

การผ่านข้อมูลถึงนักลงทุนโดยใช้นโยบายเงินปันผล: กรณีศึกษาประเทศไทย

The Information Content of Dividend Policy:

The Case of Thailand



RCH
HG
4028
.DS
ก 124ก

เลขหมู่.....
เลขทะเบียน..... 84529
วัน,เดือน,ปี... 13 ต.ค. 2551

ภาควิชาบริหารธุรกิจเกษตร

คณะเทคโนโลยีการเกษตร

สถาบันเทคโนโลยีพระจอมเกล้าเจ้าคุณทหารลาดกระบัง

1185625

Acknowledgement

This research was funded by revenue budget of the Department of Agricultural Business Administration. I would like to thank the department for their support.



เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

การผ่านข้อมูลถึงนักลงทุนโดยใช้นโยบายเงินปันผล: กรณีศึกษาประเทศไทย

บทคัดย่อ

งานวิจัยนี้มีวัตถุประสงค์ เพื่อศึกษาว่าการเปลี่ยนแปลงนโยบายเงินปันผลเป็นการผ่านข้อมูลถึงนักลงทุนเกี่ยวกับกำไรในอนาคตของบริษัทหรือไม่ และนักลงทุนมีปฏิกิริยาอย่างไรต่อการเปลี่ยนแปลงนโยบายเงินปันผลของบริษัทในตลาดหลักทรัพย์แห่งประเทศไทย ผลการศึกษาพบว่านโยบายงดเว้นการจ่ายเงินปันผลขึ้นอยู่กับผลกำไรที่ผ่านมาและผลกำไรในปัจจุบันของบริษัท ผลการศึกษาไม่พบหลักฐานสนับสนุนว่านโยบายการริเริ่มจ่ายเงินปันผลแสดงถึงการคาดการณ์กำไรในอนาคตที่สูงกว่าปกติ ปฏิกิริยาของนักลงทุนที่มีต่อการเปลี่ยนแปลงนโยบายเงินปันผลมีเล็กน้อยและไม่มีความสำคัญทางสถิติ

The Information Content of Dividend Policy: The Case of Thailand

Abstract

The objectives of this research are to examine whether changes in dividend policy convey information about future firm profitability and to document the market reaction to dividend changes on the Thai Stock Exchange. The results show that the decision to omit dividends is based on the past and current earnings while there is no support that dividend initiation helps to identify firms with superior future profitability. The market reaction to the announcement of dividend policy change is small and statistically insignificant.

Index Term: Dividend Initiation, Dividend Omission, Abnormal Return, Thailand

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Table of Contents

Chapter 1	1
Chapter 2	7
Chapter 3	23
Chapter 4	28
References	29



เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Chapter 1

Introduction

Several hypotheses have been offered to explain why some firms pay dividends while others do not. Finance scholars have proposed explanations that dividends are used to communicate information from corporate insiders to a company's shareholders. An unexpected dividend increase conveys positive news to investors; an unexpected dividend decrease conveys negative information to investors. A dividend initiation signals management's confidence that the level of the firm's earnings has permanently increased since it is understood by both investors and managers that once a dividend payment strategy is initiated it is rarely rescinded. Unfortunately, this logic applies even more seriously to dividend decreases. Since managers will only reduce or cut dividends when the financial health of the firm is in danger and there is no hope of improvement in the near future. Brav et. al. (2005) report that managers express a strong desire to avoid dividend cuts; they are willing to sell assets, layoff employees, borrow heavily, or even skip positive-NPV projects before cutting dividends. Since dividends are of first-order importance to investors (DeAngelo and DeAngelo's (2006). Therefore, a dividend decrease shows that management is pessimistic about the firm's future earnings prospects.

Empirical research has investigated whether payout changes demonstrate Any correlation with future changes in earnings. However, the empirical evidence on whether changes in dividends communicate information about future operating performance is inconclusive. For example, some studies find that dividend increases transmit information about future performance (e.g., Healy and Palepu, 1988; Jagannathan, et al., 2000; Koch & Sun , 2004; Lie, 2005), whereas others find that payout increases signal negative or no information about future operating

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า ไม่ว่าจะกรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

performance (e.g., Benartzi et al., 1997; Grullon et al., 2002; Grullon et. al., 2005). Some findings provide substantial evidence supporting the information content of dividend cuts or decreases (e.g., Healy and Palepu, 1988; Lie, 2005; Stacescu, 2006.). Other findings (DeAngelo, et al., 1992; Jensen and Johnson, 1995) create uncertainty relating to the information payout a decrease conveys to the market.

The objectives of this empirical study are first, to examine the signaling hypothesis: earnings information conveyed by dividend initiations and omissions among Thai firms. The focus on stock exchanges outside of the US or other developed countries' exchange is an important contribution. There are differences in institutional characteristics between emerging and developed markets. The microstructure of the Stock Exchange of Thailand can be expected to provide interesting results. In Thailand, the institutional environments differ greatly from those in developed countries such as the US. Around 80% of non-financial companies that are traded on the Stock Exchange of Thailand are family-owned (Wiwattanakantang, 2001). In Thailand, top five ownership concentration is approximately 55%, compared to 25.5% in the US (Demsetz & Lehn, 1985) and 33.1% in Japan (Prowse, 1992). Gugler and Yurtoglu (2003), and Khan (2006) find that firms with high ownership concentration pay lower dividends both in proportion of operating earnings and in proportion of book value of equity. Mitton (2005) firms with stronger corporate governance have higher dividend payouts. Concentrated ownership structure lessens the need for dividends to perform as an informational device. Given these dissimilarities of institutional characteristics between emerging and developed markets, it is useful to test signaling hypothesis in the capital market of an emerging country, Thailand.

When a firm initiates or omits the payment of cash dividend, the firm is making an extremely noticeable and qualitative change in corporate policy.

What effect do such changes have on returns? Therefore, the second objective of this research is to study stock price reaction to dividend initiations and omissions of cash dividend payments.

Objectives of the Study

1. To examine whether dividend policy changes convey information about future earnings.
2. To investigate market reaction to dividend initiations and omissions.

Review of Literature

Miller (1980) argues that dividend changes provide signals to investors about management's perception of the firm's future earnings stream. Management will not increase dividends unless sure that future earnings will be sufficiently large enough to support the higher dividend. Conversely, dividend cuts are perceived as "bad news" and are negative signals to investors. Thus, if a firm seeks a policy of dividend stabilization, investors will interpret a change in the dividend payout rate as a change in management's view of the firm's future profitability. This has been referred to as the "reluctance-to-change hypothesis (Aharony & Sway, 1980, pp.3). While some researchers, most notably, John and Williams (1985) and Miller and Rock (1985) propose that firms pay dividends to signal favorable information to the capital markets. However, the empirical evidence is mixed. Nissim and Ziv (2001) report evidence in favor of the signaling theory, but Benartzi et. al. (1997), Grullon et al. (2002), and Grullon et. al. (2005) find no such evidence. Healy & Palepu (1988) report that firms that initiate dividend payments have positive earnings changes both before and after the dividend change, while those omitting

dividend payments have negative changes. They found that there is a significant market reaction to the announcement of these dividend policy changes, indicating that they cannot be perfectly predicted and that they convey new information.

DeAngelo et. al.,(1996) find no support for the idea that dividend decisions help identify firms with superior future earnings. Jensen and Johnson (1995) find that firm earnings generally increase after a dividend reduction. Michaely, et. al., (1995) find that the magnitude of short-run price reactions to omissions are greater than initiation.

Data

Data and Methodology

Dividend Initiation Sample

A firm is classified as an initiator if it has paid dividends in the current year but not paid for the preceding three years. Dividend initiation samples comprise all Thai Stock Exchange firms that are traded on the Main Board that initiated dividend payments during 1999-2004. Firms that paid no dividends for at least three years preceding the announcement of the initial dividend are selected. Firms that have no dividends, earnings, and share price data are omitted. There were 74 initiation samples (Table 1).

Table 1 Dividend Initiations and Omissions

Number of Firms			
Year	Initiations	Year	Omissions
1999	1	1997	55
2000	9	1998	10
2001	17	1999	-
2002	19	2000	-
2003	18	2001	1
2004	10	2002	2
		2003	8
		2004	2
Total	74		78

Dividend Omission Sample

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

A firm is categorized as an omission firm if it has not currently paid dividends but has paid dividend in the preceding three years. Dividend omission samples comprise all the Thai Stock Exchange firms that are traded on the Main Board that omitted dividend payments from 1997-2004. Firms that did not pay dividends in the current year but that have paid dividends in the preceding three years are chosen.

Firms that have no dividends, earnings, and share price data are omitted.

The total omission samples are 78 (Table 1). Fifty-five firms (around 71%) of the total 78 omission firms omitted dividends in 1997 and 10 firms (around 13%) omitted dividends in 1998. This is because in 1997, there was serious financial crisis in Thailand. From 1978 until 2 July 1997, the Thai currency (the baht) was pegged at 25 to the US dollar. The baht devalued swiftly and reached its lowest point of 56 units to the US dollar in January 1998. The Thai stock market dropped 75% in 1997.

Test of Signalling Hypothesis: Case of Dividend Initiations and Omissions

To analyze signaling hypothesis, Healey and Palepu's (1988) earnings patterns of firm initiating and omitting dividends for three years before the year of event and three years after are examined. To aggregate results across firms, earnings changes in these years are expressed as a percentage of the previous year stock price, $P_{j,t-1}$.

The standardized change in earnings for firm j in year t , is defined as

$$\Delta E_{j,t} = (E_{j,t} - E_{j,t-1}) / P_{j,t-1}$$

where, $E_{j,t}$ are earnings per share for firm j in year t . The null hypothesis of average earnings changes are zero is tested with Dunnett's C (Post Hoc) test.

Stock price data

To be included in the sample, firms must meet the following requirements: (1) have dividend initiation/omission announcement dates available on the website of Stock Exchange of Thailand (SET), and (2) have stock price data available for two days before and two days after the dividend initiation/omission announcement on the SET website. The usable sample comprises 49 initiation firms and 31 omission firms.

Test of market reaction to dividend initiations and omissions announcement

Abnormal returns are estimated for dividend initiation and omission firms for the period 10 days before to 10 days after the announcement. Abnormal returns are defined as market-adjusted returns, that is the difference between firms' returns and the market' return. In Thailand, the Thai Stock Exchange Index, commonly known as the SET Index is the most frequently used indicators of market movements. This index is used to compute the market adjusted returns. The SET index is a composite index calculated from prices of common stocks on the market capitalization weighted price index, which compares the current market value to shares with the value on the base date of April 30, 1975, which was when the SET index was established and set at 100 points. This study uses t-test to test whether the abnormal returns are statistically different from zero.

Chapter 2

Related Theory

This chapter consists of the following topics

1. Efficient Capital Market and Event Study
2. Signaling or Information Content Theory
3. Dividend Policy

Efficient Capital Market

An efficient capital market is one in which stock prices fully reflect available information. In actuality, certain information may affect stock prices than other information. There are three types of efficiency (Ross, et.al., 1999).

1. The weak form

A capital market is said to be weak-form efficiency if it fully incorporates the information in past stock prices. Thus, the above strategy would not be able to generate profits if weak efficiency holds. By denying that future market movements can be predicted from past movements, the profitability of a host of techniques does not fall under the heading of technical analysis. The term technical analysis refers to attempts to predict the future from the patterns of past price movements.

2. Semistrong form

A market is semi-strong form efficient if prices reflect (incorporate) all publicly available information, including information such as published financial statements for the firm as well as historical price information. An individual might consider investing in the stock after hearing the news release giving this information. However, if the market is semistrong efficient, the price should rise immediately upon

the news release. Thus, the investor would end up paying higher price, eliminating all chance for profit.

3. Strong form

A market is strong form efficient if prices reflect all information public or private. This form says that anything is pertinent to the value of the stock is fully incorporated into the value. A strict believer in strong-form efficiency would deny that an insider who knew whether a company mining operation had struck diamond could profit from that information.

Ross, et.al., 1999 concluded that the efficient-market hypothesis (EMH) has implications for investors and for firms because

1. Information is reflected in prices immediately, investors should only expect to obtain a normal rate of return. Awareness of information when it is released does an investor no good. The price adjusts before the investor has time to trade on it.
2. Firms should expect to receive the fair value for securities that they sell. Fair means that the price they receive for the securities they issue is the present value. Thus, valuable financing opportunities that arise from fooling investors are unavailable in efficient capital markets.

Event Study

Fama, Fisher, Jensen and Roll (1969) have established the foundations of the (short-term) event-study method, which has become a main tool for empirical research in Finance and Accounting. From a method to test the efficient market hypothesis to a valuation tool to measure wealth effects of corporate events (assuming market efficiency), countless applications have been published: according to Kothari and Warner (2007), between years 1974 and 2000, 565 papers in leading finance journals contain an event study.

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

The logic of an event study is to determine the average stock market response to a particular type of an announcement, one simply lines individual stocks up in event time (rather than calendar time) and then examines the average stock price change accompanying the announcement (Megginson, 1997). For example, in order to assess the average impact of dividend initiation announcements on the stocks of Thai firms adopting such policies, one would do the following. First, collect a sample of firms that have initiated cash dividend payments since March 2000 by examining website of the Stock Exchange of Thailand (News by companies section). The researcher would record the date the dividend initiation was announced (not when it was actually paid).

Second, the researcher would define the announcement date as event day zero ($t=0$), and define time intervals relative to that day. Third, the researcher would regress returns on this stock with returns on the overall stock market during the estimation period, often defined as the period from six months to one month before the announcement date. The purpose of this implementation is to generate expected returns during the event period (the days immediately before and after the announcement date, including the date itself) by determining what the return on the stock would normally be if the overall stock market increased by, say, 0.7 percent. Fourth, the actual returns of the stock during each day of the event period is then computed and compared with that stock's expected return-the return predicted conditional on the overall market's performance. The difference between the actual return and the predicted return is referred to as an abnormal return (AR), and when several days' abnormal returns are summed the result is referred to as a cumulative abnormal return (CAR). Most researchers focus attention on a very narrow event window surrounding the day the announcement is posted on the SET website, in order

to determine what the immediate reaction to the announcement is. The final step in an event study is to aggregate all of the announcements being examined (often several hundred or more), compute an average abnormal return for the event, and determine whether the AR or CAR is statistically different from zero (Megginson, 1997).

Megginson (1997) mentioned the strengths of this method as follows. “First, by averaging out random noise over many different observations, a researcher is able to gain an unbiased assessment of how stock prices react to a given event.

Additionally, by determining the number of positive and negative ARs that went into the overall average, the researcher is able to determine if the average values are being driven by a small number of large abnormal returns or if most stocks are reacting in the same way. Second and perhaps, most important, the joint hypothesis problem is effectively finessed by the event study methodology, since the method for computing expected returns typically has very little impact on the actual AR computed. Essentially, all one is doing is computing the average stock response to a given type of announcement, and as such, event studies provide a direct test of semi-strong form market efficiency, since they allow one to determine if information is incorporated fully and instantaneously into stock prices.”

Signaling theory

Signaling theory was developed in finance literature to explicitly explain the fact that corporate insiders (officers and directors) generally are much better informed about the firm’s prospects than are outside investors. In the presence of the asymmetry of information, it is very hard for investors to objectively distinguish between high-quality and low-quality firms. Statements by corporate managers convey no useful information. Both good and bad firm managers will claim to have

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

superior profitability prospects and, since only the passage of time will prove who was correct, low-quality firm insiders could profit by making false claims if these claims were believed by investors. Because of this asymmetric information problem, however, investors will give a low average quality valuation to the shares of all firms (Megginson, 1997).

Obviously, high-quality firm managers have an incentive to somehow convince investors that their firm should be assigned a higher valuation based on what the managers know to be better prospects for the company. How do these managers convey this information to investors in a way that cannot be duplicated, by the managers of low-quality firms? One method would be for high-quality firm managers to employ a signal that would be costly, but affordable, for their firms but which would be prohibitively expensive for their competitors to mimic. For example, managers of high-quality firms pay large cash dividends as a costly signal to convey the firm's true worth or to purposefully separate their firms from competitors. This strategy would be expensive for the high-quality firms, because it would have to reduce its planned level of capital expenditures below what would be optimal in order to pay dividend; but the firm would remain sufficiently profitable to both finance a high level of investment and pay out cash to investors. On the other hand, the signal would be prohibitively costly for the weaker firm to duplicate because the cost of paying the dividend would be too high in terms of the investment that would have to be forgone. Since investors comprehend these incentives, they would assign high values to firms that paid high dividends and would assign low valuations to firms that either paid low dividends or paid none at all (Megginson, 1997, pp. 20).

The effects of asymmetric information suggest that, to the extent possible, managers should avoid dividend cuts for fear of sending a negative signal, and reluctant to increase dividends for fear they will have to cut them in the future. Firm managers will try to maintain nominal per share dividend payments, even if they face a temporary net loss, until it becomes clear that earnings will not receive. Managers will then reduce dividend payments, and will make the full adjustment in one large cut.

Dividend Policy

Dividend policy refers to a firm's choice of whether to pay its shareholders a cash dividend and, if so, how much to pay and with what frequency (annually, semiannually, or quarterly). Dividend policy also includes many variables, such as whether to distribute cash to investors via share repurchases or special dividends rather than regular dividends, whether to rely on stock rather than cash distributions, and how to balance the cash flow preferences of highly-taxed individuals with those of untaxed institutional investors who are becoming increasingly dominant in capital markets around the world.

Commencing with the work of Litntner (1956), numerous studies have examined the dividend policies of corporations. Miller and Modigliani (1961) ignited the debate concerning the importance of dividend policy with their dividend irrelevance proposition. MM show that, holding a firm's investment policy fixed, the payment of cash dividends cannot affect the firm value in a frictionless market. However, they pointed out that the dividend payment may have informational content if managers have more insight into their firm's future earnings than investors. Hence, dividend policy may be of consequence if changes in dividend payment are used to

convey information not otherwise known to the market. An unexpected dividend increase conveys positive news to investors; an unexpected dividend decrease conveys negative information to investors. A dividend initiation signals management's confidence that the level of the firm's earnings has permanently increased since it is understood by both investors and managers that once a dividend payment strategy is initiated it is rarely rescinded. Unfortunately, this logic applies even more seriously to dividend decreases. Since managers will only reduce dividends when the financial health of the firm is in danger and there is no hope of improvement in the near future. A dividend decrease shows that management is pessimistic about the firm's future earnings prospects. However, the empirical evidence on whether changes in dividends communicate information about future operating performance is inconclusive. De Angelo, et.al. (1992), find no significant changes in analyst estimates of future earnings accompanying dividend announcements, and Benartzi, et. al.,(1997) find no association between dividend changes and subsequent earnings changes. On the other hand, Venkatesh (1989) shows that greater dividend initiation announcement effects are associated with decreased announcement effects for subsequent earnings announcements. Asquith and Mullins (1983) report abnormal returns of 3.7% around the announcement of dividend initiation. Healy and Palepu (1988) state that initiate dividend payments have positive earnings changes both before and after dividend policy change, while those omitting dividend payments have negative earnings changes. Michaely, et.al.(1995) find that omission announcements are associated a mean price drop of about 7 percent, and initiations are associated with a price increase of over 3 percent. Lipson et. al.(1998) find that earnings increases following the dividend initiation and earnings surprises for initiating firms are more favorable than those for noninitiating

firms. Nissim and Ziv (2001) presents evidence consistent with the dividend-signaling hypothesis by showing dividend increases (but not decreases) relate to future profitability.

Types of Dividends

There are two types of dividends

1. Cash Dividend

The most regular type of dividend is in the form of cash. Public companies usually pay regular cash dividends every year. Sometimes firms will pay a regular cash dividend and an extra cash dividend. Pay a cash dividend reduces the company cash and retained earnings-except in the case of a liquidating dividend (where paid-in capital may be reduced).

2. Stock Dividend

A stock dividend is a dividend paid in additional shares rather than in cash. Since no cash leaves the organization, it is not a dividend. A stock dividend increases the number of shares outstanding, thereby reducing the value of each share. A stock dividend is commonly expressed as a ratio; for example, with a 10 percent stock dividend, a stockholder of 100 shares would received an additional 10 shares; on a 15 percent stock dividend, the holder would receive 15 new shares; and so on.

When a firm declares a stock split, it increases the number of shares outstanding. Because each share is now given the right to a smaller percentage of the firm's cash flow, the stock price should fall. For example, if the managers of a firm whose stock is selling at \$100 declare a 4:1 stock split, the price of a share of stock should fall to about \$25. A stock split strongly resembles a stock dividend except it is usually much larger. Firms generally split their stocks provided that (1) the price is quite high and

(2) management believes that the future is brilliant. Therefore, stock splits are assumed as positive signal and thus raise stock price.

If a firm wants to reduce the price of its stock, should a stock split or a stock dividend be used? Brigham and Ehrhardt (2002) stated that stock splits and large stock dividends are normally used after a sharp price run-up when a large price reduction is sought. Small stock dividends are occasionally used on a regular annual basis to keep the stock price more or less constrained for example, if a firm's earnings and dividends are growing at 5 percent per year, the price would be likely to rise at about that same rate and the price would soon be outside the desired trading range. In this case, a 5 percent annual stock dividend would maintain the stock price within the optimal range.

Standard Method of Cash Dividend Payment

The decision whether or not to pay a dividend rests in the hands of the board of directors of the corporation. A dividend is distributable to shareholders of record on a specific date. When a dividend has been declared, it becomes a liability of the corporation and cannot be simply cancelled by the firm. The amount of the dividend is expressed as dollars per share (dividend payout).

The mechanics of a dividend payment can be demonstrated by the following chronology.

1. Declaration date. On November 15 (the declaration date), the board of directors meets and passes a resolution to pay a dividend of \$1 per share on January 15 to all holders of record on December 15.

2. Date of record. The corporation prepares a list on December 15 of all individuals believed to be stockholders as of this date. If the corporation is notified of the sales on December 15, then the new holder receives the dividend. However, if

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

notification is received on or after December 15, the previous owner receives the dividend.

3. Ex-dividend date. The securities industry has set up a convention under which the right to the dividend remains with the stock until two business days prior to the record date. On the second day before that date, the right to the dividend no longer goes with the shares. The date when the right to the dividend leaves the stock is called the ex-dividend date. In this case, the ex-dividend date is two days prior to December 15, or December 13. Therefore, if buyer is to receive the dividend, she must buy the stock on or before December 12. If he or she buys it on December 13 or later, seller will receive the dividend because he or she will be the official holder of record.

4. Date of payment. The dividend checks are mailed to stockholders on January 15. Obviously, the ex-dividend date is important, because an individual purchasing the security before the ex-dividend date will receive the current dividend whereas another individual purchasing the security on or after this date will not receive the dividend. The stock price should fall on the ex-dividend date. This drop is an indication of efficiency because the market rationally attaches value to cash dividend. In a world with neither taxes nor transaction costs, the stock price would be expected to fall by the amount of the dividend.

Before ex-dividend date $Price = \$(P+1)$

On or after ex-dividend date $Price = \$p$

Dividends Versus Capital Gains: What Do Investors Prefer?

The target dividend payout ratio—defined as the percentage of net income to be paid out as cash dividends—should be based in large part on investors' preferences for dividends versus capital gains: do investors prefer (1) to have the firm distribute its

income as dividends or (2) to have it either repurchase stock or else plow the earnings back into the business, both of which should result in capital gains?

In this section three theories of investor preference are discussed

1. Are Dividends Irrelevant? Modigliani and Miller's Position

Merton Miller and Franco Modigliani (MM) argued that cash paid by the firm to its shareholders has no effect on either the price of a firm's stock or its cost of capital. MM argued that dividend policy is irrelevant. They reasoned that the value of a firm is determined by its basic earning power and its business risk. Therefore, a firm's value depends on its cash flow rather than on how the assets are financed or how earnings are split between dividends and retained earnings. MM demonstrated that if a firm pays higher dividends, then it must sell more stock to new investors, and the value of stock given up to new investors is exactly equal to the dividends paid out. In developing their dividend policy, MM made five assumptions: (1) There are no personal or corporate income taxes. (2) There are no stock floatation or transaction costs. (3) Investors are indifferent between dividends and capital gains. (4) The firm's capital investment policy is independent of its dividend policy. (5) Investors and managers have asymmetric information regarding future investment opportunities.

However, these conclusions are at variance with what one sees in the real world. Obviously, taxes and brokerage costs do exist. Further, managers often have better information about future prospects than public stockholders. The capital structure of companies does matter and banks are not likely to finance its project with one hundred percent debt (Omet, 2004) outside investors, and dividend policy can affect capital budgeting through its effect on free cash flow. Thus, MM's theoretical conclusions on dividend irrelevance may not be valid under real-world conditions.

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

2. Do Investors Prefer Dividends? The “Bird-In-The-Hand” theory

Myron and Gordon and John Lintner argued that the firm’s value will be maximized by a high dividend payout because investors can be more certain of receiving dividend payments than the capital gains which are expected to result from retaining earnings. They say, in effect, that investors prefer a dollar of expected dividends to a dollar of expected capital gains because the expected dividend is less risky than the expected capital gain. MM disagreed and called the Gordon-Lintner argument the “bird-in-the-hand fallacy” because MM thought that most investors simply reinvest their dividends in the same or similar firms anyway, and, in any event, the riskiness of the firm’s cash flows to investors in the long run is determined by the riskiness of its cash flow from operating assets not by its dividend payout policy (Brigham and Ehrhardt (2002)).

3. Do Investors Prefer Retained Earnings? The Tax Preference Theory

This theory was advanced by Litzenberger and Ramaswamy. This theory states that because long-term capital gains are subject to less heavy taxes than dividends, investors prefer to have companies retain earnings rather than pay out as dividends. Therefore, investors would be willing to pay more for low-payout firms than for otherwise similar high-payout firms.

Other Dividend Policy Issues

Information Content, or Signaling, Hypothesis

It has been observed that corporations are reluctant to cut dividends, hence do not raise dividends unless they anticipate high earnings in the future. Three most frequently cited theoretical cash dividend signaling models are Miller and Modigliani (1961); Bhattacharya (1979); John and Williams(1985); and Miller and Rock (1985).

Although the mechanisms are different in these models, one thing is common: dividend policy reflects managers' expectations regarding future cash flows, and therefore, should react to announcements concerning the payment of dividends. Ross (1977) stated that a dividend announcement may provide the occasion for share revaluation. Asquith and Mullins (1983) (A&M) believed that the truest measure of an unanticipated dividend event is the initiation of cash dividend payment by the nonpaying firm.

Clientele Effect

The clientele effect suggests that a firm will draw investors who like the firm's dividend policy. Different groups, or clienteles, of stockholders prefer different dividend payout policies. For example, retired individuals favor current income, so they may want high dividend payout ratio. Such investors are often in a low or even zero tax bracket. So they are not worried about taxes at all. Conversely, high-income individual investor might prefer reinvestment, because they have less need in present investment income and would just reinvest any dividend received, after first paying income taxes on the dividend income. If a firm retains and reinvests income rather than paying dividends, those stockholders who need current income would not be happy. Although the price of stocks may increase but they must sell stocks to get the money. On the other hand, stockholders with no need for current income might prefer the low dividend policy. The less these stockholders will have to pay in current taxes, and the less trouble and expense they will have to go through to reinvest their after-tax dividends. So they should invest in low dividend payout firms.

Dividend Policy And Agency Costs

A potential conflict between the interests of the agent and those of the principal creates an agency problem. Such conflicts can be as simple as the agent not putting forth “full effort.” Managers with high levels of free cash flow are likely to make unprofitable investments as stockholders’ expense. One argument of why firms pay dividends is that dividends provide a device for restricting managerial discretion of managers. It reduces the agency costs of free cash flow by cutting down the cash available for spending at the discretion of management and hence provide some protections to the firm against management that might benefit itself at the shareholders’ expenses (Zeng et. al., 2003).

Other Factors that Influence Dividend Policy

Brigham and Ehrhardt (2002: 716-717) discussed several other factors that affect dividend decision. They grouped these factors into four broad categories: (1) constraints on dividend payments, (2) investment opportunities, (3) availability and cost of alternative sources of capital, and (4) effects of dividend policy on k_s.

Constraints

1. Bond Indentures. Debt contracts often limit the amount of dividends the borrower can pay after the loan was granted. Also debt agreements frequently specify an action that the borrowing company agrees to take or a condition the company must abide by. For example, no dividends can be paid unless the working capital, current ratio, the time-interest earned ratio, and other safety ratios exceed stated minimum constraints

2. **Preferred stock restriction.** Companies may skip preferred dividends in some years. Later, if companies want to pay common stock dividends, The preferred dividends must be paid before paying common dividends.

3. **Impairment of capital rule.** Dividend payments cannot exceed the balance sheet item “retained earnings.” This legal restriction, known as” the impairment of capital rule “is designed to protect creditors

4. **Availability of Cash.** Since dividends must be paid in cash. If companies have no cash, or little cash, this will limit dividend payments. However, unused borrowing capacity can make up for this problem.

5. **Control.** If management is concerned about maintaining control, it may be reluctant to sell new stock, hence it may retain more earnings than it otherwise would. This factor is especially important for small, closely held firms.

6. **Signaling.** The presence of information asymmetry may also mean that managers need to signal their ability to generate higher earnings in the future.

Investment opportunities

1. **number of profitable investment opportunities.** If a firm thinks that there are many gainful projects it should invest, the firm will reduce the dividend paid. However, if a firm does not see good investment opportunities, it will use money to pay dividends.

2. **Possibility of accelerating or delaying projects.** The ability to speed up or put off projects will allow a firm to stick more strictly to a stable dividend policy.

Alternatives Sources of Capital

1. **Cost of selling new stock.** If a firm needs to finance a given level of investment, it can obtain equity by retaining earnings or by issuing new common stock. If flotation

costs (including any negative signaling effects of a stock offering) are high, k_e will be above k_s , making it better to set a low payout and through finance through retention rather than through sale of new common stock. On the other hand, a high dividend payout ratio is more feasible for a firm whose floatation costs are low. Floatation costs differ among firms—for example, the floatation percentage is generally higher for small firms, so they tend to set low payout ratios.

2. Ability to substitute debt for equity. A firm can finance a given level of investment with either debt or equity. As noted above, low stock floatation costs permit a more flexible dividend policy because equity can be raised either by retaining earnings or by selling new stock. A similar situation holds for debt policy. If the firm can adjust its debt ratio without raising costs sharply, it can pay the expected dividend, even if earnings fluctuate, by increasing its debt ratio.

3. Control. If management is concerned about maintaining control, it may be reluctant to sell new stock, hence the company may retain more earnings than it otherwise would. However, if stockholders want higher dividends and a proxy fight looms, then the dividend will be incurred.

Effects of Dividend Policy on k_s

The effects of dividend policy on k_s may be considered in terms of four factors: (1) stockholders' desire for current versus future income, (2) perceived riskiness of dividends versus capital gains, (3) the tax advantage of capital gains over dividends, and (4) information content of dividends (signaling). The importance of each factor in terms of its effect on k_s varies from firm to firm depending on the makeup of its current and possible future stockholders.

Chapter 3

Empirical Results

An analysis of past and future levels of standardized earnings of dividend omitting and initiating firms show that the former have lower and negative earnings in the past two years (year -2, year -1) and current year (year 0) compared to that of the latter (Table 2). Table 3 presents summary statistics for the dividend omission firms' standardized earnings changes in year -3 to year 3. The test firms' mean standardized earnings changes are insignificant in year 2 and year 3. The mean earnings for years -2 and -1 are -.20% and -1.4 % respectively, and are statistically significant. The largest decrease in mean earnings (-64.3%) occurs in year 0, the year of the dividend omission. However, these declines do not persist beyond year 0. Following the dividend omission announcement year, omitting firms experience one year of significant positive earnings (205%). Dividend omissions show negative earnings changes for up to two years before and the year of the dividend event; subsequently, the omission firms' earnings recover. This implies that the decision to omit dividends is based on the past and current earnings. Consistent with findings of previous researchers (e.g., Lie , 2005; Stacescu, 2006), earnings deteriorate during the timing of dividend omissions, subsequently, the omission firms' earnings recover. In conclusion, firms omitting dividends have experienced a change in their earnings pattern.

Table 2
Past and Future Levels of Standardized Earnings for Initiating and Omitting Firms As a Percent of Equity Price

Year	Omissions			Initiations		
	Mean	Median	Firms	Mean	Median	Firms
-3	16.4	2.2	74	18.3	0.9	23
-2	-.20*	-.8	74	57.8	8.9	78
-1	-1.4*	-.8	74	37.9	7.6	78
0	-64.3*	-40.0	74	10.2	5.2	78
1	204.7*	48.9	74	-7.2	-1.3	78
2	-155.7	-18.3	74	3.6	-1.6	78
3	318.8	4.4	74	-3.5	-.8	78

Mean earnings changes as a percentage of equity prices for initiating firms are reported in Table 2. Firms which initiate dividends have positive earnings in the past three years and in the current year and have negative earnings one year after the dividend initiation. However, the average earnings changes are statistically insignificant. While average earnings of dividend omitting firms have shown significant difference over the past three and next future year (Table 3), initiating firms have exhibited a contrasting trend. The initiating firms have similar past, current and future earnings. These findings are not consistent with previous studies(e.g., Koch & Sun, 2004; Lie, 2005) that managers consider past and current performance in addition to the expectations of future earnings in the dividend initiation decision.

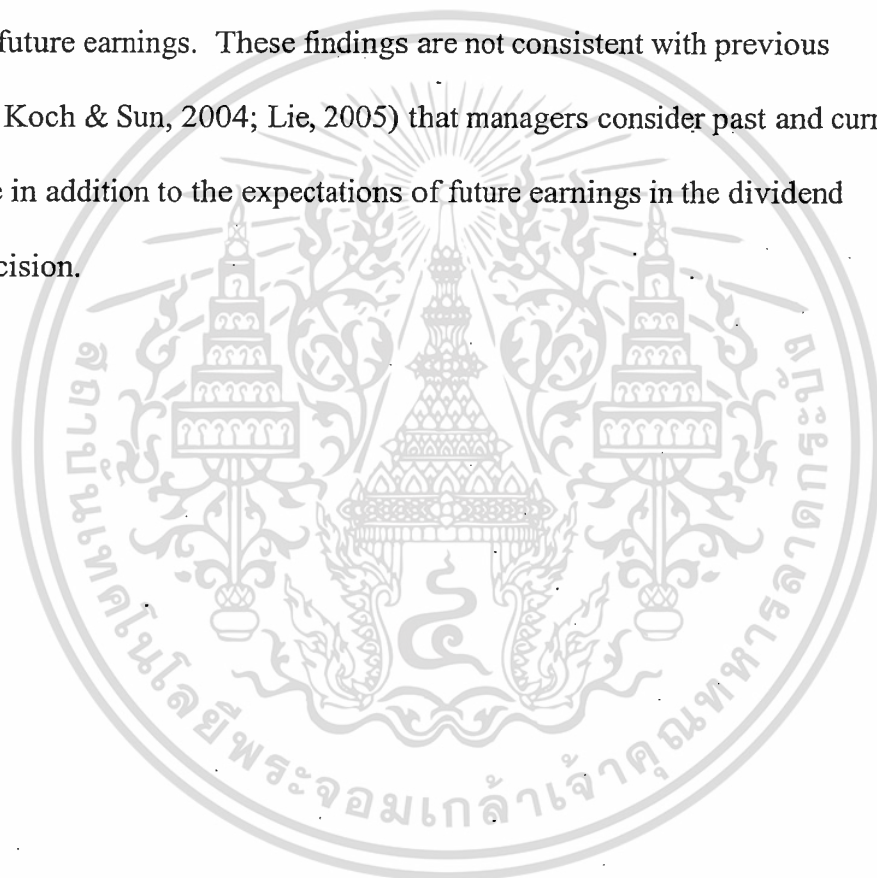


Table 3
Dunnnett's C Post Hoc Test for Analysis of Influence
of Past and Future Earnings on Omissions

Year	Omissions			Initiations	
	Associated Year	Mean Difference	SE	Mean Difference	SE
-3	-2	-.01	2.0	-.2	.20
	-1	-.04	3.1	.01	.20
	0	3.3*	2.0	.2	.20
	1	-4.5	2.0	.5	.20
	2	.40	2.0	.2	.2
	3	-3.0	2.0	.3	.2
-2	-3	-.01	2.0	.2	.2
	-1	-.03	3.1	.4	.2
	0	3.3*	2.0	.4	.2
	1	-4.5	2.0	.7*	.2
	2	.40	2.0	.4	.2
	3	-2.9	2.0	.5	.2
-1	-3	-.04	3.1	-.01	.2
	-2	-.03	3.1	-.3	.2
	0	3.3*	3.1	.1	.2
	1	-4.5	3.1	.4	.2
	2	.4	3.1	.1	.2
	3	-2.9	3.1	.2	.2
0	-3	-3.3*	2.0	.2	.2
	-2	-3.3*	2.0	-.4	.2
	-1	-3.3*	3.1	-.1	.2
	1	-7.8*	2.0	.3	.2
	2	-2.9	2.0	.03	.2
	3	-6.2	2.0	.1	.2
1	-3	4.5	2.0	-.5	.2
	-2	4.5	2.0	-.7*	.2
	-1	4.5	3.1	-.4	.2
	0	7.8*	2.0	-.3	.2
	2	4.9	2.0	-.3	.2
	3	1.5	2.0	-.2	.2
2	-3	-.4	2.0	-.2	.2
	-2	-.4	3.1	-.4	.2
	-1	-.4	3.1	-.1	.2
	0	2.8	2.0	-.03	.2
	1	-4.9	2.0	.3	.2
	3	-3.3	2.0	.09	.2
3	-3	3.0	2.0	-.3	.2
	-2	2.9	2.0	-.5	.2
	-1	2.9	3.1	-.2	.2
	0	6.2	2.0	-.2	.2
	1	-1.5	2.0	.2	.2
	2	3.3	2.0	-.09	.2

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
 ไม่ว่าจะกรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Market Reaction to dividend initiations and omissions

Mean abnormal returns for various holding periods surrounding the dividend announcements are reported in Table 4. For the dividend omission firms, the mean announcement return is -1.93 % and is not statistically significant. These findings indicate that investors anticipate omissions from information available before the announcement of dividend policy change. This is understandable since most of omissions sample omitted dividends in 1997 which was the year that Thailand was hard hit by financial crisis.

The mean announcement return (day 0) for the initiation firm is 0.81 % . These findings indicate that dividend initiation decision does not appear to be unanticipated good news: no statistically significant abnormal returns occur in day -1 or in day 0.

Table 4

Abnormal returns for 49 initiating and 31 dividend omitting firms for day -10 to day 10 surrounding the SET announcement date		
Day	Dividend Initiating firms	Dividend Omitting firms
Day -10	.63%	.78%
Day -9	-.26%	-.69%
Day -8	-.33%	.17%
Day -7	.33%	.84%
Day -6	-.27%	.55%
Day -5	-.34%	4.25%
Day-4	.55%	-29.17%
Day-3	-.03%	-28.80%
Day-2	-.03%	.19%
Day-1	.37%	-.78%
Day 0	.81%	-1.93%
Day 1	-.48%	-.50%
Day 2	-.20%	.51%
Day 3	-.45%	1.04%
Day 4	-.44%	302%
Day 5	-.22%	.50%
Day 6	-.04%	-1.14%
Day 7	-.26%	1.65%
Day 8	-.72%*	-1.55%
Day 9	-.28%	1.50%
Day 10	-.03%	1.70%

* significant at 5% level

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Chapter 4

Conclusions

This research investigates whether changes in dividend policy convey information about future firm profitability on the Thai Stock Exchange. This study also examines the stock price reaction to dividend announcements. A sample of 74 firms that pay dividends for the first time or after a hiatus of three years, and a sample of 78 firms that omit dividends for the first time or after paying dividends continuously for at least three years are examined.

The statistical tests and results presented in the paper show negative earnings changes for up to two years before and the year of the dividend event. The decision to omit dividends is based on the past and current earnings. Earnings deteriorate during the timing of dividend omissions, subsequently, the omission firms' earnings recover.

The initiating firms have similar past, current and future earnings. There is no support for the notion that managers consider past and current performance as well as expectations of future earnings in the dividend initiation decision.

Abnormal returns are estimated for dividend initiation and omission firms for the period 10 days before to 10 days after the announcement. The usable sample comprises 49 initiation firms and 31 omission firms. The results indicate that market reaction to dividend omissions and initiations are weak and statistically insignificant.

References

- Asquith, P., & Mullins, Jr., “The Impact of Initiating Dividend Payments on Shareholders’ Wealth,” *Journal of Business*, 56, pp. 76-96. 1983.
- Benartzi, S., R. Michaely, and R. Thaler. “Do Changes in Dividends Signal the Future or the Past?” *Journal of Finance*. Vol. 52., pp. 1007-34. 1997.
- Brav, A., Graham, J., Harvey, C., Michaely, R., “Payout Policy in the 21st Century” *Journal of Financial Economics*. Vol. 77, pp. 483-527. 2005.
- Bulan, L., N. Subramanian, and L. Tanlu. “When are Dividend Omissions Good News?” Working Paper, 2007.
- Brigham, E., & Ehrhardt, M. *Financial Management: Theory and Practice*. (Thomson Learning: Singapore) 2002.
- DeAngelo, H., DeAngelo, L., Skinner, D., “Dividends and Losses” *Journal of Finance*. Vol.47, pp. 1837-1863. 1992.
- DeAngelo, H., L. DeAngelo & Skinner, D., “Reversal of Fortune: Dividend Signaling and the Disappearance of Sustained Earnings Growth”. *Journal of Financial Economics* Vol. 40, pp. 341-371. 1996.
- DeAngelo, H., DeAngelo, L., “The Irrelevance of the MM dividend Irrelevance Theorem.” *Journal of Financial Economics*. Vol. 79, pp. 293-315. 2006.
- Demsetz, H., & Lehn, K., “The Structure of Corporate Ownership Causes and Consequences” *Journal of Political Economy* Vol. 98, pp. 1155-1177. 1985.
- Docking, D., & Koch, P., “Sensitivity of Investor Reaction to Market Direction and Volatility: Dividend Change Announcements.” *Journal of Financial Research* Vol. 28, pp. 21-40. 2005.
- Grullon, G., Michaely, R., Swaminathan, B. “Are Dividends Changes A Sign of firm Maturity?” *Journal of Business*. Vol.75. pp. 387-424. 2002.
- Grullon, G., Michaely, R., Benartzi, S., Thaler, R. “Dividend Changes Do Not Signal Changes in Future Profitability.” *Journal of Business*. Vol. 78. pp. 1111-1624. 2005.
- Gugler, K., & B. Yurtoglu. “Corporate Governance and Dividend Pay-Out Policy in Germany.” *European Economic Review*. Vol. 47, pp.731-758. 2003.
- Healey, P., and K. Palepu. “Dividend Policy and Earnings Information.”, *Journal of Financial Economics*. Vol. 21, pp. 149-175. 1988.

- Jagannathan, M., Stephens, C.P., Weisbach, M.S.. “ Financial Flexibility and the Choice between Dividends and Stock Repurchases” *Journal of Financial Economics*. Vol. 57, pp. 355-384., 2000.
- Jensen, G.R., and Johnson, J.M., “ The Dynamics of Corporate Dividend Reductions” *Financial Management*, Vol. 24, no.4, pp.31-51., 1995.
- John, K., & Williams,J., “Dividends, Dilution and Taxes: Signalling Equilibrium.” *Journal of Finance*. pp. 1053-1070. 1985.
- Khan, T. “Company Dividends and Ownership Structure: Evidence from UK Panel Data.” Vol. 116, pp. 172-189. 2006.
- Koch, A. and X. Sun. “dividend Changes and the Persistence of Past Earnings Changes,”. *Journal of Finance*. Vol.59, pp. 2093-2116. 2004.
- Kothari, S.P. and J.B. Warner. Econometrics of event studies, in Eckbo, B.E. (ed.) *Handbook of Corporate Finance*, North Holland Elsevier, pp. 3–36. 2007.
- Lie, E. “Operating Performance Following Dividend Decreases and Omissions” *Journal of Corporate Finance*., Vol.12, pp.27-53. 2005.
- Lie, E. “Financial Flexibility, Performance, and the Corporate Payout Choice” *Journal of Business*. Vol. 78, pp. 2179-2201. 2005.
- Lintner, J.”Distribution of Income of Corporations among Dividends, Retained Earnings, and Taxes.” *American Economic Review*, 46, pp. 97-113. 1956.
- Meggison, W.L.: *Corporate Finance Theory*. (Addison-Wesley). 1997.
- Michaely, R., R. H. Thaler, & K.L. Womack. “ Price Reactions to Dividend Initiations and Omissions: Overreaction or Drift? *Journal of Finance*. Vol. 50. pp.573-608. 1995.
- Miller, M., & F., Modigliani. “ Dividend Policy, Growth, and the Valuation of Shares,” *Journal of Business*, 34, pp. 411-433. 1961.
- Miller, M. “Can Management Use Dividends to Influence the Value of the Firm?” Donald Chew, ed, *Issues in Corporate Finance* (Stern Stewart Putnam and Macklis Ltd., New York). 1980.
- Miller, M. & K. Rock. “Dividend Policy under Asymmetric Information.” *Journal of Finance*. pp 1053-1070. 1985.
- Mitton, T. “Corporate Governance and Dividend Policy in Emerging Markets.” *Emerging Markets Review*. Vol. 5, 409-426. 2005.

Nissim, D., & A. Ziv. "Dividend Changes and Future Profitability". *Journal of Finance*. Vol. 56, pp.2111-33. 2001.

Prowse, S., The Structure of Corporate Ownership in Japan, *Journal of Finance* . Vol. 47, pp.1121-1140. 1992.

Ross, S., R. Westerfield & J. Jaffe. *Corporate Finance*. Irwin McGraw-Hill. 1999.

Stacescu, B., "Dividend Policy in Switzerland." *Financial Markets and Portfolio Management*. *Financial Markets and Portfolio Management*. Vol. 20, 2006.

Wiwantanakantang, Y., "Controlling Shareholders and Corporate Value: Evidence from Thailand." *Pacific-Basin Finance Journal*. Vol. 9. pp.323-362. 2001.



เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้