Who Makes the Dividend Policy Decision and Their Motives for Doing So: An analysis based on a questionnaire survey of non-state-owned listed companies in China*

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Abstract

This paper analyzes the decision-making of dividend policy and the reasons for dividends policy selection in non-state-owned listed companies by using structural equation modeling. The main research findings are as follows: (1) the dividend policy of non-state-owned listed companies in China can be interpreted by the western agency theory for dividend, and we find that if compared with manager, owner is a more important variable that influence the dividend policy, (2) four motives such as investment opportunities, refinancing ability, stock price and potential repayment capacity are all important factors for decision-maker to determine the dividend policy. Among them, refinancing ability works more notably to the point, and earning level plays an unconsidered role.

Keywords: owner, manager, dividends policy, structural equation model

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Dividend policy is the core component of a firm's overall financial policy. It is comprised of a series of decisions regarding how the firms distribute profits to their shareholders and it mostly includes basic contents about the selection of dividend policy, dividend payout ratio and payout channel etc. Since the dividend policy determines whether distribute the earnings to shareholders or self-finance through retained earnings, so it is an important issue that receives more attention these days from both academics and practitioners. More generally, there are two research lines on dividend policy, one is on motives for dividend policy and the other is on the market reaction to dividend policy. This paper focuses on the dividend policy selection of non-state-owned listed companies in China, so it belongs to the first research line in fact.

Dividend policy selection is influenced by many factors such as earning level, share price and financial ability etc. Due to the significant asymmetric information and the agency problems on China's listed companies, dividend policy is influenced by more complex factors. By drawing lessons from foreign research reference, Chinese researchers study a lot on the subject of dividend motives and make gainful results, although along with many limitations. In generally, problems come from three sources: First, by particularly studying the commission-agency relationship between the controlling shareholders and outside shareholders, whereas overlooking the relationship between the shareholders and the managers meanwhile. As some researchers suppose, western agency theory for dividend fails to explain dividend distribution behaviors of listed companies in China. If from above one-side perspective, it must be a somewhat biased conclusion. Second, almost all researches are designed to use sole formal public data, and seldom of them based on firsthand questionnaire data. Third, as for research methodology, most Chinese researchers prefer to use multi-factors regression method, which is based on the hypothesis that there is not any accurate linear relationship among all independent variables. But quite a few of them blink that hypothesis and lead to unpersuasive results.

Aiming to resolve above three problems, we design our research in following way: first, we launch a questionnaire survey, and collect firsthand research data; next we test the multicollinearity of data; then we use structural equation method, which is the latest and new techniques of econometrics, to analyze our data; last but not the least, compare the influence degree that Chinese owners and managers of non-state-owned listed companies impose on the dividend policy, and summarize dividend policy motives.

The rest of paper is organized in the following manner. In section 1 we briefly survey the relative literatures, and put forward our propositions. In section 2 we design the research plan, including methodology choice, modeling design and variables specification. Section 3 presents questionnaire dissemination and sample characteristics. In section 4 we provide the fitted results of the model and the assessment of fit. Section 5 analyzes the results. Section 6 we summarize our findings and discuss limitations.

1. Background and propositions

Dividend policy has been an issue of interest in financial literature. Western corporate finance researchers study dividend policy dates from1950s, and their research is tending toward considerable perfection and mature now. Unlike western countries, in China there is an emerging stock market in his teens, which leads to the same research issues are quite different from those of the developed countries. As a matter of fact we surely lack applicable dividend theory suit for our Chinese realities. In order to resolve above research gap, according to our research plan, this paper will summarize previous research findings on dividend policy decision and its motives first, then put forward our hypotheses.

1.1 The degrees of influence that firm's owners and managers on dividend policy

In 1976, Jensen and Meckling publish an important theoretical article on corporate finance, "Theory of the

Firm: Managerial Behavior, Agency Costs and ownership structure", for the first time they import agency cost conception into corporate finance theory, and argue that the agency cost is a decreasing function according to the shares that managers own. [2] Extending this idea, Easterbrook（1984） proposes that dividend payout can reduce the agency cost. It is because if the firm keeps using capital markets as their major financing resource, then the agency cost problem that derived from owner's supervision cost on managers and the managers' risk-evading problem can be relatively improved in some extent. As a main measure that absorb firm finances its capital through financial market, dividend payout leads to decrease of the agency cost. [3] Subsequently, Jensen's (1986) free cash flow hypothesis implies that by reducing free cash flows available to managers through high dividends, and weakening managers' cash disposal right, owners will enhance managerial monitoring on managers' fanatical behaviors. Paying more dividends is absolutely an effective method to draws excess cash flow from firm. [4]

More recently, many Chinese researchers study the agency theory on China's listed companies. Yuan Hong-qi(2004) regards that western agency theory cannot explain the dividend policy of China's firm nowadays, it may be due to the great differences between ownership structure , governance structure ,market circumstances of listed companies in China and those in most western countries, moreover, in China there is no supplemental measures to resolve agency problems. On the contrary, it is just because the unresolved agency problems induce today's dividend policy in China. [5] Xiao Xing(2003)points out during a dynamic period in the transformation process when China's listed companies face to high uncertain circumstance, they have to make decision mostly on the grounds of short-term costs and profits, not on the principle of accumulation reputation which formed by multi-stage gambling structure. From this perspective, agency theory explanation for dividend is too weak to explain the cash dividend policy of listed companies in China [6]

In fact, if the shareholders assure that the managers are honest and selfless, and what managers do is only to achieve the maximization of shareholders value, then shareholders will be glad to commission all their decision rights without reserve to managers. But, as we learn from above literatures, due to the distinct difference between ownership and control right, there is no reason to believe that the managers will always keep maximization of shareholders value as their behavior principle. So when faced to important decision like dividend payout, the owners of firms intend to supervise the manager's behavior regardless of huge cost to ensure that managers are do what they want. [7] In the lights of above reasoning, we propose hypothesis 1:

H_1 In the process of dividend policy decision, shareholders impose more influence than managers do.

1.2 The motives for dividend policy selection

To find key motives for dividend policy selection, we have interacted dividend policy with the performance of the firm. According to the former results of our research team's and the findings of other's, we summarize four categorical factors, that is, investment opportunities, refinancing ability, stock price and potential repayment capacity, as dividend motives in this analysis. [8]

1.2.1 Investment opportunities

If discuss from the theory perspective, investment opportunities will directly influence the selection of the dividend policy. It is because when face several profitable investment opportunities, the firms will retain earnings for future investment use, whereas to the firms that lacks investment opportunities, they tend to pay cash dividends to investors. As Jensen and Meckling（1976） points out, in some specific circumstance where firm has more investment opportunities and relative uptight disposable cash flow, the shareholders incline to tolerate low dividend payout ratio. So they find a strong negative relationship between dividends and investment opportunities. [2] Masulis and Trueman（1986） also suggest that the firms, if possess lots of profitable opportunity, prefer to pay no dividend and make full use of retained earnings. For mature firms, whose investment opportunities cannot use up all retained earnings, incline to pay dividends. [9] Wei Gang and Jiang Yihong(2001),by using a questionnaire survey, study dividend distribution of China's listed companies and put forward following findings, that is, the

reason why listed companies pay no dividend lies in promising investment projects, not in free-floatshares holders' dislike cash dividend at all. [10] Hypothesis 2 summarizes above literature:

H_2 Investment opportunities is one of the important motives that influence dividend policy decision of non-state-owned listed companies.

1.2.2 Earning level

Dividend policy is actually a basic principle that balances earnings (after paying income tax and keeping back all kinds of reserve funds) distribution between shareholders and future investment. In theory, earning level should be the upper limit of the dividend payout. Baker (1985) launches a questionnaire survey in 318 listed companies listed in New York Stock Exchange, and demonstrates that to firms in manufacturing, retail & wholesale business and public service industry, the most important factor that influences dividend policy is the earning level of firms. [11]Lv Chang-jiang and Wang Ke-min(1999)study all 316 listed companies in China that paid cash dividends during 1997 and 1998 by using modified Linter dividend model, and suggest that the dividend payout ratio is due to the firm's current earning level and its changes. [12] Moreover, Chen Guo-hui and Zhao Chun-guang(2000),Yang Shu-e and Wang Yong et al(2000),Liu Shu-lian and Hu Yan-hong(2003),Liu Wen-jun and Zhao Ya-juan(2005) also come to above common understanding about dividend policy of listed companies in China. It is worthy to mention that Tang song-hua (2003), studies 215 firms listed in Shenzhen Stock Exchange and paid cash dividends in 2002, as a result, he finds that high dividend payout ratios are associated with low average earning per share (EPS), suggesting that in some extent the listed companies are not all keep the "the more earnings, the more dividends payout" principle. [13] To summarize, at present a majority of dividends research in China agree with the positive relationship between earning level and dividend payout, only few of them think above two are irrelevant things. Hypothesis 3 summarizes above analysis:

H_3 Earning level is one of the important motives that influence dividend policy decision of non-state-owned listed companies.

1.2.3 Refinancing ability

Issuing proper dividend policy is positive information that can help firm fosters a healthy image, it can also help firm adjust its financial indicators to meet the finance qualification that demanded by monitors, and thus the firm may acquire stable and constant ability to refinance. For example, In 2000 China's stock market come a new fact that attracts wide interests, i.e. the abnormal high cash dividend payout ratio. Wu Li-na and Gao Qiang et al (2003) point to particular reason for this new fact, by using sampling that comprising of all cash dividends payout listed companies in China's Shenzhen and Shanghai Stock Exchange during 2000 and 2001,they find that listed companies value the refinance qualification highly. As a matter of fact, the closer the firms' ROE near to the refinance qualification (6%, 7%), the more cash dividends are paid. [14] Shi Gui-feng and Ouyang Lingnan(2004) ,based on case analysis, set their study from a series finance decision such as paying high cash dividends and issuing convertible bond of Xining Special Steel. Focusing on deep study of high cash dividends and refinance behaviors, they find that through paying high cash dividends the firm adjusts its ROE to an appropriate level that monitors request to meet for issuing convertible bond, [15] Moreover, Kong Xiao-wen(2003),Xiao Xing(2003),Yuan Tian-rong and Su Hong-liang(2004) make somewhat similar conclusions. On above literatures, we propose hypothesis 4:

H_4 Refinancing ability is one of the important motives that influence dividend policy decision of non-state-owned listed companies.

1.2.4 Stock price

We note that just like appropriate stock price theory, poor stock price performance generally conveys negative information about firm's reputation, whereas steep prices harm the liquidity and transaction activities of the shares. So maintaining moderate share price is one of the motives for dividend policy decision. As Baker's（1985）

questionnaire survey on 318 listed companies in New York Stock Exchange shows, to maintain and improve share price is an important factor in dividend policy decision.[11] Chen Guo-hui and Zhao Chun-guang（2000）select all A shares listed before 1996 and paid dividend or transferred public fund into share capital in 1997 as their sampling, meanwhile, multifactor regression analysis, single-factor analysis, classification statistical analysis techniques have been employed to analysis the data. Their research documents a significant, positive stock price reaction to the cash dividend, stock dividend policy.[16] Zhao Chun-guang and Zhang Xue-li et al（2001）make an empirical research on A share listed companies listed in Shenzhen and Shanghai Stock Exchange before 2000,result demonstrates that the higher the stock price is, the more cash dividends are paid. In other words, due to the market competition, investors face an invariable dividend return ratio, whether they buy high price or low price shares. [17] On above literatures, we propose hypothesis 5:

H_5 stock price is one of the important motives that influence dividend policy decision of non-state-owned listed companies.

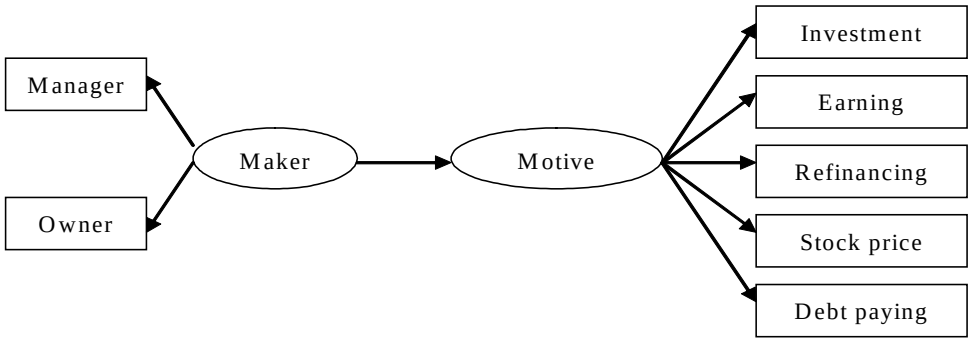
1.2.5 Potential repayment capacity

At present, most Chinese researchers agree that listed company's potential repayment capacity may influence dividend policy. Yuan Hong-qi(2001)points out that, under a severe finance environment, potential repayment capacity restrict the dividend policy through liquidity channels.[18] Lv Chang-jiang and Wang Ke-min(2002)study all 231 listed companies in China that paid cash dividends during 1997 and 1999, and find that among the listed companies in China, capital structure and dividend policy interact in a peculiar two-way cause - effect relationship method, that is, low potential repayment capacity leads to low dividend payment ratio, whereas high dividend payment ratio occurs with high potential repayment capacity.[19] On above literatures, we propose hypothesis 6:

H_6 potential repayment capacity is one of the important motives that influence dividend policy decision of non-state-owned listed companies.

1.3 The analytic model reflecting the influence degree that owners and managers on dividend policy motives

In order to illustrate a clear relationship among owners, managers and above motives of dividend policy, also to nail down our propositions provided beforehand, we portray complex relationship and research's conception model in figure 1.



2.Research design

2.1 Methodology

This paper mainly studies on dividend policy decision-makers and their motives, since only single indicator cannot directly measure these two items, so we need measures that dependent on multiple indicators. Cause the traditional econometric methods cannot study the relation among multi-factors, which are expressed by multiple variables. So we use structural equation modeling to explore our study.

Structural equation modeling, one of the most important integrated modeling methods in western quantitative

economics, combines the path analysis and factor analysis effectively. By transforming the causality in a series of target variables into integrated and statistics-reliant hypothesis, it can reflect the direct and indirect influence degree of reliability of dependent variables on explanatory variables (observed variable and latent variable). Compared with the traditional simultaneous equations, structural equations are tolerant of variables' measurement errors, and try to correct for the biases arising from those errors. This appealing attribute makes structural equation model more popular than other models.

2.2 Definition and expression on variables

To meet with our research purpose, we've explained and expressed all variables in Table 1 according to the requirement of structural equation modeling.

Table 1 The definition of variables

Variable Type		Variable Symbol	Definition and Expression
Latent variables	Exogenous latent variable (ξ)	Maker (ξ_1)	Dividend policy decision-maker
	Endogenous latent variable (η)	Motive (η_1)	The motives of dividend policy choice
Observed variables	Exogenous observed variables (X)	Chairman (X_1)	The chairman of board
		Manager (X_2)	The general manager
	Endogenous observed variables (Y)	Investment (Y_1)	Investment opportunity
		Earning (Y_2)	Earning level
		Financing (Y_3)	Refinancing ability
		Stock (Y_4)	Share price
		Liability (Y_5)	Potential repayment capacity

2.3 The form of the model

According to the analytic model provided in Figure 1 and the specified variables offered in Table 1, we choose multi-parameters casual pattern to model the structural equation that indicates the influence degree that owners and managers exert on dividend policy determinants. Among following three equations, (1) and (2) is the measurement equations and (3) is the structure equation of the model.

$$Y = \Lambda_Y \eta + \varepsilon \tag{1}$$

$$X = \Lambda_X \xi + \delta \tag{2}$$

$$\eta = B\eta + \Gamma\xi + \zeta \tag{3}$$

Where B is the commutative influence effect coefficient among latent endogenous latent variables, Γ is the effect coefficient that exogenous latent variables influence endogenous latent variables, ε , δ and ζ are the residue vector for Y , X and η respectively.

To be more specific form, the equation (1)，(2) and (3) can be expressed as follows:

$$\begin{bmatrix} y_1 \\ y_2 \\ y_3 \\ y_4 \\ y_5 \end{bmatrix} = \begin{bmatrix} 1 \\ \lambda_{21}^{y} \\ \lambda_{31}^{y} \\ \lambda_{41}^{y} \\ \lambda_{51}^{y} \end{bmatrix} [\eta_1] + \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \varepsilon_3 \\ \varepsilon_4 \\ \varepsilon_5 \end{bmatrix} \quad \text{(1b)} \quad ; \quad \begin{bmatrix} x_1 \\ x_2 \end{bmatrix} = \begin{bmatrix} 1 \\ \lambda_{21}^{x} \end{bmatrix} [\xi_1] + \begin{bmatrix} \delta_1 \\ \delta_2 \end{bmatrix} \quad \text{(2b)}$$

$$[\eta_1] = [0][\eta_1] + [\gamma_{11}][\xi_1] + [\zeta_1] \quad \text{(3b)}$$

3. Questionnaire Dissemination and sample description

3.1 Questionnaire dissemination and collection

All data in this paper are obtained from the questionnaire survey of key project, A Study on Investment and Financing of China's Enterprises (2003—2006), which is funded by the Natural Science Fund of China (NSFC). We started the research program in January 2003. The fundamental work in the research program is to describe the reality of the investment and financing of China's enterprises. We first surveyed a number of senior managers of large-sized enterprises in Henan Province, Shandong Province, and Tianjin Municipality with the very draft questionnaire, making trial fill-ins and asking for their advices. Then we amended the questionnaire according to the information from the trial fill-ins and reference to others' research[①]. The second draft version was done in May 2003. We finalized the questionnaire in July 2003, after seeking advices on the new draft from experts of marketing and statistics and more than 20 times of trial fill-ins and amendments.

The questionnaire is divided into four parts: Financing decision process, investment decision process, organizational environment of investment and financing decisions, and general data of company and information about general manager. The data in this paper are from two parts, which is investment decision process and organizational environment of investment and financing decisions. The subjects to whom we sent questionnaire are general managers, CFOs, or other senior managers. We believe that anonymity in fill-ins will increase the feedback rate and reliability; therefore, fill-in of items, such as name of companies and other registration information, solely depends on correspondents' free will.

We disseminated the questionnaires through ways of random sampling and snowball sampling. We have distributed since July 2003, 1224 questionnaires to listed companies and 3100 to non-listed ones by E-mail, regular mailing or in other ways. The non-listed companies are randomly selected according to their region, industry and size. The questionnaire distributed was totaled 4324.

By December 2003, there were 691 feedbacks. After we deleted some insufficient ones, the valid ones are totaled 670, rating 15.5%, covering 23 provinces, or municipalities (directly governed under the Central Government) and autonomous regions.

3.2 Sample Characteristics

3.2.1 Sample number testing

Among our valid feedback questionnaires, there are 69 non-state-owned companies that meet our requirements. Structure equation modeling is a large sample statistics method, which has no unified definition about large sample yet. Bentler and Chou suggest that the ratio of sample number to estimative parameters should be between 5:1 and 10:1. [20] There are 13 estimative parameters in our non-state-owned companies dividend decision model, and different sample's moment number is 7×(7+1)/2=28,so the degrees of freedom is 28-13=15.Now we can get the ratio of sample number to estimative parameters is 69:13,just between 5:1 and 10:1,so our sample number is tested to be fitting.

3.2.2The correlation between observed variables

Variables multicollinearity will influence the test of structure equation modeling results, so in order to avoid the severe multicollinearity exist in our observed variables, we must first test the correlation between each variables. Considering routine methods such as VIF cannot test correlation of observed variables that are absolutely in different groups, we choose correlation coefficient matrix measure to determine the specific correlation of our model. The test results are as following:

[①] Recanatini, Wallsten and Xu li-xin(2002)summarize the experiences and lessons on question design of all past firms questionnaire survey that sponsored by World bank , it is really a cherish help for us.

Figure 2 Correlation coefficient matrix of Endogenous observed variables

Observed variables	Y_1	Y_2	Y_3	Y_4	Y_5
Y_1	1.00	0.17	0.35	0.09	0.23
Y_2	0.17	1.00	0.10	-0.01	0.20
Y_3	0.35	0.10	1.00	0.22	0.23
Y_4	0.09	-0.01	0.22	1.00	0.43
Y_5	0.23	0.20	0.23	0.43	1.00

Figure 3 Correlation coefficient matrix of exogenous observed variables

Observed variables	X_1	X_2
X_1	1.00	0.39
X_2	0.39	1.00

According to above figures, the correlation coefficient between each observed variables is range from 0.01 to 0.43,all far less than 0.8 limits. Thus means if we analysis those all variables in very one multi-parameters casual pattern structure equation modeling, there will not cause severe multicollinearity problem. [21] On the ground of above test, we assume that sample meet our research demand.

3.2.3 General manager's shareholding information

Among the information we collected from the 69 non-state-owned listed companies, we pay more attention on general manager's shareholding proportion. For it directly determines the suitability of our suggested hypothesis: what the general manager does is just the managerial behavior, rather than the direct behavior of shareholder. In our sample, 60 non-state-owned listed companies seriously fill the relative item *General Manager Shareholding Proportion*. Among them, 26 general managers, with the proportion of 43.3%, do not posses any share of their own firms, 20 general managers keep firm shares no less than 2% of total shares. Therefore, in sum, 76.6% of all general managers keep less than 2% shareholding. We can infer that the samples support our suggested hypothesis, and then meet our research demand.

3.2.4 Other information about sample

In terms of Industry of 69 sample firms, a majority of them are manufacture, real estate and information industry, with the proportion of 72.5%, 14.5% and 10.1% respectively, and more than 20% of them operate across industries. Regarding the size of the firms[②], among 50 firms that fill the item of Sales Revenue, 62% of them have a sale of more than 300 millions Yuan (RMB, the residual are in the same unit), 34% of them are with sales between 30 millions and 300 millions, only 4% of them with sales less than 30 millions. 66 firms out of 69 sample firms give replies to the item of *Employee Numbers*, there're 15.2% firms with employee numbers less than 600, 42.4% firms with employees between 600 to 2000, 42.4% firms have more than 2001 employees. 62 out of the total listed companies responds to the question about *Total Asset*, 83.9% of which have total asset worth more than 400 millions Yuan, 14.5% with asset worth between 40 millions and 400 millions, 1.6% worth less than 40 millions.

4. Fitted Results of the Model and Assessment of Fit

4.1 Fitted results of the model

To process data, we use LISREL8.7 software to compile program, then use maximum likelihood method (ML) to estimate parameters iteration, results are as following figure.

[②]In order to define firms scale in this paper, we cite the relative criterions that publish in "The statistic method for classify big, moderate and small enterprise (provisional)" by National Statistics Bureau in 2003.

Figure 4 fitting results of model

Hypothesis	Standard path coefficient	T value	Results
Maker ——> Chairman Maker ——> Manager	0.89 0.51	3.80*** 3.05***	Support H_1
Maker ——> Investment	0.28	2.19**	Support H_2
Maker ——> Earning	0.11	1.50	Deny H_3
Maker ——> Financing	0.37	2.56**	Support H_4
Maker ——> Stock	0.24	1.95*	Support H_5
Maker ——> Liability	0.21	2.05**	Support H_6

Note: *** Significant at the 1% level; ** Significant at the 5% level. * Significant at the 10% level

From the results given in Figure 4,we find that statistics results support almost all propositions except H_3.

4.2 Assessment of fit

In order to assess the difference between structural equation model and the original data in questionnaire, we give the goodness of fit statistics as table 5.

Table 5 Goodness of Fit Statistics

Fit Index	χ^2 ratio	GFI	AGFI	RMSEA	IFI
Fit value	1.47	0.93	0.84	0.08	0.86
Explanation	Ideal $1<\chi^2$ratio<3	Ideal GFI>0.9	Generic Near to 0.9	Ideal RMSEA<0.1	Generic Near to 0.9

Note：We draw the table by compiling output results of Lisrel8.70.

Table 5 conveys the information that, the structural equation model, which we design to reflect the influence degree that owners and managers of non-state-owned companies impose on dividend policy motives, is an ideal one and can effectively explain the original data in questionnaire.

5.Analysis on Model Results

5.1 The comparison of dividend policy reaction to owners and managers behavior of non-state-owned listed companies

As the agency theory for dividend assume, paying dividend play an obvious role in reducing agency costs that arising from the owner-manager conflict, so owners should have more influence to dividend policy than managers do. But from the literatures we had reviewed, in recent years, a majority of Chinese researchers demonstrate that western agency theory for dividend can't explain the dividend distribute behavior of listed companies in China.

On the contrary, our result supports western agency theory for dividend and contradicts to the former Chinese research meanwhile. How is it happened? We think, this is due to our quite different research objects, which is absolutely not the same one as former research. For the majority of former research, the data used in analysis consists of all listed companies, which largely composed by state-owned companies, but we only focus on non-state-owned listed companies. In China, from a traditional perspective and in the final analysis, all the assets ownership of state-owned companies belongs to Chinese laboring people as a whole. As for government and company managerial level, they are only the agencies of certain links on mandatory administration chain, let alone the owners of remaining earnings. On the other hand, the real owners of state-owned companies-whole Chinese people-cannot directly manage and make decisions of their own companies. Compared with state-owned listed companies, non-state-owned listed companies have clearly established ownership, thus avoid the owner absence problem that peculiar in state-owned listed companies. The investors are the owners of companies and remaining earnings, then it quite nature to make decisions on companies operation and management. In the light of this fact, the nature of non-state-owned listed companies in China is somewhat consistent with that of western listed companies. On the ground of above understanding, we have reason to believe that the behaviors of owners and

managers in non-state-owned listed companies match with the research paradigm that nowadays western corporation finance mainstream working for, and our empirical results also verify our hypothesis.

5.2 The motives for non-state-owned companies dividend policy selection

5.2.1 Refinancing ability is the most important motive for making dividend policy decision

This result seems to beyond our expectation, but it is really an appropriate interpretation to the question in fact. It's certain that every effect must have its cause, and here we present following three to support above idea. First, analyze from the perspective of retained earning financing, in generally, almost all non-state-owned listed companies face the fact of severe capital shortage. Song Xian-zhong et al (2003) document that private listed companies' operating activities cash flow cannot meet the demand of investment capital expenditure absolutely. [22] Second, regarding to the debt financing, under current bank system in China with a state-owned base, non-state-owned listed companies face a relative narrow finance channel, whereas State-owned companies are more easy to accumulate assets through debt financing. Third, in the eyes of equity financing, China Securities Regulatory Commission has issue a series of policies that correlate the cash dividend payout with refinance qualification③. And they also demand when pay stock dividends and issue new shares, listed companies must meet the ideal ROE qualification, so it is become an common understanding to non-state-owned listed companies to adjust the ROE by paying cash dividends. We can learn from above reasoning that it is just because the financing difficulties that China's non-state-owned listed companies faced, they have turn to achieve refinance opportunities by planning their dividend policy. So refinancing ability is the most important motive for non-state-owned listed companies making dividend policy decision.

5.2.2 Investment opportunities, potential repayment capacity and stock price also influence dividend policy considerably

In fact, investment opportunities and financial ability are two facets to same question, that is, investment opportunities determine the finance decisions, and in reverse, financing ability can influence the investment decision. The Myers and Majluf's（1984）pecking order theory predicts firms first choose interior capital to meet financing demand. [23] So the more the investment opportunities are, the less probability for high cash dividend is, and vice versa.

In the last few years, along with the deepening reform of China's financial system, all commercial banks strengthened the monitoring and control of their interior risk, for example, using five-category assets classification for bank loans. And they also make more strict examination on loans application and repaying. On the other hand, state-owned listed companies and state-owned commercial banks, which play significant major role on commercial bank system, are all state-owned in nature, thus implies somewhat soft constraint to the obligation for debt repaying. In the meanwhile, repaying debt obligation is a hard constraint completely to non-state-owned

③In 2000, China Securities Regulatory Commission introduce a series of new regulations on stock dividend and shares issue, which demand that the listed companies must pay cash dividends in latest three years, or they will lose qualification of shares allotment and issuing new shares.

In march 2001, China Securities Regulatory Commission stipulate in "The Regulation on Issuing New Shares of Listed Companies" that the major stock sale agent should particularly concern on some special affairs and must record them on duty investigation report. Among those affairs, item (7) note a special circumstance that the listed companies pay no cash dividend in latest three years and the board of directors did not present any reasonable cause for no distribution meanwhile.

In may 2001, "The Directions on Approval of New Shares Issue Behavior of Listed Companies" is drawn up by China Securities Regulatory Commission, it demands that: "when review the new shares issue application of listed companies, the approval committee must highlight some special problems, and the principle of their work must lie in whether there are such problems or whether the problems essentially influence the issuing of new shares or not. Among those problems: item (4) is according to the distribution of listed companies, it demands that the approvers should check the cash dividend payout and interest payment behaviors of listed companies in latest three years, especial for the ratio of cash dividend to distributable earnings and the board's reasons for pay no cash dividend. "

listed companies, there is beyond discussion to repay debt. Therefore, when making dividends policy decisions, non-state-owned listed companies must pay more attention to the ability of debt paying, and should think carefully about the probability of deterioration of financial condition as a result of dividend paying.

Unlike the state-owned listed companies, non-state-owned listed companies face relatively light "controlling equity "problem, they are more concerned with free-floatshares benefits than state-owned listed companies are. In generally, free-floatshares holders benefit through two channels: dividends paying and gain of capital. High dividend payout ratio can directly influence their dividends yields level on one hand, and more important, it may induce stock price change, thus bring capital gain yields for free-floatshares on the other hand. So the company stock price is also an important consideration when non-state-owned listed companies make dividend decision.

5.2.3 Earning level is not the important motive that influence dividend policy

We suggest several reasons why earning level is almost irrelative to dividend policy. First, as mentioned above, for a long time our security regulatory policies unite the dividend payout and refinance qualification, which is very important for non-state-owned listed companies. Furthermore, due to the difficulties in debt financing and inspired by short-term benefits, non-state-owned listed companies prefer to issue dividend policy only to achieve refinance qualification without considering with actual earning level. Second, based on the signaling theory of dividend, dividend payout reflects the operation situation information about the firms. So when some non-state-owned listed companies with high earnings pay relatively more dividends, the low earnings ones, on the other hand, in order to remain their investors, may also increase their dividends payout ratio. Thus, to some extent, our non-state-owned listed companies do not keep to "the more earnings, the more dividends" dividend principle, earning level is irrelative to dividend policy selection.

6.Conclusions and limitations

Based on above reasoning, we draw following brief conclusions: (1) western agency theory for dividend is applicable for non-state-owned listed companies in China, the owners impose greater influence on dividend policy than the managers do, (2) four motives such as investment opportunities, refinancing ability, stock price and potential repayment capacity are all important factors for decision-maker to determine the dividend policy. Among them, refinancing ability motive works more notably to the point. And earning level plays an unconsidered role.

This paper based on questionnaire survey, which remarkably differ from research on the real field, so we face the exterior validity problem. For example, the measure of questionnaire items may be affected certainly for the different points of view and various management levels. Moreover, China's stock market is an emerging one in its teens, which is characteristic by dynamic changes of institutional structure. To a great extent, a majority of motives for listed companies dividend policy selection are the creatures of the relative regulations and codes, which we are not mentioned here, so it remains much unexplored issues to research.

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