey responses among different sub-groups. We also ran further regression tests using secondary data to supplement our survey-based (primary) findings to ascertain whether actual corporate actions are consistent with managerial views. Our statistical results from various modeling and

using different econometric techniques exhibit consistency with the survey evidence, confirming the robustness of our main findings. Specifically, non-dividend-paying LSE-listed firms are typically smaller in size in the early growth stages of their life cycles. They also have high-growth opportunities, low levels of profitability (small earnings or losses), and comparatively more leverage.

6.2 Theoretical implications

Our survey findings have significant theoretical implications for the UK market. They indicate that non-dividend-paying LSE companies are responsive to their shareholders' preferences when setting a no-cash dividend policy. This finding suggests that these shareholders prefer capital gains over dividend income. Consistent with the "catering theory" of dividends (Baker and Wurgler, 2004a, 2004b), this finding indicates that corporate managers of LSE non-payers consider their investors' demands while distributing no cash dividends. However, our results are inconclusive regarding the potential signaling effect of the decision to pay no dividends.

Moreover, our findings reveal that non-dividend-paying LSE managers do not consider taxes as a primary reason for not paying dividends. The evidence shows that a high level of insider ownership does not necessarily lead to a zero cash dividend policy. Instead, one of the key reasons for not distributing cash dividends is the high cost of raising new external funds (debt). Conversely, the responding managers do not view the transaction costs that shareholders might incur as significant. Consequently, we believe that our study will benefit scholars and researchers who seek useful guidance about the dividend debate in the UK context.

6.3 Practical implications

Our survey results offer important practical implications. Since dividend payments are crucial to overall corporate strategy and firm value creation, making informed decisions about dividend policy is vital, especially for financial managers who must set optimal policies. Understanding common managerial views on dividends and identifying the factors influencing the decision not to pay cash dividends can help LSE corporate managers benchmark their policies against their peers and reassess them if necessary.

From an investor's perspective, various investors and portfolio managers have diverse preferences regarding investment returns. Some prioritize capital gains, while others seek dividend income, or a combination of both, to meet their investment targets. Therefore, our

direct evidence from LSE policymakers provides valuable information for investors and portfolio managers considering investments in the UK market. Knowledge about general dividend policy practices of LSE-listed firms can help them choose companies with policies that align with their dividend preferences.

6.4 Limitations and guidance for future research

As with any research, this study has several limitations. First, we relied mainly on a survey-based approach rather than a statistical analysis of large datasets of publicly available information (secondary data). While survey research is not the standard academic approach in finance, it allows us to gather private information directly from the firm's managers, offering insights that are otherwise unavailable through public sources. However, caution is warranted when generalizing the results of any survey-based research to a broader population of firms. Although we achieved a relatively high response rate (34.9%), which lessens this concern to some extent, we acknowledge the limitations posed by our sample size of 105 responses, especially in finance-related research.

We took steps to mitigate the sample size issue and to ensure that the responses reflect a diverse range of firms in terms of size (from both the LSE Main Market and LSE AIM) and industry (covering eight broad industries based on ICB codes). We also conducted additional checks to ensure that our results were not disproportionately influenced by any specific subset of respondents, considering various firm characteristics and industry classifications. Furthermore, we supplemented our survey findings with statistical analysis using secondary data from a larger sample of 723 firms, representing 7,836 firm-year observations between 2009 and 2020, including both dividend-paying and non-dividend-paying LSE firms. These analyses enhanced the reliability and scope of our findings. Although we believe that our study provides valuable insights and is representative of non-dividend-paying UK corporations, the findings and conclusions should still be considered in light of the inherent limitations of the survey methodology.

A common limitation of survey research is non-response bias. To address this issue, we use the standard technique of comparing the responding and non-responding companies based on various firm characteristics. As reported in Table 5, our analysis shows that both groups appear significantly similar. Thus, we conclude that our sample is representative of the population, reducing concerns about potential non-response bias. Another potential problem is

that respondents might not fully understand the questions or might not answer them frankly. To mitigate these risks, we based our questionnaires on well-established dividend surveys and designed the questions according to accepted practices. We also assured respondents of confidentiality and informed them that their responses would be presented in summary form without disclosing their identities or company names. These precautions suggest that any measurement errors are likely minimal, and no evidence suggests that respondents misunderstood the questions or answered untruthfully.

Another concern is that although dividend decisions typically involve multiple individuals, our survey responses came from only one manager per firm due to the impracticality of surveying all decision-makers. Our study also focuses on non-financial and non-utility LSE-listed UK firms that do not pay dividends, so caution is needed when generalizing our findings.

Our survey findings and the study's limitations open avenues for future research. For example, we specifically asked managers whether the tax circumstances of their shareholders influenced their decision to maintain a zero cash dividend policy. The responses clearly indicated that managers do not consider tax factors to be a major influence. However, given the large number and diversity of shareholders (ranging from institutional and individual investors to foreign shareholders, insiders, and families), accurately capturing shareholder tax considerations is highly challenging. As a result, incorporating such a variable into our regression models is beyond the scope of this study. Nevertheless, the relationship between shareholder tax profiles and dividend policies remains an important area for further investigation. Future research could take a more comprehensive approach by compiling detailed shareholder information and tax data, potentially offering deeper insights into how different shareholder tax circumstances influence corporate dividend decisions.

Future surveys could also explore why LSE firms pay cash dividends or how managers of dividend-paying LSE firms view dividends. Our survey provides new insights into non-dividend-paying firms in the United Kingdom, consistent with findings from similar studies in other countries. We encourage further research in other countries to survey managers of non-dividend-paying firms, those with irregular cash dividend patterns, or those firms that have stopped paying cash dividends. Such research could identify similarities and differences across firms and countries, helping to generalize findings about the reasons for not paying cash dividends. Our study can serve as a valuable benchmark for these future investigations.

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Table 1. Cash dividends and net income trends in the United Kingdom between 2009 and 2020

Year	Number of firms	Cash dividend payers (%)	Cash dividends (million £)	Net earnings (million £)	Dividends per share (£)	Earnings per share (£)	Dividend payout ratio (%)
2009	530	62.07	59.77	100.78	0.069	−0.124	33.88
2010	555	61.26	59.25	110.09	0.067	0.030	26.32
2011	572	60.66	66.16	131.07	0.069	0.004	24.13
2012	588	59.86	68.63	111.05	0.077	0.014	24.68
2013	622	58.04	69.61	89.68	0.084	0.008	31.11
2014	686	58.16	63.19	87.12	0.088	0.008	27.39
2015	722	58.45	63.78	66.33	0.089	0.011	31.80
2016	723	58.37	65.42	74.91	0.097	0.039	34.26
2017	722	58.45	70.34	103.68	0.105	0.144	30.94
2018	723	58.37	74.56	105.36	0.116	0.155	32.72
2019	720	58.61	78.74	98.67	0.127	0.144	35.48
2020	673	61.07	68.74	63.13	0.096	0.052	29.39
Overall (2009-2020)							
Mean	653	59.33	67.69	94.05	0.092	0.046	30.35
Std. Dev.	74.94	49.13	335.45	447.04	0.220	0.874	56.82

Notes: This table shows the patterns of cash dividends and earnings of the sample of 723 LSE firms with 7,836 firm-year observations between 2009 and 2020. Datastream is our data source. We cross-checked the data's validity with Osiris. Column 2 reports the number of listed firms in our sample over time. Column 3 displays the percentage of dividend-paying LSE firms. Columns 4 and 5 present the actual aggregate cash dividends paid and net earnings (after taxes). Columns 6 and 7 show average dividends and earnings per share. Column 8 illustrates the average dividend payout ratio for the sampled firms between 2009 and 2020. We winsorized the data at the 1st and 99th percentiles to reduce the effect of outliers.

Table 2. Selection criteria and distributions of the sample across markets and industries

Panel A. Selection criteria of the sample		Panel B. Distribution across markets			Panel C. Distribution across industries	
Criterion	Number of firms	Market	Number of firms	(%)	Industry	Non-dividend paying firms (%)
LSE-listed firms as of September 30, 2020	1,988	Non-dividend paying firms			Basic materials	20.9
(-) Non-UK companies	565	MAIN	30	10.0	Consumer discretionary	13.0
LSE-listed UK firms	1,423	AIM	271	90.0	Consumer staples	3.3
(-) Financials	518	Total	301	100.0	Energy	17.6
(-) Utilities	17				Healthcare	16.3
Non-financial and non-utility LSE UK firms	888				Industrials	14.6
(-) LSE firms with less than five years of listing history	165				Technology	12.0
Final sample	723				Telecommunications	2.3
					Total	100.0
Dividend-paying firms	422					
Non-dividend paying firms	301					
Total	723					

Table 3. Survey respondents across markets and industries

Panel A. Respondents across markets						Panel B. Respondents across industries					
Market	Full sample		Respondents			Industry	Full sample		Respondents		
	Number of firms	(%)	Number of firms	(%)	Response rate (%)		Number of firms	(%)	Number of firms	(%)	Response rate (%)
MAIN	30	10.0	13	12.4	43.3	Basic materials	63	20.9	25	23.8	39.7
AIM	271	90.0	92	87.6	33.9	Consumer discretionary	39	13.0	11	10.5	28.2
Total	301	100.0	105	100.0	34.9	Consumer staples	10	3.3	3	2.9	30.0
						Energy	53	17.6	17	16.2	32.1
						Healthcare	49	16.3	17	16.2	34.7
						Industrials	44	14.6	16	15.2	36.4
						Technology	36	12.0	12	11.4	33.3
						Telecommunications	7	2.3	4	3.8	57.1
						Total	301	100.0	105	100.0	34.9

Table 4. Summary of survey response rates in the dividend literature

Study	Country	Usable responses	Response rate (%)
Baker (1989)	United States	68	38.9
Pruitt and Gitman (1991)	United States	114	11.4
Graham and Harvey (2001)	United States	392	9.0
Brav et al. (2005)	United States	384	16.0
Dhanani (2005)	United Kingdom	164	16.4
Baker et al. (2012)	Canada	172	32.0
Baker and Kilincarslan (2019)	Turkey	51	57.3
Current study	United Kingdom	105	34.9

Table 5. Characteristics of survey respondents and non-respondents

Characteristics	All Firms			Non-respondents			Respondents			t-test	Wilcoxon test
	Mean	Median	St. Dev.	Mean	Median	St. Dev.	Mean	Median	St. Dev.	t-statistic	Z-statistic
Market capitalization (million £)	213.56	20.98	1,214.02	226.52	20.97	1,441.83	189.61	21.46	604.54	0.23	-1.00
Total assets (million £)	281.06	18.22	1,845.81	341.26	17.04	2,254.07	169.82	20.20	562.66	0.72	-0.63
Sales (million £)	166.39	4.62	967.79	189.41	4.96	1,133.81	123.85	3.86	544.23	0.52	0.46
Net earnings (million £)	-9.81	-1.59	43.69	-12.69	-1.96	46.84	-4.49	-1.29	36.84	-1.45	-1.47
Return on assets (%)	-27.45	-12.00	48.53	-33.20	-12.00	55.02	-16.81	-11.54	30.93	-2.64**	-1.63
Market-to-book ratio (times)	2.14	1.17	2.98	2.13	1.05	3.12	2.15	1.34	2.73	0.03	-0.95
Leverage ratio (%)	11.74	2.73	18.65	13.98	3.52	21.43	7.59	2.27	10.83	2.68**	1.26
Current ratio (times)	4.16	1.92	5.88	4.20	1.73	6.32	4.08	2.25	5.02	0.16	-0.95
Board size	5.67	5.00	1.69	5.55	5.00	1.67	5.93	6.00	1.71	-1.85	-2.11*
Board gender diversity (%)	10.70	0.00	13.66	10.61	0.00	14.13	10.87	0.00	12.79	-0.16	-0.48
Board independence (%)	57.28	60.00	13.13	57.18	60.00	13.15	57.47	60.00	13.15	-0.19	-0.18
Blockholder ownership (%)	33.20	31.21	23.87	34.09	30.39	24.58	31.53	31.54	22.51	0.89	0.64
Insider ownership (%)	16.04	11.72	14.95	16.27	11.95	15.74	15.61	11.49	13.42	0.36	-0.02

Notes: This table illustrates descriptive statistics for the 105 responding and 196 non-responding firms on 13 characteristics and the tests for non-response bias for the LSE firms surveyed. Datastream is the source for collecting financial data. We obtained the information on board and ownership structures from Datastream Eikon for 2019. We cross-checked data validity on all variables using Osiris: (1) market capitalization equals the share price (year-end) multiplied by the common shares outstanding, (2) total assets refer to the sum of total current assets, long-term receivables, investment in unconsolidated subsidiaries, other investments, net property, plant and equipment, and other assets, (3) sales represent annual sales and other operating revenue less discounts and returns and allowances, (4) net earnings shows annual income after all operating and non-operating income and expenses, reserves, income taxes, minority interest, and extraordinary items, (5) return on assets is net earnings to total assets, (6) market-to-book ratio is market capitalization to book value, (7) leverage ratio is the fraction of long-term debt to total assets, (8) current ratio is current assets divided by current liabilities, (9) board size is the total number of board directors, (10) board gender diversity is the percentage of female directors to board size, (11) board independence is the percentage of independent directors to board size, (12) blockholder ownership is the sum of total shares owned by large shareholders at the 3% ownership disclosure threshold level, and (13) insider ownership is the proportion of outstanding shares held by insiders. We winsorized the data at the 1st and 99th percentiles to reduce the effect of outliers. ** and * denote statistical significance at the 1% and 5% levels.

Table 6. Level of importance attached to 18 factors influencing a no cash dividend policy by managers of non-dividend-paying LSE-listed firms

Factors		Level of Importance (%)					Mean	Std. Dev.	t-test	Rankings			
		None 0	Low 1	Mod 2	High 3	Very High 4				LSE	NYSE	TSX	BIST
F1	Availability of cash	5.7	0.0	11.4	23.8	59.0	3.30	1.066	12.54**	1	1	3	1
F3	Stage in the firm's life cycle	8.6	1.9	11.4	18.1	60.0	3.19	1.241	9.83**	2	n/a	2	7
F2	Level of current earnings	6.7	1.0	15.2	23.8	53.3	3.16	1.145	10.40**	3	4	4	3
F11	Preference to reinvest cash flows instead of paying dividends	15.2	8.6	16.2	24.8	35.2	2.56	1.434	4.02**	4	n/a	1	2
F6	Anticipated level of future earnings	11.4	7.6	21.9	40.0	19.0	2.48	1.218	4.00**	5	6	6	4
F8	Availability of profitable investment opportunities	16.2	7.6	22.9	31.4	21.9	2.35	1.344	2.69**	6	2	5	5
F4	Cost of raising external funds	19.0	18.1	28.6	20.0	14.3	1.92	1.313	-0.59	7	3	7	6
F5	Anticipated state of the economy	21.9	23.8	31.4	21.0	1.9	1.57	1.108	-3.96**	8	8	10	9
F10	Concern about maintaining a target capital structure	28.6	25.7	22.9	19.0	3.8	1.44	1.200	-4.797**	9	5	8	8
F14	Contractual constraints such as dividend restrictions in debt contracts	44.8	17.1	12.4	15.2	10.5	1.30	1.433	-5.04**	10	9	12	10
F7	Desire to conform to industry dividend practice	33.3	36.2	16.2	13.3	1.0	1.12	1.053	-8.52**	11	11	9	15
F12	Characteristics of shareholders, such as their tax circumstances	38.1	29.5	19.0	9.5	3.8	1.11	1.138	-7.98**	12	10	11	11
F16	Concern about the ability to maintain an uninterrupted record of dividends	47.6	22.9	11.4	15.2	2.9	1.03	1.213	-8.21**	13	n/a	14	17
F17	Desire to avoid using dividends as a signaling device to convey information to investors	42.9	30.5	18.1	7.6	1.0	0.93	1.003	-10.93**	14	n/a	18	16
F15	Preference to distribute cash using share repurchases instead of dividends	49.5	23.8	20.0	4.8	1.9	0.86	1.023	-11.45**	15	n/a	13	18
F9	Level of management ownership of the firm's stock	51.4	31.4	8.6	4.8	3.8	0.78	1.047	-11.93**	16	n/a	17	13
F18	Non-tax deductibility of dividends	52.4	25.7	19.0	2.9	0.0	0.72	0.872	-15.01**	17	7	16	12
F13	Desire to follow the firm's historical practice of not paying dividends	58.1	29.5	8.6	1.9	1.9	0.60	0.873	-16.44**	18	n/a	15	14

Notes: This table reports the survey responses of managers of 105 non-dividend-paying LSE firms on the importance of 18 potential factors affecting their dividend policy decisions. We used a five-point equal-interval importance scale ranging from 0 (none) to 4 (very high). Columns 3 through 7 provide the percentage of respondents by the level of importance. Columns 8 and 9 show the mean and standard deviation for each factor. Column 10 gives the *t*-statistic for the null hypothesis that the mean response equals 2 (moderate level of importance). Column 11 lists the rankings of factors from highest to lowest based on the means manager response of non-dividend-paying LSE firms. The table also presents the factor rankings for the non-dividend-paying NYSE from Baker (1989), TSX from Baker et al. (2012), and BIST from Baker and Kilincarslan (2019) in Columns 12 through 14. Percentages may not add to 100% due to rounding. ** and * denote statistical significance at the 1% and 5% levels.

Table 7. Managerial responses of non-dividend-paying LSE firms to statements related to shareholder preferences and various dividend explanations

Statements		Percentages			χ^2 test
		Yes	No	Don't Know	
Panel A. For your firm, do you believe that:					
S1	Most of your shareholders prefer a no-dividend policy.	48.6	30.5	21.0	12.40**
S2	Paying no dividends positively affects the price of your firm's common stock.	22.9	58.1	19.0	29.20**
S3	Your firm's stock price would increase upon announcing a cash dividend.	56.2	26.7	17.1	26.11**
S4	Your firm is responsive to shareholders' dividend preferences.	55.2	30.5	14.3	26.80**
S5	Your firm's shareholders prefer capital gains to dividends.	66.7	7.6	25.7	57.66**
S6	Paying no dividends serves as a message from management about the prospects of your firm.	39.0	46.7	14.3	18.05**
Panel B. For firms in general, do you believe that the following factors would influence the decisions to pay no dividends?					
S7	The majority of a firm's owners have high marginal tax rates.	24.8	46.7	28.6	8.63*
S8	A firm's ownership is heavily concentrated among insiders.	25.7	59.0	15.2	32.97**
S9	A firm has little need to signal its immediate prospects by paying dividends.	48.6	37.1	14.3	19.20**
S10	A firm faces high floatation costs of rising new external capital.	52.4	33.3	14.3	22.86**
S11	The majority of a firm's owners face high transaction costs when selling their stocks.	20.0	53.3	26.7	19.60**

Notes: This table reports the responses of 105 managers of non-dividend-paying LSE firms to 11 statements about various theories and explanations for a firm's decision to pay no dividends. Percentages may not add to 100% due to rounding. ** and * denote significance at the 1% and 5% levels.

Table 8. Managerial responses of non-dividend-paying LSE firms to how COVID-19 affected their firms in various areas

Aspects	Direction of Impact (%)				<i>n</i>	Mean	Std. Dev.	<i>t</i> -test
	Decreased -1	No Effect 0	Increased +1	Don't Know				
Level of net earnings	38.1	40.0	20.0	1.9	103	-0.18	0.751	-2.49*
Level of debt	8.6	66.7	22.9	1.9	103	0.15	0.550	2.69**
Shareholder confidence in our firm	13.3	53.3	28.6	4.8	100	0.16	0.647	2.47*
Business risk of insolvency	18.1	60.0	19.0	2.9	102	0.01	0.621	0.16
Level of cash reserves	31.4	46.7	19.0	2.9	102	-0.13	0.713	-1.81
Level of profitable investment opportunities	11.4	52.4	34.3	1.9	103	0.23	0.645	3.67**
Possibility of share repurchases	5.7	81.0	8.6	4.8	100	0.03	0.388	0.77
Amount of share repurchases	4.8	86.7	3.8	4.8	100	-0.01	0.301	-0.33
Possibility of paying cash dividends	15.2	74.3	6.7	3.8	101	-0.09	0.471	-1.90
Amount of cash dividends	11.4	81.0	3.8	3.8	101	-0.08	0.392	-1.79

Notes: This table displays the survey responses of managers of 105 non-dividend-paying LSE firms about the impact of the COVID-19 pandemic on their business in 10 areas. Responses reflect a three-point equal-interval scale ranging from -1 (decreased) to +1 (increased). Columns 2 through 4 provide the percentage of respondents by the direction of impact, whereas Column 5 shows the percentage of “Don’t Know” answers. Column 6 illustrates the sample size, which differs slightly in each area since we exclude “Don’t Know” responses. Columns 7 and 8 report the mean and standard deviation for each area. Column 10 gives the *t*-statistic for the null hypothesis that the mean response equals 0 (no effect). Percentages may not add to 100% due to rounding. ** and * denote statistical significance at the 1% and 5% levels.

Table 9. Survey responses of managers of non-dividend-paying LSE firms to 18 factors partitioned by various firm characteristics

Factors	Full Sample	Response Mean														
		Profitability			Firm Age			Growth			Leverage			Firm Size		
		High	Low	Wilcoxon test	Old	Young	Wilcoxon test	High	Low	Wilcoxon test	High	Low	Wilcoxon test	Large	Small	Wilcoxon test
F1. Availability of cash	3.30	3.35	3.26	0.22	3.37	3.24	−0.46	3.25	3.37	0.66	3.31	3.30	0.94	3.40	3.12	−0.16
F3. Stage in the firm's life cycle	3.19	2.79	3.58	3.53**	2.85	3.55	2.87**	3.45	2.92	−2.77**	3.09	3.27	1.43	3.12	3.17	0.92
F2. Level of current earnings	3.16	3.09	3.23	1.41	3.19	3.14	0.44	3.21	3.12	−1.01	3.15	3.17	0.85	3.27	3.06	−0.03
F11. Preference to reinvest cash flows instead of paying dividends	2.56	2.87	2.26	−2.02*	2.37	2.76	1.08	2.66	2.46	−0.98	2.71	2.45	−0.84	2.65	2.47	−0.66
F6. Anticipated level of future earnings	2.48	2.56	2.40	−0.71	2.44	2.51	0.06	2.36	2.59	1.39	2.49	2.47	0.20	2.69	2.26	−1.69
F8. Availability of profitable investment opportunities	2.35	2.46	2.25	−0.72	2.20	2.51	1.36	2.26	2.44	0.43	2.60	2.17	−1.56	2.50	2.21	−0.99
F4. Cost of raising external funds	1.92	1.83	2.02	0.72	1.76	2.10	1.33	1.92	1.92	0.07	1.91	1.93	0.14	1.88	1.96	0.29
F5. Anticipated state of the economy	1.57	1.86	1.29	−2.75**	1.57	1.57	0.04	1.36	1.79	1.93	1.80	1.40	−1.92	1.81	1.34	−2.16*
F10. Concern about maintaining a target capital structure	1.44	1.52	1.36	−0.83	1.55	1.31	−0.99	1.38	1.50	0.42	1.31	1.53	0.95	1.58	1.30	−1.11
F14. Contractual constraints such as dividend restrictions in debt contracts	1.30	1.42	1.17	−0.70	1.31	1.27	−0.02	1.06	1.54	1.65	1.33	1.27	−0.44	1.63	0.96	−2.40*
F7. Desire to conform to industry dividend practice	1.12	1.21	1.04	−0.75	0.94	1.31	1.75	0.91	1.35	1.72	0.98	1.23	1.01	1.37	0.89	−2.31*
F12. Characteristics of shareholders, such as their tax circumstances	1.11	1.29	0.94	−1.40	1.11	1.12	0.24	1.04	1.19	0.43	1.24	1.02	−0.79	1.40	0.83	−2.30*
F16. Concern about the ability to maintain an uninterrupted record of dividends	1.03	1.35	0.72	−2.34*	0.98	1.08	0.59	0.87	1.19	1.31	1.22	0.88	−1.58	1.29	0.77	−2.19*
F17. Desire to avoid using dividends as a signaling device to convey information to investors	0.93	1.21	0.66	−3.02**	0.96	0.90	−0.08	0.83	1.04	0.95	0.98	0.90	−0.37	1.08	0.79	−1.39
F15. Preference to distribute cash using share repurchases instead of dividends	0.86	1.17	0.55	−3.10**	0.96	0.75	−1.00	0.77	0.94	1.34	0.96	0.78	−0.80	1.08	0.72	−1.33
F9. Level of management ownership of the firm's stock	0.78	0.75	0.81	0.24	0.70	0.86	1.16	0.75	0.81	0.27	0.76	0.80	1.05	0.92	0.64	−1.00
F18. Non-tax deductibility of dividends	0.72	0.90	0.55	−2.15*	0.70	0.75	0.43	0.64	0.80	0.95	0.60	0.82	1.12	0.87	0.58	−1.90
F13. Desire to follow the firm's historical practice of not paying dividends	0.60	0.73	0.47	−1.30	0.65	0.55	0.16	0.57	0.63	0.30	0.60	0.60	−0.08	0.81	0.40	−2.45*

Notes: This table reports managers' responses of 105 non-dividend-paying LSE firms on the importance of 18 potential factors affecting their dividend policy decisions by their means. The table partitions the sample by firm characteristics such as profitability, firm age, growth, leverage, and firm size. Respondents indicate the importance level based on a five-point equal-interval scale where 0 = none, 1 = low, 2 = moderate, 3 = high, and 4 = very high importance. Datastream is the source for obtaining data on each of the five groups for 2019. We cross-checked data validity with Osiris. High (low) profitability firms have a ratio above (below) the sample's median ROA ratio. Old (young) firms are those with a firm age above (below) the sample's median firm age. High (low) growth firms have a ratio above (below) the sample's median market-to-book ratio. High (low) levered firms have a ratio above (below) the sample's median long-term debt-to-total assets ratio. Large (small) firms have a value above (below) the sample's median total assets. ** and * denote statistical significance at the 1% and 5% levels.

Table 10. Survey responses of managers of non-dividend-paying LSE firms to 18 factors partitioned by different industries

Factors	Response Mean									Kruskal-Wallis χ^2 test
	Full Sample	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Healthcare	Industrials	Technology	Telecommunications	
F1. Availability of cash	3.30	3.48	2.82	3.67	3.41	3.53	3.19	3.17	2.75	8.01
F3. Stage in the firm's life cycle	3.19	3.64	2.82	2.33	3.59	3.12	2.25	3.58	3.25	18.06*
F2. Level of current earnings	3.16	3.00	2.73	3.00	3.29	3.53	3.00	3.42	3.25	4.36
F11. Preference to reinvest cash flows instead of paying dividends	2.56	2.64	2.36	2.67	2.35	2.12	2.56	3.00	4.00	8.88
F6. Anticipated level of future earnings	2.48	2.32	1.73	3.33	2.35	2.41	3.06	2.42	3.50	13.02
F8. Availability of profitable investment opportunities	2.35	2.16	2.09	2.33	2.41	2.06	2.44	2.75	3.75	7.60
F4. Cost of raising external funds	1.92	1.88	1.73	0.67	2.41	1.94	1.94	1.67	2.25	6.45
F5. Anticipated state of the economy	1.57	1.40	1.73	2.67	1.53	1.41	1.69	1.50	2.00	5.33
F10. Concern about maintaining a target capital structure	1.44	1.20	1.36	2.00	1.94	0.82	1.75	1.50	1.75	10.86
F14. Contractual constraints such as dividend restrictions in debt contracts	1.30	1.20	0.91	1.33	1.64	1.35	1.19	1.08	2.25	3.41
F7. Desire to conform to industry dividend practice	1.12	1.20	0.73	1.67	1.00	0.88	1.44	1.33	1.00	5.98
F12. Characteristics of shareholders, such as their tax circumstances	1.11	1.00	1.55	0.00	1.71	0.71	0.75	1.25	1.75	14.76*
F16. Concern about the ability to maintain an uninterrupted record of dividends	1.03	0.84	1.27	1.00	1.06	1.00	1.06	1.17	1.00	1.89
F17. Desire to avoid using dividends as a signaling device to convey information to investors	0.93	0.84	0.82	2.33	1.18	0.82	0.75	0.83	1.25	6.57
F15. Preference to distribute cash using share repurchases instead of dividends	0.86	0.60	0.55	1.33	1.00	0.65	1.31	1.25	0.25	8.90
F9. Level of management ownership of the firm's stock	0.78	0.84	1.27	1.00	0.88	0.47	0.31	0.75	1.75	7.44
F18. Non-tax deductibility of dividends	0.72	0.76	0.55	1.00	1.00	0.47	0.88	0.67	0.25	5.32
F13. Desire to follow the firm's historical practice of not paying dividends	0.60	0.44	1.09	1.00	0.94	0.41	0.31	0.58	0.50	7.06

Notes: This table reports managers' responses of 105 non-dividend-paying LSE firms on the importance of 18 potential factors affecting their dividend policy decisions by their means. The table partitions the sample into eight broad industries based on the Industry Classification Benchmark (ICB) codes provided by Datastream. Respondents indicate the importance level based on a five-point equal-interval scale where 0 = none, 1 = low, 2 = moderate, 3 = high, and 4 = very high importance. Datastream is the source for obtaining data on each of the five groups for 2019. We cross-checked the data's validity with Osiris. The χ^2 statistic represents the non-parametric Kruskal-Wallis test statistics. ** and * denote statistical significance at the 1% and 5% levels.

Table 11. Descriptive statistics, Pearson's correlations, and VIF values

Panel A. Descriptive statistics of research variables								
Variables	DIV_PAY	DIV_POUT	DIV_YIELD	ROA	FIRM_AGE	GROWTH	LEVERAGE	FIRM_SIZE
Mean	0.593	0.304	0.017	−0.088	2.906	1.712	0.114	11.333
Median	1.000	0.000	0.003	0.024	2.773	1.032	0.034	11.145
Std. Dev.	0.491	0.568	0.024	0.367	1.025	2.207	0.163	2.508
Minimum	0.000	0.000	0.000	−2.270	0.000	0.098	0.000	5.858
Maximum	1.000	3.872	0.120	0.339	4.836	15.152	0.859	17.781
Observations	7,836	7,407	7,836	7,836	7,836	7,836	7,836	7,836

Panel B. Pearson's correlations and VIF values of explanatory variables							
Variables	(1)	(2)	(3)	(4)	(5)	VIF	1/VIF
(1) ROA	1.000					1.38	0.725
(2) FIRM_AGE	0.242**	1.000				1.15	0.870
(3) GROWTH	−0.301**	−0.176**	1.000			1.14	0.877
(4) LEVERAGE	0.025*	0.084**	−0.078**	1.000		1.16	0.862
(5) FIRM_SIZE	0.464**	0.337**	−0.271**	0.342**	1.000	1.60	0.625

Notes: Panel A reports descriptive statistics for our research variables used in the multivariate analysis. We winsorized the data at the 1st and 99th percentiles to minimize the effect of the outliers. Panel B shows the results of Pearson's correlation matrix, Variance Inflation Factor (VIF), and tolerance (1/VIF) values for the independent variables. ** and * denote statistical significance at the 1% and 5% levels.

Table 12. Results of logit and Tobit models for dividend payment decisions

Dependent variable:		DIV_PAY _{<i>i,t</i>}		DIV_POUT _{<i>i,t</i>}		DIV_YIELD _{<i>i,t</i>}	
Model		Model 1: Logit		Model 2: Tobit		Model 3: Tobit	
Independent variables	Hypothesized sign	Coefficient estimates	Marginal effects	Coefficient estimates	Marginal effects	Coefficient estimates	Marginal effects
ROA _{<i>i,t-1</i>}	(+)	6.608** (12.07)	1.644** (11.48)	3.489** (20.72)	0.814** (28.17)	0.162** (21.00)	0.041** (33.33)
FIRM_AGE _{<i>i,t-1</i>}	(+)	0.367** (9.57)	0.091** (9.68)	0.061** (5.09)	0.014** (5.03)	0.002** (3.77)	0.0004** (3.73)
GROWTH _{<i>i,t-1</i>}	(-)	-0.078** (-3.34)	-0.019** (-3.32)	-0.044** (-6.19)	-0.010** (-6.50)	-0.004** (-12.44)	-0.001** (-14.31)
LEVERAGE _{<i>i,t-1</i>}	(-)	-0.594* (-2.18)	-0.148* (-2.18)	-0.232* (-2.57)	-0.054* (-2.56)	-0.020** (-6.34)	-0.005** (-6.20)
FIRM_SIZE _{<i>i,t-1</i>}	(+)	0.623** (23.02)	0.155** (23.68)	0.150** (20.53)	0.035** (18.80)	0.006** (23.96)	0.002** (19.94)
INDUSTRY		YES	YES	YES	YES	YES	YES
YEAR		YES	YES	YES	YES	YES	YES
Constant		-6.339** (-16.38)		-1.851** (-13.96)		-0.061** (-14.64)	
Number of observations		7,097	7,097	6,723	6,723	7,097	7,097
Wald χ^2		128.40**					
F-test				57.02**		117.46**	
Pseudo R^2		51.13%		26.61%		52.77%	

Notes: This table reports the estimated logit/Tobit coefficients and marginal effects, with *t/z* statistics in parentheses. We used White's corrected heteroscedasticity robust regressions to test the models. We lagged the independent variables for one year. ** and * denote statistical significance at the 1% and 5% levels.

Table 13. The propensity score matching results

Dependent variable	DIV_PAY	DIV_POUT	DIV_YIELD
Panel A: ROA_Dummy			
Treated	0.811	0.412	0.024
Control	0.509	0.239	0.012
<i>ATE</i>	0.302**	0.173**	0.012**
Panel B: FIRM_AGE_Dummy			
Treated	0.702	0.347	0.019
Control	0.581	0.290	0.017
<i>ATE</i>	0.121**	0.057**	0.002**
Panel C: GROWTH_Dummy			
Treated	0.591	0.273	0.017
Control	0.629	0.357	0.018
<i>ATE</i>	-0.038**	-0.084**	-0.001*
Panel D: LEVERAGE_Dummy			
Treated	0.596	0.278	0.015
Control	0.613	0.313	0.017
<i>ATE</i>	-0.017*	-0.035*	-0.02**
Panel E: FIRM_SIZE_Dummy			
Treated	0.823	0.453	0.022
Control	0.532	0.222	0.014
<i>ATE</i>	0.291**	0.231**	0.008**
Number of observations	7,097	6,723	7,097

Notes: This table presents the propensity score matching analysis (PSM). The outcome variables are the dependent variables, as defined in subsection 5.3. Panel A reports the PSM results for high (treatment) and low (control) profitability groups. We estimated the propensity score (PS) as a logit function of firm age, growth, leverage, and firm size. Panel B reports the PSM results for old (treatment) and young (control) firm groups. We estimated the PS as a logit function of profitability, growth, leverage, and firm size. Panel C reports the PSM results for high (treatment) and low (control) growth groups. We estimated the PS as a logit function of profitability, firm age, leverage, and firm size. Panel D reports the PSM results for high (treatment) and low (control) leverage groups. We estimated the PS as a logit function of profitability, firm age, growth, and firm size. Panel E reports the PSM results for large (treatment) and small (control) size groups. We estimated the PS as a logit function of profitability, firm age, growth, and leverage. For all tests, we also did exact matching for industry and year. We set the maximum PSM difference between the two groups at the 1% level using the nearest-neighbor option. *ATE* refers to the average treatment effect on the treated group. ** and * denote statistical significance at the 1% and 5% levels.

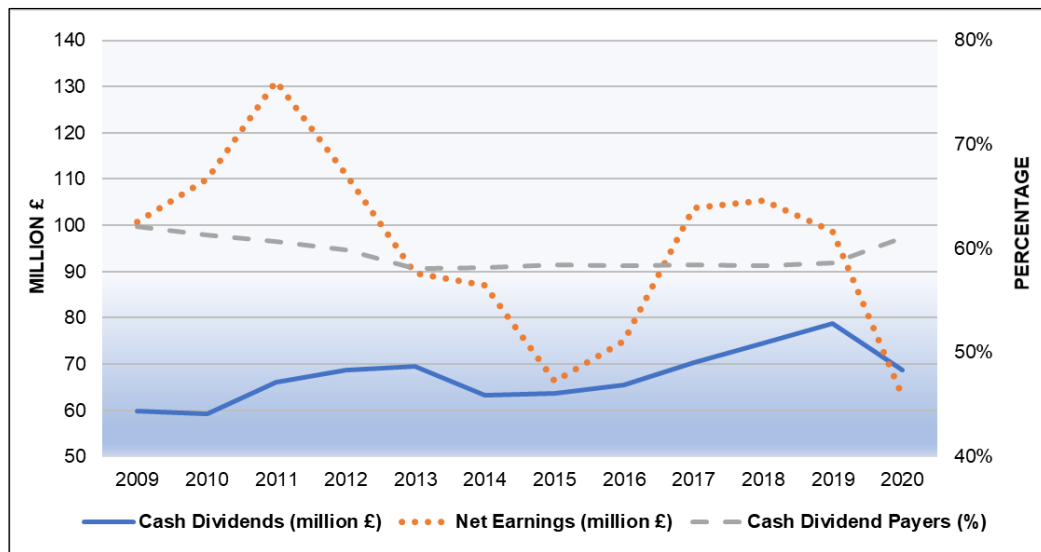
Table 14. Results of logit and Tobit models for dividend payment decisions by controlling for share repurchases' effect

Dependent variable:		DIV_PAY _{it}		DIV_POUT _{it}		DIV_YIELD _{it}	
Model		Model 1: Logit		Model 2: Tobit		Model 3: Tobit	
Independent variables	Hypothesized sign	Coefficient estimates	Marginal effects	Coefficient estimates	Marginal effects	Coefficient estimates	Marginal effects
ROA _{it-1}	(+)	6.613** (11.98)	1.645** (11.39)	3.604** (20.48)	0.834** (27.88)	0.162** (20.90)	0.041** (33.39)
FIRM_AGE _{it-1}	(+)	0.363** (9.51)	0.090** (9.61)	0.063** (5.11)	0.015** (5.05)	0.002** (3.79)	0.0004** (3.75)
GROWTH _{it-1}	(-)	-0.090** (-3.56)	-0.022** (-3.53)	-0.043** (-5.78)	-0.010** (-6.04)	-0.005** (-12.35)	-0.001** (-14.06)
LEVERAGE _{it-1}	(-)	-0.586* (-2.15)	-0.146* (-2.15)	-0.215* (-2.32)	-0.049* (-2.31)	-0.020** (-6.13)	-0.005** (-5.99)
FIRM_SIZE _{it-1}	(+)	0.623** (23.02)	0.154** (23.62)	0.154** (20.38)	0.036** (18.67)	0.006** (24.10)	0.002** (19.87)
REPURCHASE _{it-1}	(-)	0.245 (1.52)	0.061 (1.52)	-0.697 (-0.80)	-0.161 (-0.80)	0.015 (0.49)	0.004 (0.49)
INDUSTRY		YES	YES	YES	YES	YES	YES
YEAR		YES	YES	YES	YES	YES	YES
Constant		-6.313** (-16.32)		-1.928** (-14.08)		-0.059** (-13.58)	
Number of observations		7,097	7,097	6,723	6,723	7,097	7,097
Wald χ^2		127.93**					
F-test				54.65**		112.76**	
Pseudo R ²		51.19%		26.62%		52.85%	

Notes: This table reports the estimated logit/Tobit coefficients and marginal effects, with *t/z* statistics in parentheses. We used White's corrected heteroscedasticity robust regressions to test the models. REPURCHASE is the ratio of total shares repurchased to total assets (repurchases ratio). All other variables are the same as previously defined in Models (1)-(3). We lagged the independent variables for one year. ** and * denote statistical significance at the 1% and 5% levels.

Figure 1. Patterns of cash dividend payments and net earnings in the United Kingdom between 2009 and 2020

PANEL A. Propensity of dividend payers, aggregate cash dividends, and net earnings



PANEL B. Propensity of mean dividend per share, earnings per share, and dividend payout ratio

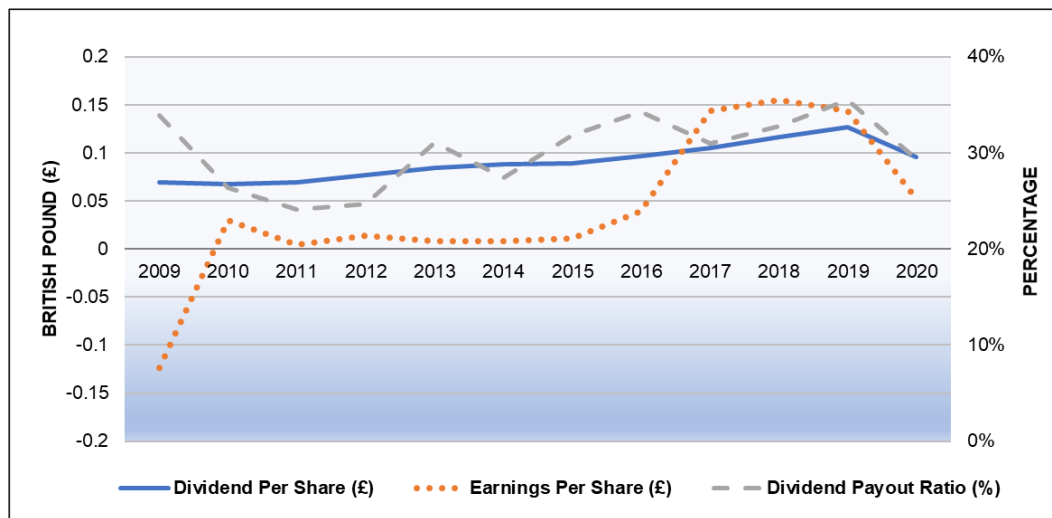
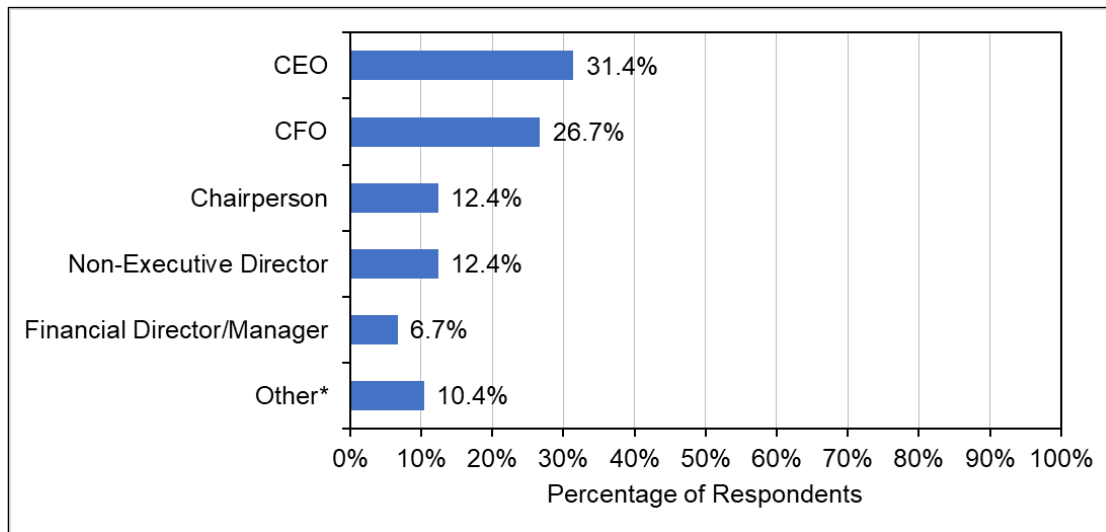
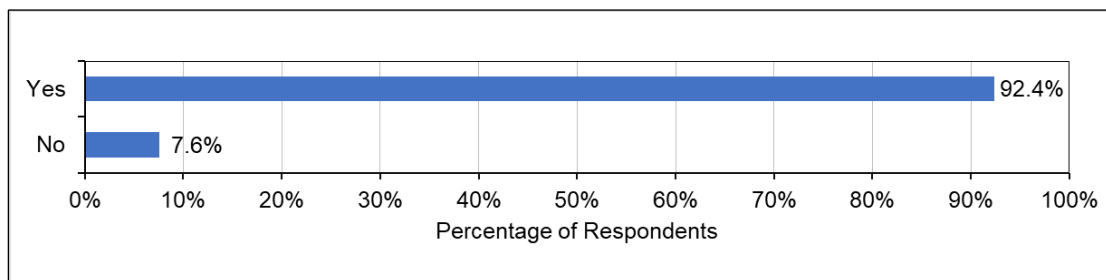


Figure 2. Profile of Respondents

PANEL A. What is your current position in the firm?



PANEL B. Are you actively involved in determining your firm's dividend policy?



PANEL C. Who is the most influential in developing the dividend policy ultimately approved by your board of directors?

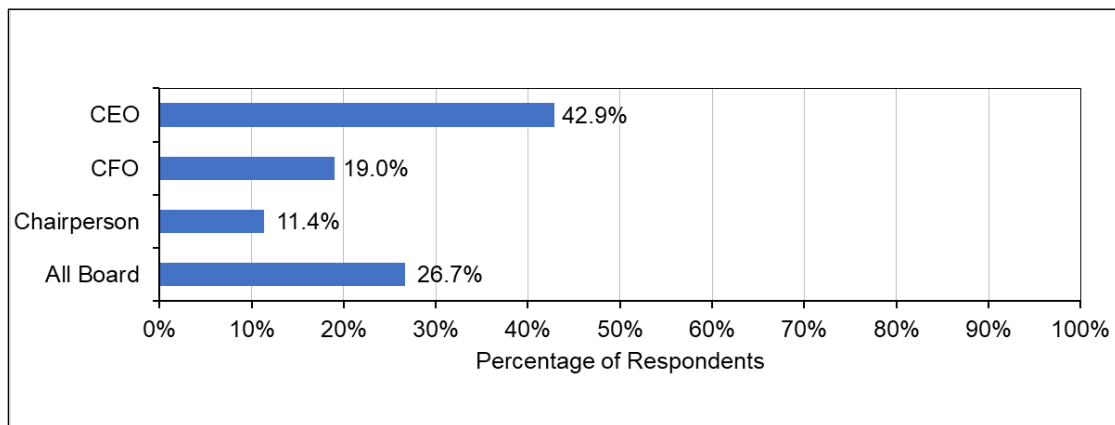
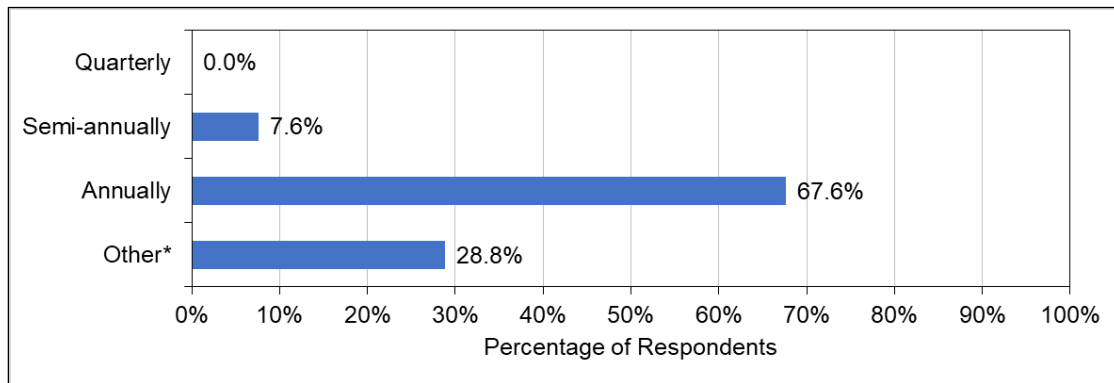
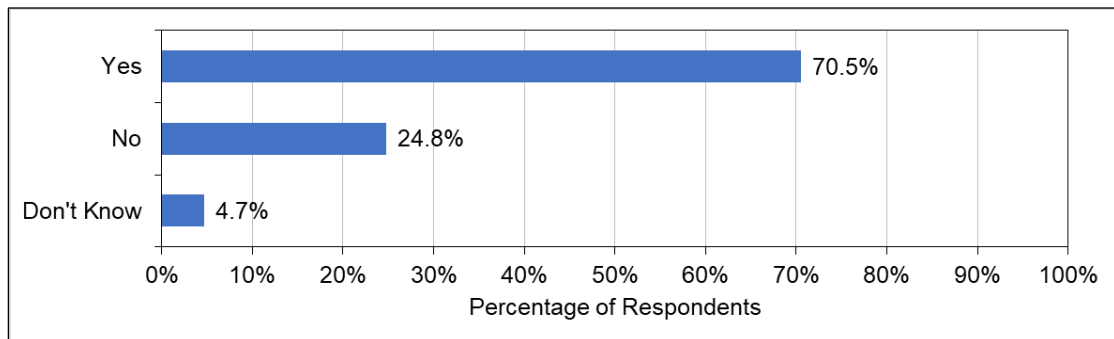


Figure 3. Background information on respondents' corporate dividend policy

PANEL A. How often does your firm re-examine its dividend policy?



PANEL B. Are shareholders informed that paying no regular cash dividends is a corporate policy?



PANEL C. If "Yes," please indicate how shareholders are informed about your firm's dividend policy.

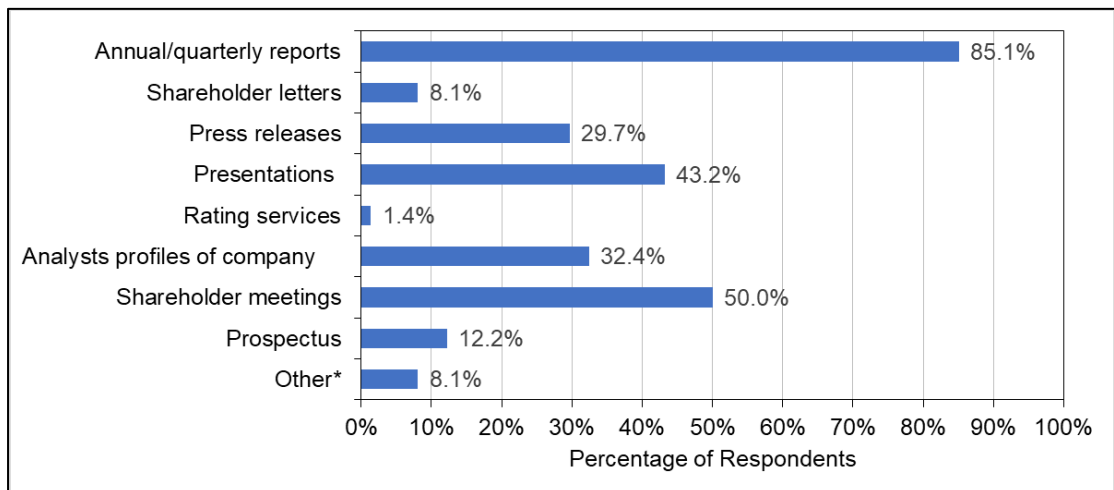
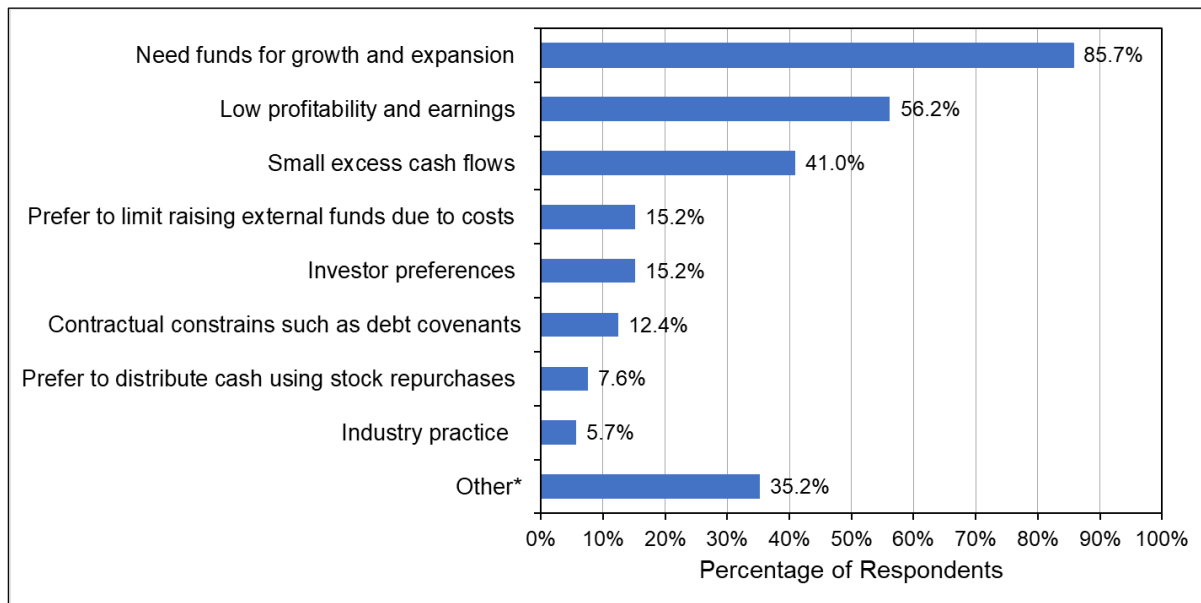


Figure 4. Reasons for firms not paying cash dividends



Notes: This figure shows the managers' responses of 105 non-dividend-paying LSE firms on the most important reasons their companies pay no dividends. The survey asks managers to select the three most important reasons for their firms. Hence, the percentages sum to more than 100% due to multiple responses. *Other includes such reasons as incurring losses from current and past years (accumulated losses), repaying debt and/or debt level, experiencing instability of financial condition, pension deficits, tax implications of the shareholders, negative reserves so not legally eligible, and earlier stages in the business life cycle (e.g., pre-revenue or growth phase).