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Peers' Influence Matters: Evidence from Corporate Dividend Policy Decisions

Muhammad Mudassar Anwar[1] , Filza Hameed[2] , Mubashar Hassan Zia[3*]

[1] Assistant Professor, Department of Commerce, University of Kotli Azad Jammu and Kashmir, Pakistan

[2] Assistant Professor, Department of Business Administration, University of Kotli Azad Jammu and Kashmir, Pakistan

[3] Assistant Professor, Department of Business Administration, Allama Iqbal Open University, Islamabad, Pakistan

Abstract: Peer effect impacts financial decision making. Seeing that, the current study investigates the impact of peers' while deciding about dividend policy. For this purpose, two sets such as firm specific as well peer firms' specific characteristics (independent variables) used. The current study utilized OLS regression fixed effect model. To check correlated effect the study used two vital macro-economic variables stock market return as well interest rate. The results of the study revealed significant contributions of peers while determining firm's dividend policy decisions. The current study results too confirmed the impact of peers' on firm's dividend policy in the context of Pakistan. Limitations as well future directions are discussed.

Keywords: Peer Effect, Reflection Problem, Stock Market, Dividend.

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INTRODUCTION

Peer effect can be said as a change that is caused in an individual's behavior which is largely because of its peers. The influence peers' have on one another is attractive as it directly impacts each other. People prefer to choose keeping in view what others' (who are around them) choose: they wear what is in fashion, they buy what others' buy, and they do what others' do etc. In short, people are always motivated by the concerns of others' and this causes them to imitate and follow them. Peer effect has been extensively researched by social psychologists' who documented "imitation" as an imperative tool for human society. Since human nature is to follow the paths which are made by others and advance their affairs through imitation. It means that peers can be considered as one of the most powerful societal force affecting teenager's behavior concerning life style, fashion, music, leisure activities etc (Brechwald & Prinstein, 2011).

Empirical evidence provided by Clark & Loheac, (2007) too asserted peers' influence individuals' behavior. Instead of relying on one's own abilities they choose to be followers. People have belief that asset which is owned and decision which is taken by others' is of real worth which is referred to as social learning. People imitate on the belief that peer's have superior information than they have to take decisions (Bikhchandani et al., 1992). Different empirical studies tested the effect of peers in various fields. However, in past few years economists' attempted on their part to analyze peer effect in financial decision making. From the perspective of corporate world understanding this observable fact is important as firms' constitute financial markets. And financial decisions are of utmost importance as it influences an economy's growth and expansion. Extensive literature supported and documented the significance of utilizing peers' information as well decisions in making own financial policy decisions.

Despite peer effect's importance in corporate decision making it is tricky to identify peer effect due to reflection problem (Manski, 1993). Reflection problem makes it hard to find that change in a firm's behavior is because of actions or characteristics of its peers'. So, three effects identified by Manski (1993) needs to be understood. First is endogenous effect where change in a firm's behavior is because of actions of its peers'. Second is exogenous

*Corresponding author: Mubashar Hassan Zia
†Email: mubashar.hassan@aiou.edu.pk

(contextual) effect where change in a firm's behavior is because of peer firms' characteristics. And lastly is correlated effects where change in external environment compels firms as well industry to adjust their financial policies accordingly.

Various studies stressed on the important role of peers' while devising corporate policies. In this regard, Fracassi, (2016) confirmed that socially connected firms' take almost similar type of decisions relating to investment. Moreover, Foucault & Fresard (2014) too asserted that peers' valuation helps in determining rivals' investment decisions. Furthermore, empirical evidence supported this version that while determining firms' capital structure, average leverage ratios of industry matters (Frank & Goyal, 2009; MacKay & Phillips, 2005). In the similar line, Leary & Roberts, (2014) depicted that peers' usually have same type corporate policies. Additionally, Patnam (2011) determined a positive connection between peers' and investment strategy as well as executive compensation. Furthermore, Tom & Walter, (2011) recommended that within an industry the firms' dividend policies are most likely to converge. Accordingly corporate managers adopt mimicking behavior to serve them best regarding financial decisions.

In summary, peer effect has been critically examined in numerous fields like social psychology and economics. Different empirical studies tested the effect of peers in the field of education, crime, socio-economic outcomes, workplace etc. Since last decade this newly developed concept "peer effect" has gained attention of researchers' in the field of finance. As there exist number of theoretically significant relationships that needs to be explored. Thus this study is going to examine a comprehensive empirical analysis to inspect the impact of peer group on firms' dividend policies in the context of Pakistan.

LITERATURE REVIEW

Peer Effect

Soon after the Coleman et al., (1966) influential report relating to peer effect, researchers' extensively analyzed it in different disciplines like education, sociology and economics (Van Ewijk & Sleegers, 2010). Different terminologies have been used to describe peer effect. For instance, peer effect/peer group effect is used in economics, compositional effect or aggregated group-level effect is used in social sciences (Hutchison, 2003; Van Damme et al., 2002; Zimmer & Toma, 2000). Peer effect can be called as a change that is caused in an individual's behavior which is largely because of its peers. Peer effect can be wide-range of externalities that takes place when behavior of the firms' is influenced by either behavior or characteristics of chosen group (Patnam, 2011). Moreover, once firms' financing objective function openly influenced by peer firms actions or characteristics, those firms has peer effect on them (Leary & Roberts, 2014). Seeing the importance of peer effect, economists' put forth efforts to investigate its impact on financial policy decision making.

In this similar vein, researchers' highlighted two most important reasons concerning corporate managers' mimicking behavior that is desirability of information as well competitive pressures (Lieberman & Asaba, 2006). Since, acquiring sufficient, right as well relevant information carries huge time and cost. In addition to this, it helps to mitigate competitive pressures. When firms have comparable resources as well market position then competition can be very tough which may erode prices and profits (Peteraf, 1993). To eliminate such situation, firms can go for choosing homogenous or differentiation strategies (Baum & Haveman, 1997; Gimeno & Chen, 1998). As differentiation carries huge cost so it is difficult as well risky to pursue this strategy. Therefore, firms choose to follow homogenous strategies of those of their rivals to lessen the level of competition.

Dividend Policy

In recent times, dividend policy became one of the major corporate finance decisions. Dividend is the portion of profit which is distributed to shareholders'. Board of directors decides about the amount to be paid to the shareholders' depending upon either firm's policy to pay dividend on quarterly, semi-annually or annually basis. Fifty years back, Miller & Modigliani proposed the theory of dividend irrelevance which entails that under specific conditions there is no correlation between dividend payment and rise in stock prices (Miller & Modigliani, 1961).

Prior to dividend irrelevance theory, it was generally assumed that increase in dividend payment helps in making shareholders wealthier as the uncertainty related with future cash flows can thus be reduced by them. Miller & Modigliani (1961) on the basis of their perfect market assumptions revealed that capital gains plus dividend are ideal alternative. Therefore, investors' need not to be responsive to dividend payment policies as they can make

homemade dividends by amending their portfolios in conformity with their preferences. So, in perfect market, dividend policies are unimportant as well as irrelevant.

Later research studies by relaxing perfect market assumptions focused on how real world problems as well as consequential market imperfections can make dividend payment decisions related to firm value. A wide range of theoretical explanations concerning dividend payment relevancy has been made, however, empirical evidence provided by Frankfurter & Wood (2002), suggested that no dividend payment model individually or jointly got consistent support.

Determinants of dividend policy :

Profitability : Numerous empirical studies considered profitability as one of the major determinant of dividend payment (DeAngelo, DeAngelo & Skinner, 2004; Yegon, Cheruiyot & Sang, 2014). Fama & French (2001) asserted that higher profitable firms' also have higher inclination to pay dividends. Research from emerging nations (markets) also provides evidences in the support of profitability as most significant component in determining dividend payment. In this connection, for example, Adaoglu (2000) carried out a research in Turkey and concluded that dividend decisions largely base on firms' earnings (profitability).

Growth : Growth has been extensively used in the financial literature as a proxy to measure dividend policy (Deshmukh, 2003). As firms' grow their opportunities relating to investment shrink, therefore, firms' have more cash flows to pay dividends. Porta et al., (1999) investigation revealed that in countries where shareholders' are legally protected, fast growing firms pays lesser dividends. Contrarily, in countries where shareholders' have low legal protection, firms gives higher dividend in order to make and sustain good name of them to capture best investment opportunities.

Risk : In several studies risk has been also taken into account to decide about dividend payment policy. Numerous empirical studies measured its relation with dividend indicating a negative connection between them. For instance, Grullon, Michaelly & Swaminathan, (2002) affirmed that firms' who face lower risks gives higher dividends. In addition to this, Lie, (2005) evidenced that less fluctuation in operating cash flow results in higher payment of dividends. Moreover, Moreiras, Tambosi Filho & Garcia, (2012) investigated the relation between income and dividend distribution and found that changes in income (profitability) due to uncertainty is negatively related to the distribution of dividend.

Leverage : Various empirical studies found leverage to have impact on dividend payment policy. On one hand, firms' with huge free cash flow have greater tendency to give dividends and on other hand, firms' with huge leverage have less tendency to give dividends. Therefore, such firms do not prefer to borrow from external sources to increase their debt financing rather invest more to increase their equity financing (Benito & Young, 2001). As higher retention rate leads to lower down dividend payments (Friend & Puckett, (1964).

Free cash flow : Free cash flow is another important determinant of dividend payment policy as researchers' provided positive as well as negative relation of free cash flow with dividend policy. For instance, La Porta et al., (2000) found that firms who have more "free cash flow" gives more dividends thus reducing agency cost associated with free cash flow. Moreover, they argued that free cash flow compels managers to engage in wasteful activities thus speculating a positive connection between them. Moreover, Ben Naceur, Goaied & Belanes, (2006) found that highly profitable firms who have more constant earnings have the ability to manage larger cash flows consequently pay more dividends.

Peer Effect and Dividend Policy

Peer effects' theoretical models confirmed the existence of peer effects. A sequential decision model which was proposed by Banerjee, (1992) affirmed that every decision maker in order to make his/her own decision imitate the previous decision maker. This optimizes the level of decisions they make. Prior study of Linter (1956) in which he interviewed 28 CEOs led him to conclude that managers' in order to determine and adjust payout ratios follow their peers'. So peer effect is one of the most important determinants of dividend payment policy. Banerjee (1992) argued that optimal dividend policy of the firm does not solely depends on private information owned by a manager rather it depends upon decisions taken by their peers.

DeMarzo, Vayanos & Zwiebel (2003) declared peer effect as rational determinant of dividend policy. According to them, observation of peers' decisions escort managers' to know best policy for their firms'. Moreover, Caneghem & Aerts, (2011) advocated that dividend policies within an industry are more likely to be similar of those of their

peers. Thus, firms' choice of dividend policy concerning when and how much dividend should be paid depends largely on peers' decisions. On the basis of aforementioned evidences we may hypothesize that:
$\mathbf{H}_1$: There is impact of peers' on firms' dividend policy.

DATA DESCRIPTION

Population and Sample of the Study

Non-financial sector of Pakistan was taken as population of the current study. Regarding data concerning dividend policies, it was obtained for period of 2005-2015 from annual audited published reports. For this purpose Karachi Stock Exchange website was accessed to get market data regarding stock price and market index from period 2005-2015.

The current study inspected the effect of peers' on financial decisions mainly on dividend policies of the firms'; hence the sampling frame was targeted to only non-financial industries. This study utilized data of 22 non-financial sectors' listed on Karachi stock exchange from 2005-2015, so sample comprised of those 22 non-financial sectors' comprising 313 firms. In order to determine accurate as well as appropriate number of sample for the study, non-probability sampling technique was used.

Econometric Model

Model selection :The current study examined the impact of peer firms' on corporate dividend policies conducting regression analysis using OLS. To make the choice between appropriateness of using fixed effect model or random effect model, the study conducted Hausman Test by testing the following hypotheses:
$\mathbf{H}_0$: Random effects are consistent and efficient.
$\mathbf{H}_1$: Random effects are inconsistence. The results of current study revealed significant p-value thus rejecting null hypothesis consequently utilized fixed effect model for further analysis.
Macro-economic Factors to Address Correlated Effects : Numerous macro-economic factors can impact corporate financial decisions. Past research studies too confirmed significant role of macro-economic factors while devising corporate financial policies (Chen et al., 2005; Eldomiaty & Tarek, 2007; Ofori-Sasu et al., 2017) mainly dividend policies of the firms. From several macro-economic factors the current study utilized two key indicators "interest rate and stock market return" which were found to have significant impact.
Baseline Empirical Model Peer Effect on Dividend Policy :

$Dividendijt = \beta 0 + \beta 1 PDiv - ijt + \beta 2 FirmSpecificFactorsijt - 1 + \beta 3 PeerFirmFactors - ijt - 1 + \beta 4$ S M-1+$\beta 5$ I R-1+$YearFixedEffect$t+$IndustryFixedEffect$j+$ErrorTerm$

Where Dividend $_{ij}$t is firm's dividend for a current year, measured as Dividend Payout Ratio. Where subscripts ijt correspond to firm, industry and year, respectively. PDiv $-_{ij}$t is average of peer firms' dividend, excluding firm i, from industry j, at year t. Firm Specific Factors $_{ij}$t-1 are firm-specific characteristics of previous year. Peer Firm Factors-$_{ij}$t-1are previous year average peer firms' factors, excluding firm i, from industry j, at year t. SM-1 is stock market index of the previous year. IR-1 is interest rate of the previous year. Year Fixed Effect t is year fixed effects. And Industry Fixed Effect j is firm-year specific error term that is assumed to be correlated within firms and heteroskedastic.
Corporate dividend model :

$Dividendijt = \beta 0 + \beta 1 Profitability$t-1+$\beta 2 Growth$t-1+$\beta 3 Risk$t-1+$\beta 4 Leverage$t-1+$\beta 5 FreeCashFlowt - 1 + ErrorTerm$

Where Dividend $_{ij}$t is firm's dividend for a current year, measured as dividend payout ratio. Where subscripts $_{ij}$t correspond to firm, industry and year, respectively. Profitability t-1 is firm's profitability of previous year, calculated as earnings before interest, tax, depreciation, and amortization divided by total assets. Growth t-1 is firm's growth of previous year, measured as sales growth. Risk t-1 is firm's risk of previous year, calculated from standard deviation. Leverage t-1 is firm's leverage of previous year, measured as the ratio of total debt to total book assets. Free Cash Flow t-1 is firm's operating income of previous year, measured as operating income minus capital expenditure.
Peer dividend model :

$Dividendijt = \beta 0 + \beta 1 PProfitability - ijt - 1 + \beta 2 PGrowth - ijt - 1 + \beta 3 PRisk - ijt - 1 + \beta PLeverage - ijt 1 + B5 PFreeCashFlow - ijt - 1 + ErrorTerm$

Where, Dividend $_{ij}$t is firm's dividend for a current year, measured as dividend payout ratio. Where, subscripts ijt correspond to firm, industry and year, respectively. PProfitability - $_{ij}$t-1 is previous year average profitability of peer firms, calculated as earnings before interest, tax, depreciation, and amortization divided by total assets. PGrowth -ijt-1 is previous year average growth of peer firms, measured as sales growth. PRisk - $_{ij}$t-1 is previous year average risk of peer firms, calculated from standard deviation. PLeverage - $_{ij}$t-1 is previous year average leverage of peer firms, measured as the ratio of total debt to total book assets. PFree Cash Flow - $_{ij}$t-1 is previous year average free cash flow of peer firms, measured as operating income minus capital expenditure.

EMPIRICAL RESULTS

Descriptive Statistics

Table 1: Descriptive statistics

Variable	N	Mean	SD	Min	Max
DIV	3130	0.19199	0.312244	0	1.3065
PDIV	3130	-0.036018	0.347142	-4.691	0.6701
Firm-specific characteristics					
PROF(-1)	3130	0.044912	0.107135	-0.1726	0.3286
GRO(-1)	3130	0.129567	0.4096	-0.7228	1.623
RISK(-1)	3130	0.085033	0.562082	-1.3645	1.5046
LEV(-1)	3130	0.577353	0.205831	0.124	0.9346
FCF(-1)	3130	-0.017443	0.138418	-0.4373	0.2837
Peer firm-specific characteristics					
Peer firm-specific characteristics					
PPROF(-1)	3130	-0.00305	0.097116	-0.2372	0.2156
PGRO(-1)	3130	0.126367	0.672319	-1.2529	3.0509
PRISK(-1)	3130	-0.002145	0.527786	-1.2489	1.3397
PLEV(-1)	3130	-0.090971	0.262277	-0.7612	0.4011
PFCF(-1)	3130	0.007578	0.133793	-0.2843	0.3902
Macroeconomic Variables					
SM	3130	0.198215	0.74356	-0.7228	2.8083
IR	3130	0.0789	0.0202	0.048	0.108

Where DIV= dividend, PROF= profitability, GRO= growth, Risk= risk, LEV= leverage, FCF= free cash flow, PGRO peer growth, PDIV= peer dividend, PPROF= peer profitability, PGRO= peer growth, PRISK= peer risk, PLEV= peer leverage and PFCF= peer free cash flow, SM= stock market return and IR= interest rate

The descriptive statistics of firm-specific characteristics as well peer-firm specific characteristics and macro-economic factors are shown in table 1. The mean value of corporate dividend policy is 0.1919 and the mean value of peer firm dividend policy is -0.0360. The mean values of firm-specific characteristics for profitability, growth, risk, leverage, and free cash flow are 0.0449, 0.1295, 0.0850, 0.5773 and -0.0174. The mean values of peer firm-specific factors for peers' profitability, peers' growth, peers' risk, peers' leverage, and peers' free cash flow are -0.0030, 0.1263, -0.0021, -0.0909 and 0.0075. The mean values of macro-economic factors for stock market return (SM) is 0.1982 and for interest rate (IR) is 0.0789.

Table 2: Correlation Analysis

	Firm-specific characteristics						Peer firm-specific characteristics						Macro Factors	
	DIV	PROF	GRO	RISK	LEV	FCF	PDIV	PPROF	PGRO	PRISK	PLEV	PFCF	SM	IR
	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)	(-1)		
DIV (-1)	1													
PROF (-1)	0.391	1												
GRO (-1)	0.014	0.195	1											
RISK (-1)	0.044	0.116	0.037	1										
LEV (-1)	-0.2	-0.422	0.023	-0.051	1									
FCF (-1)	0.112	0.37	-0.011	0.037	-0.182	1								
PDIV (-1)	0.681	-0.276	-0.028	-0.027	0.152	-0.087	1							
PPROF (-1)	0.302	-0.824	-0.143	-0.085	0.352	-0.336	0.318	1						
PGRO (-1)	0.021	-0.084	-0.495	-0.064	-0.033	-0.014	0.022	0.12	1					
PRISK (-1)	0.025	-0.079	-0.012	-0.867	0.053	-0.035	0.037	0.103	0.055	1				
PLEV (-1)	-0.051	0.246	-0.037	0.049	-0.787	0.113	-0.05	-0.223	0.071	-0.052	1			
PFCF (-1)	0.094	-0.312	0.024	-0.033	0.166	-0.886	0.083	0.336	0.021	0.035	-0.137	1		
SM	-0.07	-0.021	0.081	0.236	0.123	0.04	0.009	0.019	-0.148	-0.017	0.015	0.006	1	
IR	-0.006	0.131	0.016	-0.044	-0.069	0.101	-0.006	-0.135	-0.021	0.004	0.006	-0.046	-0.132	1

Where DIV= dividend, PROF= profitability, GRO= growth, Risk= risk, LEV= leverage, FCF= free cash flow, PGRO peer growth, PDIV= peer dividend, PPROF= peer profitability, PGRO= peer growth, PRISK= peer risk, PLEV= peer leverage and PFCF= peer free cash flow, SM= stock market return and IR= interest rate

The correlation analysis is shown in table 2. First for firm-specific factors the correlation coefficient of lag value of dividend with profitability (PROF), growth (GRO), risk (RISK) and free cash flow (FCF) are positively correlated with the values of 0.391, 0.014, 0.044 and 0.112 and negatively correlated with leverage (LEV) with the value of -0.200. Relating to peer firm-specific characteristics the lag value of dividend policy is positively correlated with peer profitability (PPROF), peer growth (PGRO), peer risk (PRISK), and peer free cash flow (PFCF) and negatively correlated with peer leverage (PLEV) with the values of 0.302, 0.021, 0.025, 0.094 and -0.051 respectively. As far as macro-economic variables are concerned the lag value of dividend is negatively correlated with stock market return (SM) which is -0.070 as well interest rate (IR) which is -0.006.

Results of the Regression Model

Table 3: Regression Results

	Coefficient	*t*-value
PDIV	0.497221***	45.34948
Firm-specific characteristics		
DIV(-1)	0.339088***	27.17941
PROF(-1)	0.852387***	13.18882
GRO(-1)	-0.005059	-0.501502
RISK(-1)	0.057820***	4.330944
LEV(-1)	-0.03584	-1.198254
FCF(-1)	0.134875**	2.170943
Peer firm-specific characteristics		
PDIV(-1)	0.250912***	19.09172
PPROF(-1)	0.628785***	9.782779
PGRO(-1)	0.003254	0.528109
PRISK(-1)	0.062621***	4.398366
PLEV(-1)	-0.064202	-2.408476
PFCF(-1)	0.107070*	1.715699
Macroeconomic Variables		
SM	-0.005002	-1.092981
IR	-0.893894***	-4.967477
R-squared	0.637512	
F-statistic	325.7387	
Prob(J-statistic)	0	

Where DIV= dividend, PROF= profitability, GRO= growth, Risk= risk, LEV= leverage, FCF= free cash flow, PGRO peer growth, PDIV= peer dividend, PPROF= peer profitability, PGRO= peer growth, PRISK= peer risk, PLEV= peer leverage and PFCF= peer free cash flow, SM= stock market return and IR= interest rate. Moreover, * significance at a 10% level (two-tailed test), ** significance at a 5% level (two-tailed test), and *** significance at a 1% level (two-tailed test).

In table 3 the impact of peer firm on dividend policy of the firm is shown. The coefficient of peer dividend (PDIV) is 0.4972 which is significant at 1% having t-value of 45.349 which shows the significant impact of peers' on corporate dividend policy of the firms. These results of the study confirm endogenous effects. Moreover, firm's current dividend policy is positively associated with the lag value of peer dividend payout ratio PDIV(-1) which is 0.2509 significant at 1 % with the t-value of 19.09172 which reveals that the current dividend payout of a firm respond according to peers' lag value of dividend payout ratio. Relating to peer firm-specific characteristics, significance of peers' profitability (PPROF), peers' risk (PRISK) and peers' free cash flow (PFCF) shows individual firms adjust/align their dividend policies in the response of change in the characteristics of their peers'. For example, peers' profitability (PPROF), peers' risk (PRISK) significantly (at 1% level) positively impacts corporate dividend

policy with the values of 0.6287 and 0.0626 and peers' free cash flow (PFCF) significantly (at 10% level) positively impacts firm's dividend policy with the value of 0.1070. However, peers' growth (PGRO) and peers' leverage (PLEV) remained insignificant. In order to check correlated effects macro-economic factors were utilized. Where the coefficient of stock market return (SM) is not significant which shows firm consider their own characteristics (PROF and FCF) as well as industry's characteristics (industry behavior, industry profitability and industry free cash flow). On the other hand, interest rate (IR) confirmed the presence of correlated effects as the coefficient of interest rate (IR) -0.8938 significantly (at 1% level) negatively impacts dividend policy of the firms. This depicts that higher the rate of interest results in lowering the availability of free cash flow consequently lowers the dividend payout ratio. Thus, H_1 accepted.

DISCUSSION & CONCLUSION

Corporate dividend policies as well firm's other financial policies are influenced by peer firms. Corporate managers' considers the actions and characteristics of peers' while deciding about their dividend policies. Hence, peer firms' are significant determinant while devising corporate financial decisions. Eminent literature provides evidence that actions as well as characteristics of peers' are important for firm's financial policy decisions (Chen & Ma, 2017; Jillian, 2018; Leary & Roberts, 2014).

The results of current study too confirmed that peers' influence is important as well significant determinant while deciding about dividend policy of the firm. It can be seen from the results obtained that the coefficient of peer firm dividend policy is 0.4972 which is significant at 1% is greater than all other firm or industry specific coefficients. This depicts that comparatively behavior of the peer group firms' matters a lot. Moreover, firms depends on others' (peers) to make their own financial policy decisions, peers' information as well decisions can be used as a guiding tool to take one's own decisions (Clark & Loheac, 2007; Guilding, 1999; Moon & Bates, 1993). Previous studies (Jillian, 2018; Leary & Roberts, 2014) too support and confirm these results of the current study. In addition to this, Shleifer & Vishny (1992) argument concerning industry equilibrium is too supported and confirmed by these results of the current study.

Furthermore, as the current study results too depicts that the peer firm specific characteristics' coefficients such as coefficients of profitability, risk, as well as free cash flow are significant which further confirms that peer firm characteristics also influence firm while taking their own dividend policy decisions. In the similar line, Mackay & Phillips (2005) also supported the relevancy of peer firms' characteristics while setting financial policies of the firms and this relevancy can be due to similarity in the product characteristics and target market which causes firms to imitate each other. Additionally relative evaluation of peers' as well free of cost information can also induce managers to mimic behavior in taking their own financial decisions concerning dividend policy.

Finally, the current study utilized two macro-economic variables to inspect correlated effects such as stock market return as well interest rate which impact all the firms revealing that correlated effects significantly determined firms' dividend policy. These results are consistent with the studies of Chen et al., 2005 and Ofori-Sasu et al., 2017 which too confirms that macro-economic variables impact dividend policy. For instance, there is negative correlation between interest rate and dividend as higher the interest rate lesser will be the dividend payout ratio. As this decreases free cash flow which ultimately restricts firms to pay more dividend. Relating to stock market return, dividend payment itself signals to the market that firm has enough free cash flow to meet their obligations as well returns to their shareholders'. This might attract potential as well existing shareholders' by gaining their trust which ultimately increases the demand of shares into the market and consequently stock market return. Conversely, not paying dividend signals that firms have growth opportunities so they do not pay or pay very little dividend. This increases the market price of the firms into the market. Thus, stock market return has impact.

Thus we can conclude from the study that role of peers' is vital while taking corporate financial policy decisions. The current study was carried out following almost same pattern of Chen & Ma, (2017) as well Leary & Roberts (2014). Yet in order to address correlated effects the study unlike above mentioned studies used two important macro-economic factors which were stock market return and interest rate. The results of current study provided useful insights that like developed countries, the developing countries firms' also considers peers' important. Like developed countries, the developing countries firms' take their own financial dividend policy decisions keeping in view what their peers' are doing. Thus, results of current study too proved that peers' financial information and decisions are true determinants in taking corporate firm's financial decisions.

LIMITATIONS & FUTURE DIRECTIONS

Apart from fruitful results, the current study has certain limitations. First of all, the current study results cannot be generalized to other contexts. In order to generalize the results the scope of study needs to be widened. Moreover, non-financial sector of Pakistani firms' were taken to explore behavior of peer firms', for greater understanding and worth financial sector as well as other sectors needs to be utilized to make study more fruitful. Lastly, the current study relied on secondary data to inspect the behavior of peer firms'. For greater understanding of peers' behavior the use of primary data could be more helpful. So, by incorporating other sectors and widening the scope of research by using primary data as well one can conduct more valuable research in the future.

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