

สำนักหอสมุดกลาง พระจอมเกล้าลาดกระบัง

รูปแบบนโยบายปันผลในประเทศไทย

Corporate Payouts in Thailand



สถาบันเทคโนโลยีพระจอมเกล้าเจ้าคุณทหารลาดกระบัง

RCH
HG
A028
D5
กข๒๕๕

b. 191619๑๕
i.

เลขหมู่.....
เลขทะเบียน 105794
วันเดือนปี - 2 ส.ค. 2552

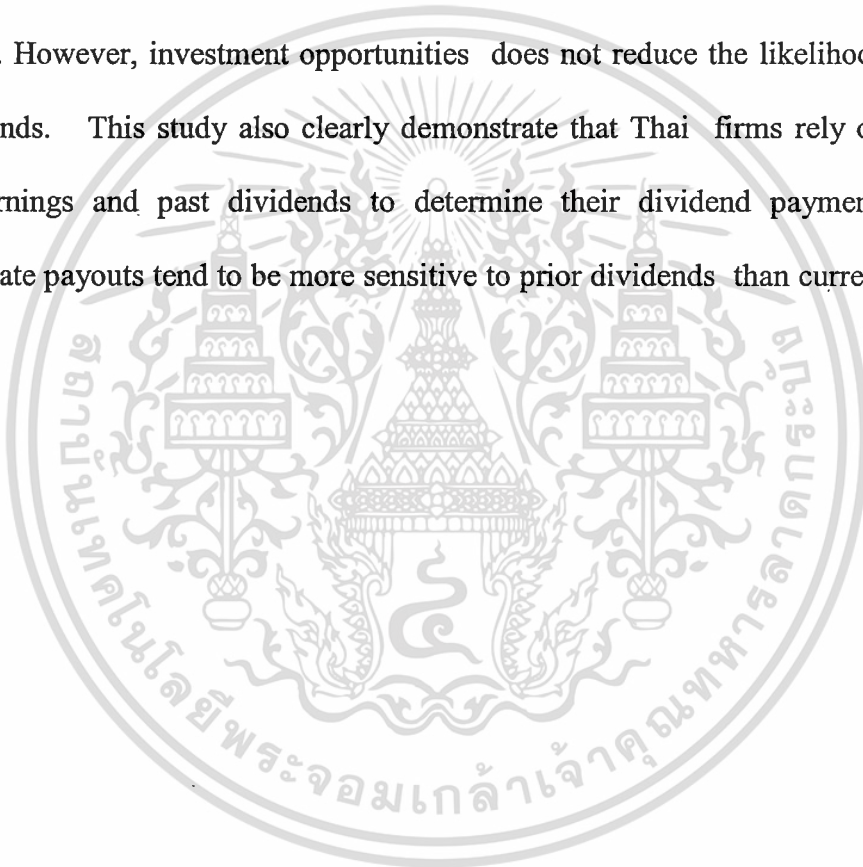
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

บทคัดย่อ

งานวิจัยนี้ศึกษาแนวโน้มนโยบายการจ่ายเงินปันผลในประเทศไทย และศึกษาลักษณะของบริษัทที่จ่ายเงินปันผลและไม่จ่ายเงินปันผลระหว่าง พ.ศ. 2540-2550 ผลการศึกษาพบว่าสัดส่วนของบริษัทที่จ่ายเงินปันผลในประเทศไทยเพิ่มขึ้นจาก 24.5 เปอร์เซ็นต์ใน พ.ศ. 2540 เป็น 72.5 เปอร์เซ็นต์ใน พ.ศ. 2550 บริษัทที่จ่ายเงินปันผลมีกำไรมากกว่าและมีขนาดใหญ่กว่าบริษัทที่ไม่จ่ายเงินปันผล แต่โอกาสในการลงทุนของบริษัทไม่ได้ลดโอกาสในการจ่ายเงินปันผลของบริษัท การกำหนดนโยบายปันผลของบริษัทขึ้นอยู่กับกำไรสุทธิในปัจจุบันและเงินปันผลที่ผ่านมาในปีก่อน แต่บริษัทให้ความสำคัญกับระดับเงินปันผลในปีก่อนมากกว่าระดับรายได้ปัจจุบันในการกำหนดนโยบายปันผล

ABSTRACT

This study investigates dividend payment trends in Thailand and identifies the characteristics of dividend payers and nonpayers from 1997-2007. This study found that the percentage of Thai firms paying cash dividends increased from 24.5 percent in 1997 to 72.5 % in 2007. Dividend paying firms are more profitable and larger than nonpaying firms. However, investment opportunities does not reduce the likelihood of paying dividends. This study also clearly demonstrate that Thai firms rely on both current earnings and past dividends to determine their dividend payment. However, corporate payouts tend to be more sensitive to prior dividends than current earnings.



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.

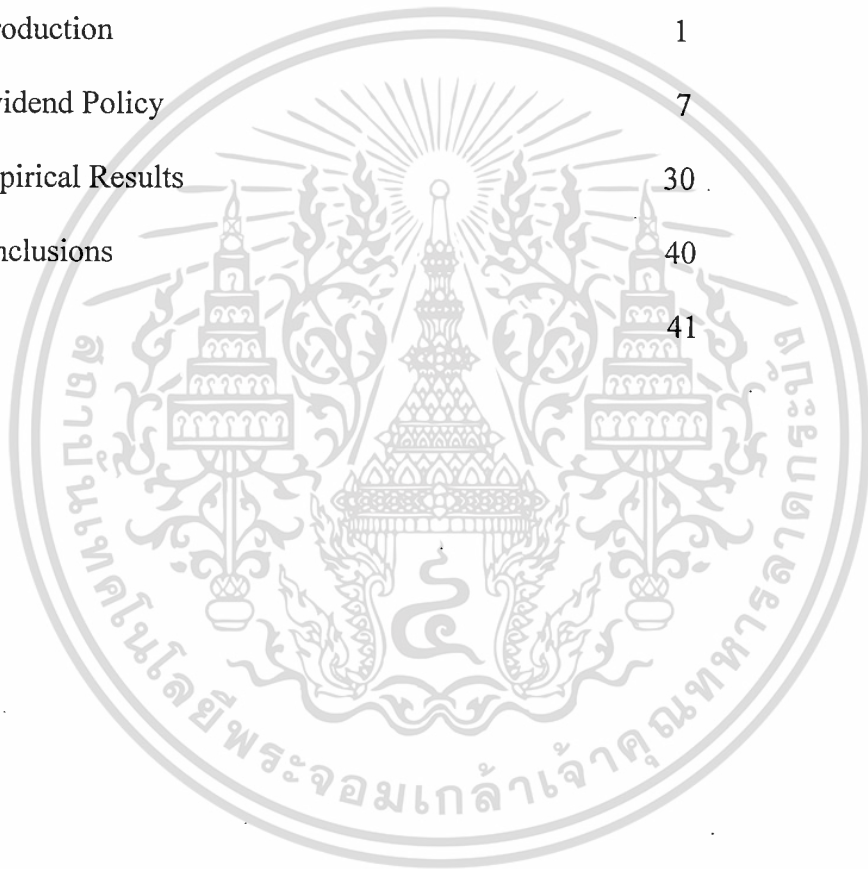


(1)

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Table of Contents

	Page
Acknowledgement	(1)
Chapter 1 Introduction	1
Chapter 2 Dividend Policy	7
Chapter 3 Empirical Results	30
Chapter 4 Conclusions	40
References	41



เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ดัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

Chapter 1

Introduction

Dividend policy is the theory core of corporate finance. It is one of the most debated topics in the corporate finance literature and still keeps its outstanding status. One of the remarkable features that have been documented in recent periods is the lower dividend paid by corporate firms in the advanced stock markets. Fama and French (2001) authenticated that the percentage of U.S. firms paying cash dividends falls from 66.5% in 1978 to 20.8% in 1999. Baker and Wurgler (2004) examine dividend payment practices in the United States and likewise find a decline in the number of dividend payers comparable to the one found by Fama and French (2001). They test a variety of possible explanations for this decrease and conclude that the reduction in the number of dividend-paying firms is best explained by a declining demand for dividends by investors with corporate managers responding accordingly. They contend that managers cater to investor demand for dividends when determining corporate dividend policy.

Ferris et.al. (2006) document that the proportion of UK firms paying dividends falls from 75.9% in 1988 to 54.5% in 2002. After controlling for firm size and profitability, they find a declining propensity to pay dividends over the 1998-2002 subperiod. They conclude that a shift in catering incentives appears most likely explain these recent changes in U.K. payout policies. Denis and Osobov (2007) report that over during 1994 to 2002 in the U.S., Canada, U.K., Germany, France, and Japan, dividend payers tend to be larger and more profitable firms. However, the relation between dividend payments and growth opportunities is not uniform across countries. Since much of the empirical studies have been applied to firms listed on advanced stock markets. The purpose of this research paper is to shed some light on

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า
ไม่ว่ากรณีใดๆทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีกา
นำไปใช้

dividend policy in the emerging country of Thailand. Until now no research papers have been done about dividend payment pattern of Thailand.

Objectives of the study

1. To study dividend payment pattern of Thai listed firms.
2. To analyze the influence of firm characteristics such as profitability, growth and size on the dividend payment pattern
3. To test whether Thai firms rely on current earnings or past dividends in order to fix their dividend payment.

Data and Methodology

Data for testing whether Thai firms' dividend payment rely on current earnings or past dividends

Sample data included listed firms on the Stock Exchange of Thailand during the period 1997-2008. Financial firms (banks, finance and securities companies, and insurance companies) are excluded from the data since these corporations are governed by different regulations in regards to their dividend policies. The corporations which do not have at least 5 years of nonzero cash dividends during this period are excluded. Dewenter and Warther (1998) and Adaoglu (2000) also use the same exclusion strategy in order to find out the degree of dividend smoothing for the Japanese corporations and Turkish firms respectively. The reason for this exclusion is to have enough years of nonzero cash dividends for empirical analysis. In other words, the excluded corporations do not have a trend of cash dividend payments for testing dividend stability. The sample data for period 1997-2008 has 122 corporations. Since there is no missing data for the cross-sectional units over the sample period, the sample is a balanced sample in a panel data setting. For the 1997-

2008 period, the sample is balanced and the balanced number of pooled observations is 1464.

Methodology for Testing whether Thai firms' dividend payment rely on current earnings or past dividends

The dividend policy model of Lintner (1956), a robust model and a finance “classic”, is used (Lease et. al., 2000, p. 130). Lintner builds the following behavioural model in the light of this survey findings:

$$D_{i,t}^* = r_i P_{i,t} \quad (1)$$

$$D_{i,t} - D_{i,(t-1)} = a_i + C_i(D_{i,t}^* - D_{i,(t-1)}) + \mu_{i,t} \quad (2)$$

The change in the cash dividends (eq. 2) depends on the difference between the targeted dividend payments ($D_{i,t}^*$) and the actual dividend payments last period ($D_{i,(t-1)}$). The positive “ a_i ” intercept shows the reluctance of corporations in decreasing the dividend and their preference for a gradual growth in dividends. Coefficient “ c_j ” indicates the stability in dividend changes and is also the adjustment factor towards the target payout ratio (r_i) which depends on the level of debt, investment opportunities, marginal tax rates of investors, transaction costs and other related factors. The adjustment factor shows the level of management response in dividends to changes in the level of earnings ($P_{i,t}$). The higher is the value the adjustment factor, the higher is the level of response to earnings change (less smoothing). For the adjustment factor, a value of 1 indicates that the corporation does not smooth dividends at all and a value of 0 indicates that the corporation follows a maximum dividend smoothing policy.

Since earnings are cyclical and impermanent, corporations do not set dividends at the target payout ratio. Otherwise, dividends would fluctuate with the changes in the earnings level. Therefore, corporations try to reach the target payout ratio gradually and in a consistent manner. By combining equations (1) and (2) without affecting the error term, Lintner tests the following empirical model:

$$D_{i,t} = a_{i,t} + b P_{i,t} + d D_{i,(t-1)} + \mu_{i,t} \quad (3)$$

Where $b = cr$ and $d = (1-c)$.

The preceding model in equation (3) is modified to test for stability in the dividend policy of the Thai corporations. The model is modified as follows:

$$DPS_{i,t} = \alpha_1 + \beta_1 EPS_{i,t} + \beta_2 DPS_{i,(t-1)} + \mu_{i,t} \quad (4)$$

Fama and Babiak (1968) state that Lintner uses aggregate data in the estimation of his model rather than per share data which would be more appropriate for testing dividend stability. Almost all studies done after the Lintner's study use per share data rather than aggregate data. Similarly, aggregate values in equation (3) such as the amount of actual dividends ($D_{i,t}$) and the amount of net income ($P_{i,t}$) are replaced by per share values in order to account for frequent capital increases and bonus dividend issues by the Thai corporations. In equation (4), DPS stands for dividend per share and EPS stands for earnings per share.

Data for studying dividend payment pattern of Thai listed firms

Samples were collected from the Stock Exchange of Thailand (SET). In order to examine dividend behavior, dividends and financial statements and share price data

of companies that listed for trading on the Main Board during the period 1997-2007 are used in this analysis. Financial firms (Banks, finance and securities companies, insurance companies) are excluded from the study as they are expected to be exposed to higher level of regulation than other industrial firms. Firms that fiscal year of operation is across between two years are also excluded. Unlike firms in developed countries that pay quarterly dividends, Thai firms typically pay dividends one time a year and only some firms pay quarterly, interim or special dividends. For the purpose of this study, only cash dividends are considered and stock dividends and stock repurchases are not considered.

The total number of Thai firms for which data are available during the sample period is 2,980. The sample firms are categorized on the basis of dividend policies. A dividend payer is the firm that has paid dividend in the current year (year t), where as a nonpayer has not paid dividend in the current year (year t). A firm is classified as a new list in year t if it is added to the company analysis database between January and December of year t. Former payers are firms which had paid dividends in some previous year but do not pay dividend in year t. Never paid firms are those that have never paid any dividend up to a given year (year t).

Characteristics of dividend payers

The characteristics of dividend payers and non-payers focus on four categories : profitability, investment opportunities, and size as identified by Fama and French (2001), and Wilfrid et. al. (2003).

Profitability Analysis of profitability is measured by earnings before taxes but after interest standardized by total assets and by after-tax earnings available to

common stock standardized by total assets. Fama and French (2001) note that this income measure is more relevant for boards of directors when setting the level of corporate dividends since it captures the accounting profits that are available for distribution to the firm's shareholders.

Investment Opportunities. Analysis of Investment Opportunities is measured by growth value of assets. Growth value of assets is the change in assets in Year t relative to Year $t-1$. However, this measure cannot be calculated by new lists since the firm's asset size prior to listing is not available. The second measure is the firm's market to book ratio which also has appeared in the literature, but only indirectly reflects corporate investment. Further, as mentioned by Ferris et. al. (2006), it is most commonly used as an indicator of the stock market's valuation.

Size. The book value of assets is used for a measurement of size.

Methodology for Testing Characteristics of Dividend Payers

An analysis of the effects of size, profitability and investment opportunities has been done by using Logistic Regression.

This study hypothesizes that larger firms are more likely to pay dividends compared to small firms. Profitable firms are more likely to pay dividends compared to less profitable firms or loss making firms. Firms with less investment opportunities are more likely to pay dividends.

Chapter 2

Dividend policy

Dividend policy is an important subject in corporate finance, and dividends are a major cash outlay for many corporations. The heart of the dividend policy question is just this: Should the firm pay out money to its shareholders, or should the firm take that money and invest it for its shareholders? This chapter includes topics that relate to dividend policy such as the dividend decision, types of dividends, how dividends are paid, theories of dividend preference, dividend stability, factors affecting dividend policy.

2.1 The Dividend Decision

Lasher (2008) demonstrated that a firm's earnings belong to its stockholders. The decision is a choice made by management on behalf of those stockholders about what to do with their earnings. Theoretically, there are only two alternatives. Earnings can be paid out as dividends or retained for reinvestment in the business. Both options benefit stockholders, but in different ways.

The dividend option gives stockholders an immediate cash payment that they can spend or reinvest as they please. Retaining earnings, on the other hand, involves investing the money in business projects that are expected to enhance profitability. Those higher profits cause the stock price to increase, which means share owners hold more valuable financial assets which they will eventually sell for higher prices. It's important to focus on the different characteristics of the benefits created by the two mechanisms.

A dividend gives stockholders current income they can spend immediately. Current income is important to some investors because they need to live on it. To other it's less significant because they don't need it immediately and would just reinvest it. Stock price appreciation on the other hand, can't be spent without selling the stock, which many people don't want to do right away. Hence retained earnings produces deferred income. The dividend decision is the choice between paying more or less in near-term dividends. That implies trading off between the two stockholder benefits. It is not a question whether the stockholder gets a dividend or gets nothing (Leasher, 2008).

2.2 Types of Dividends

There are two types of dividends

1. Cash Dividend

The most common type of dividend is a cash dividend. Public companies usually pay regular cash dividends every year. These are cash payments made directly to shareholders. Sometimes firms will pay a regular cash dividend and an extra cash dividend. By calling part of the payment "extra," management is indicating that part may or may not be repeated in the future. Pay a cash dividend reduces corporate 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.

Gitman (2006) states that stock dividends are more costly to issue than cash dividends, but certain advantages may outweigh those costs. Firms find the stock dividend to be a way to give owners something without having to use cash. Generally, when a firm needs to preserve cash to finance rapid growth, a stock dividend is used. When the stock-holders recognize that the firm is reinvesting the cash flow so as to maximize future earnings, the market value of the firm should at

least remain unchanged. However, the stock dividends is paid so that cash can be retained to satisfy past due bills, a decline in market value may result.

Other types of dividends

Ross et. al. (2008) mentioned that there are other types of dividends. Companies listed on the Japanese Nikkei stock market have given shareholders alternative dividends in the form of food items, prepaid phone cards, and so forth. For example, McDonald's Holdings Company (Japan) gave its shareholders coupon books for free hamburgers.

Stock Repurchases

In recent years, firms have increased their repurchasing of outstanding common stock in the marketplace. The partial motives for stock repurchases include obtaining shares to be used in acquisitions, having shares available for employee stock option plans, and retiring shares. The recent increase in frequency and importance of stock repurchases is due to the fact that they either enhance shareholder value by (1) reducing the number of shares outstanding and thereby raising earnings per share, (2) sending a positive signal to investors in the marketplace that management believes that the stock is undervalued, and (3) providing a temporary floor for the stock price, which may have been declining. The use of repurchases to discourage unfriendly takeovers is predicted on the belief that a corporate raider is less likely to gain control of the firm if there are fewer publicly traded shares available (Gitman, 2006).

2.3 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 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, not 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 = $\$(P+D)$

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

2.4 Theories of investor preference of dividends

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 some 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. 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.

Emery, et. al. (1997) stated that the crux of dividend irrelevance argument is that fair market transactions are neutral and do not transfer wealth. When a firm pays a dividend, money is simply transferred from one form to another. Before payment of the dividend, the money is in the form of a shareholder claim on the firm's assets. After payment of the dividend, the shareholder has cash. But as long as the transfer is a fair market transaction in a perfect capital market environment, the value is the same. Another transaction that is needed to be consider is selling new shares. Again, this is simply a transfer of money from one form to another. Before the transaction, the new investors have cash. After exchanging the cash for new shares, the new investors have an equal-value claim on the firm's assets. And again, as long as the transfer is a fair market transaction in a perfect capital market environment, the value is the same.

Now let's consider a dividend under three different cases. In the first case, the firm has the necessary cash and simply reduces its cash account to pay the dividend. The "offsetting" amount in the double-entry system is an equal reduction in the

shareholder equity account. This is the transfer money from one form, a claim on the firm, to another form, cash in the shareholder's hand.

In the second case, the firm does not have the cash to pay the dividend, so it issues new shares in exchange for cash, which temporarily increases the total value of the firm. Then the firm makes the dividend payment, which reduces total firm value back to its new share value. Because both transactions are simply fair market transactions that transfer money from one form to another, each's party value is the same, and after both transactions, firm value is unchanged. In third case, a shareholder wants a cash dividend and thus wants the firm to make the transactions. But the firm has decided not to pay dividends because it does not want to go to trouble of making the two transactions. The existing shareholder can go out and find a new investor and sell some shares directly to that new investor in exchange for cash. The net effect of this direct sale is the same as the firm's two transactions in the second case. Part of the existing shareholder's claim would go to the new investor in exchange for cash. And as long as it is a fair market transaction in a perfect market environment, neither party gains nor loss a value. This direct transaction-a shareholder selling some shares to get cash-is called a homemade dividend.

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.

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.

4. The Residual Dividend Theory

This theory focuses on the firm’s internal need for capital. Under this concept, companies recognize the cost effectiveness of retained earnings, and fund the equity portion of all viable projects with earnings before paying any dividends. Anything leftover is paid out as dividends. Brigham and Ehrhardt (2002) concluded that under this model a firm follows these four steps when establishing its target payout ratio: (1) it determines the optimal capital budget; (2) it determines the amount

of equity needed to finance that budget, given its target capital structure; (3) it uses retained earnings to meet equity requirements to the extent possible; and (4) it pays dividends only if more earnings are available than are needed to support the optimal capital budget. For example, suppose the target equity ratio is 60 percent and the firm plans to spend \$ 50 million on capital projects. In that case, it would need $\$50(0.6) = \$ 30$ million of common equity. Then if its net income were \$100 million, its dividends would be $\$100 - \$30 = \$70$ million. So, if the company had \$100 million of earnings, and a capital budget of \$50 million, it would use \$30 million of the retained earnings plus $\$50 - \$30 = \$20$ million of new debt to finance the capital budget, and this would keep its capital structure on target. Note that the amount of equity needed to finance new investments might exceed the net income. This would happen if the capital budget were \$200 million. In that case, no dividends would be paid, and the company would have to issue new common stock in order to maintain its target capital structure.

5. 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

สำนักหอสมุดกลาง พระจอมเกล้าลาดกระบัง

an unanticipated dividend event is the initiation of cash dividend payment by the nonpaying firm.

6. The Expectations Theory

The expectations theory is a refinement of the signaling effect. It says that investors form expectations of what a company's next dividend will be and can become alarmed if those expectations aren't met, even if the dividend actually paid is steady or increasing. For example, suppose a company whose dividend has been \$2.00 per share achieves a substantial improvement in business, and people form the expectation that the next dividend should be \$2.20. Then suppose the firm pays \$2.10, an increase, but a smaller one than expected. The expectations theory says that investor reaction is likely to be negative because expectations weren't met, and stock price may very well fall (Lasher, 2008).

7. 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.

8. 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).

2.5 Establishing a Dividend Policy

Ross et. al. (2008) demonstrate a particular approach to establish a dividend policy that reflects many of the attitudes and objectives of financial managers as well as observed corporate finance.

Residual Dividend Approach

If a firm wishes to avoid new equity sales, then it will have to rely on internally generated cash flow to finance new, positive NPV projects. Dividend can be paid out of what is leftover. This leftover is called the residual, and such a dividend policy is called a residual dividend approach. With a residual dividend policy, the firm’s objective is to meet its investment needs and maintain its desired debt-equity ratio before paying dividends. Given this objective, those firms with many

investment opportunities are expected to pay a small percentage of their earnings as dividends and other firms with fewer opportunities are expected to pay a high percentage of their earnings as dividends.

2.6 Dividend Stability

Brigham and Enrhardt (2002) demonstrated dividend stability in their financial management book on page 706-707 as follows: The stability of dividends is important. Profits and cash flows vary over time as do investment opportunities. Taken alone, this suggests that corporations should vary their dividends over time, increasing them when cash flows are large and the need for funds is low and lowering them when cash is in short supply relative to investment opportunities. However, many stockholders rely on dividends to meet expenses, and they would be seriously inconvenienced if the dividend stream were unstable. Further, reducing dividends to make funds available for capital investment could send incorrect signals to investors, who might push down the stock price because they interpreted the dividend cut to mean that the company's future earnings prospects have been diminished. Thus, maximizing stock price requires a firm to balance its internal needs for funds against the needs and desires of its stockholders. How stable and dependable should a firm attempt to make its dividends? The following points are relevant:

1. Virtually every publicly owned company makes five-to-ten year financial forecast of earnings and dividends. Such forecasts are never made public—they are used for internal planning purposes only. However, security analysts construct similar forecasts and do make them available to investors.
2. Years ago, when inflation was not persistent, the term “stable dividend policy”

meant a policy of paying the same dollar dividend per year after year. Today, though most companies and stockholders expect earnings to grow overtime as a result of retained earnings and inflation. Further, dividends are normally expected to grow more or less in line with earnings. Thus, today a “stable dividend policy” generally means increasing the dividend at a reasonably steady rate. For example, Rubbermaid made this statement in its annual report:

Dividends per share were increased.....for the 34th year. Our goal is to increase sales, earnings, and earnings per share by 15% per year: while achieving a 21% return on beginning shareholders’ equity. It is also the Company’s objective to pay approximately 30% of current year’s earnings as dividends, which will permit us to retain sufficient capital to provide for future growth.

Rubbermaid used the word “approximately” in discussing its payout ratio, because even if earnings vary a bit from the a target level. The company still planned to increase the dividend by the target growth rate. Even though Rubbermaid did not mention the dividend growth rate in the statement, analysts can calculate the growth rate and see that it is the same 15 percent as indicated for sales and earnings:

$$\begin{aligned} G &= (\text{Retention rate})(\text{ROE}) \\ &= (1-\text{payout rate})(\text{RE}) \\ &= 0.7(21\%) = 15\% \end{aligned}$$

Companies with volatile earnings and cash flows would be reluctant to make a commitment to increase the dividend each year, so they would not make such a detailed statement. Even so, most companies would like to be able to exhibit the kind of stability Rubbermaid had shown, and they try to come as close to it as they can.

Dividend stability has two components: (1) How dependable is the growth rate, and (2) can we count on at least receiving the current dividend in the future? The most stable policy, from an investor's standpoint, is that of a firm whose dividend growth rate is predictable-such a company's total return (dividend yield plus capital gains yield) would be relatively stable over the long run, and its stock would be a good hedge against inflation. The second most stable policy is where stockholders can be reasonably sure that the current dividend will not be reduced-it may not grow at a steady rate, but management will probably be able to avoid cutting dividend. The least stable situation is where earnings and cash flows are so volatile that investors cannot count on the current dividend in the future.

3. Most observers believe that dividend stability is desirable and that investors prefer stocks that pay more predictable dividends to stocks that pay the same average amount of dividends but in a more erratic manner. This means that the cost of equity will be minimized, and the stock price maximized, if a firm stabilizes its dividends as much as possible.

2.7 Corporate Smooth Dividends

Ross et. al. (1996) concluded how corporate smooth dividends in their books as follows: In 1956 John Lintner suggested that managers estimate what portion of the firm's earnings is likely to be permanent and what portion of the earnings is likely to be temporary. He looked at the dividend payout pattern of firms and concluded that the dividends are more likely to be raised following a permanent, rather than a temporary, increase in earnings and that firms have a long-target for their dividend-to-earnings ratio. However, because managers need time to assess permanence of any

earnings rise, dividend changes appear to lag earnings change by a number of periods. It follows from Lintner's analysis that the dividend-to-earnings ratio rises when a company reaches a period of good times.

John Lintner's work and the later work of Fama and Babiak suggested that what is meant by dividend policy is related not only to the level of dividends but also to the change of dividends.

1 Level of Dividends. Managers tend to think of dividends payment in terms of a proportion of income and also think investors are titled to a "fair" share of corporate income. Corporation think in terms of a long-run target payout ratio.

2. Change in Dividends. Managers avoid making a change in the level of dividend payments if it will have to be reversed later. Thus, the level of dividends is more subtle than the levels of earnings. Firms "smooth" our changes in their dividends in relation to changes in earnings.

Taken together, Lintner's observation suggest that two parameters describe dividend policy: the target payout ratio (t) and the speed of adjustment of current dividends to the target(s). Dividend changes will tend to conform to the following type of model:

$$Div_1 - Div_0 = s (t EPS_1 - Div_0)$$

where Div_1 and Div_0 are dividends in the next year and dividends in the current year, respectively. EPS_1 is earnings per share in the next year.

A comparative company will have a low adjustment rate and a less conservative company a high adjustment rate. As can be seen, if $s=0$, $Div_1 = Div_0$ and if $s = 1$, the actual change in dividends will be equal to the target change in dividends.

The level of dividends will be set by t. A firm will have a low t if it has many positive

NPV projects and a high t if it has few positive NPV projects relative to available cash flow.

2.8 Other Factors that Influence Dividend Policy

Brigham and Ehrhardt (2002: 716-717) and Gitman (2006) discussed several other factors that affect dividend decision. They grouped these factors into five broad categories: (1) constraints on dividend payments, (2) investment opportunities, (3) availability and cost of alternative sources of capital, and (4) owner considerations and (5) market considerations.

1. Constraints

1.1 Bond Indentures. Debt contracts often prohibit the payment of cash dividends until a certain level of earnings has been achieved, or they may limit dividends to a certain dollar amount or percentage of earnings. 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.

1.2 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

1.3 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

1.4. **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.

2. Investment opportunities

2.1. 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.

2.2 **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.

3. Alternatives Sources of Capital

3.1 **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 flotation 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.

3.2 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 flotation 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.

3.3 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.

4. Owner Considerations

4.1 the tax status of a firm's owners. If a firm has a large percentage of wealthy stockholders who have sizable incomes, it may decide to pay out a lower percentage of its earnings to allow the owners to delay the payment of taxes until they sell the stock.

4.2 the owners' investment opportunities. A firm should not retain funds for investment in projects yielding lower returns than the owners could obtain from external investments of equal risk. If it appears the owners have better opportunities externally, the firm should pay out a higher percentage of its earnings. If the firm's investment opportunities are at least as good as similar-risk external investments, a lower payout is justifiable.

4.3 the potential of ownership. If a firm pays out a high percentage of earnings, new equity capital will have to be raised with common stock. The result of

a new stock issue may be dilution of both control and earnings for the existing owners. By paying out a low percentage of its earnings, the firm can minimize the possibility of such dilution (Gitman, 2006).

5. Market Considerations

5.1 An awareness of the market's probable response to certain types of policies is also helpful in formulating dividend policy. Stockholders are believed to value a fixed or increasing level of dividends as opposed to a fluctuating pattern of dividends. This belief is supported by the research of John Lintner, who found that corporate managers are averse to changing the dollar amount of dividends in response to changes in earnings, particularly when earnings decline. In addition, stockholders are believed to value a policy of continuous dividend payment. Because regularly paying a fixed or increasing dividend eliminates uncertainty about the frequency and magnitude of dividends, the returns of the firm are likely to be discounted at a lower rate. This should result in an increase in the market value of the stock and therefore an increase in the owners' wealth (Gitman, 2006).

4.2 The other market consideration is informational content. Shareholders often view a dividend payment as a signal of the firm's future success. A stable and continuous dividend is a positive signal, conveying the firm's good financial health. Shareholders are likely to interpret a passed dividend payment due to a loss or to very low earnings as a negative signal. The nonpayment of dividend creates uncertainty about the future, which is likely to result in lower stock value. Owners and investors generally construe a dividend payment during a period of losses as an indication that the loss is merely temporary (Gitman, 2006).

2.8 Dividend Reinvestment Plans

In recent years most larger companies have instituted dividend reinvestment plans (DRPs), whereby stockholders can automatically reinvest dividends received in the stock of paying corporation. There are two types of DRPs: (1) plans that involve only “old” stock that already is outstanding and (2) plans that involve newly issued stock. In either case, the stockholder must pay income taxes on the amount of dividends even though stock rather cash is received.

Under the “ old stock” type of plan, the stockholder chooses between receiving dividend checks or having the company use the dividends to buy more stock in the corporation. If the stockholder elects reinvestment, a bank, acting as trustee, on the open market, and allocates the shares purchased to the participating stock-holders’ accounts on a pro rata basis. The transaction costs or buying shares (brokerage costs) are low because of volume purchases, so these plan benefit small stockholders who do not need cash dividends for current consumption. The “new-stock” type of DRP provides for dividends to be invested in newly issued stock; hence, these plans raise new capital for the firm.

Literature Review

Adaoglu (2000) provides evidence from the Istanbul Stock Exchange (ISE), an emerging European stock market, and analyses empirically whether the ISE corporations follow stable cash dividend policies in a regulatory environment that imposed mandatory dividend policies. Unlike the empirical results supporting the stable dividend policy behaviour of corporations operating in developed markets, the

empirical results show that the ISE corporations follow unstable cash dividend policies and the main factor that determines the amount of cash dividends is the earnings of the corporation in that year.

Anand (2004) analyses the results 2001 survey of 81 CFOs of the the 500 companies and her most valuable PSUs in India to find out the determinants of the dividend policy decisions of the corporate India. It uses factor analytic framework on the CFOs' responses to capture the determinants of dividend policy of corporate India. Most of the firms have target dividend payout ratio and dividend changes follow shift in the long-term sustainable earnings. The findings on dividend policy are in agreement with Lintner's study on dividend policy.

Ferris et. al. (2006) examine whether the decline in the number of dividend payers is purely a U.S. phenomenon or is part of a global trend. They found that the number of UK firms paying dividends declines from 75.9% to 54.5%. They found that attractive internal investments are less likely to have funds available for distribution as dividends. Dividend payers are more profitable and larger than non payers.

Naceur et. al., (2006) study the dividend policy of 48 firms listed on the Tunisian Stock Exchange during 1996-2002 period. The study tests whether managers of Tunisian listed firms smooth their dividends or not. Beside, the study outlines the main determinants that may drive the dividend policy of Tunisian quoted firms. To answer the first question, they use Lintner's model in a dynamic setting. The results clearly demonstrate that Tunisian firms rely on both current earnings and past dividends to fix their dividend payment. However, the study shows that dividends tend to be more sensitive to current earnings than prior dividends. To find out the determinants of dividend policy, dynamic panel regressions have been performed.

First, profitable firms with more stable earnings can afford larger free cash flows and thus, pay larger dividends.



Chapter 3

Empirical Results

Results of Whether Thai firms' dividend payment rely on current earnings or past dividends

In Table 1 in which the Lintner model estimation results for the 1998-2008 period are presented. The results show that the statistically variables are the earnings per share ($EPS_{i,t}$), the lagged dividend per share ($DPS_{i,(t-1)}$), and the positive constant term (α_1). The statistical significance of $DPS_{i,(t-1)}$ is the first indication of dividend stability, since in order to follow a stable dividend policy, management has to consider the past dividends per share trend. The intercept term is significantly positive. This indicates the reluctance of the Thai companies to avoid payment of dividends. The regression coefficients of current earnings (EPS_t) and the past dividends (DPS_{t-1}) are highly significant but the generally higher coefficients and the associated t-statistics of DPS_{t-1} imply the greater importance of past dividend in deciding the dividend payment.

Table 1 Lintner Model Estimation Results

$$\text{Equation: } DPS_{i,t} = \alpha_1 + \beta_1 EPS_{i,t} + \beta_2 DPS_{i,(t-1)}$$

Fixed Firms Effect Model (t-value)

$$DPS_{i,t} = 0.540 + 0.068 EPS_{i,t} + 0.617 DPS_{i,(t-1)}$$

(6.894)** (16.678)** (34.265)**

Adj. R^2 : 0.531 panel n = 1464 F-test = 830.276**

** significant at 1% level

A Time-Series Examination of Dividend Payment by Thai Firms

Analysis of dividend policy among Thai firms is begun by examining the time-series pattern in dividend payout by the sample firms. Figure 1 presents a time-series pattern in dividend payout by sample firms of both the number (fig. 1a) and percentage (fig.1b) of sample firms contained in the four different groups based on dividend payout policy: (a) dividend payers, (b) dividend nonpayers, (c) firms that never paid a dividend, and (d) former dividend payers. It can be observed from the plots contained in figure 1 that both the number and percentage incidence of dividend payment by firms increase over the sample period. This is contrast to the trend observed in the US and UK market (Fama and French 2001, Ferris et.al., 2006).

Table 2 Time-Series of Thai Firms : Number of Firms in Each Dividend Group

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
All	335	320	302	276	266	267	281	302	324	333	335
Payers	82	94	105	121	137	163	191	219	233	231	243
Not new list payers	82	93	105	120	136	153	175	193	208	222	237
New list payers	0	1	0	1	1	10	16	26	25	9	6
Non-Payers	253	226	197	155	129	104	90	83	91	102	92
Never paid	14	14	14	11	11	10	8	4	3	3	3
Former	237	212	183	143	117	92	79	75	88	97	88
New List Nonpayer	2	0	0	1	1	2	3	4	2	2	1

Table 3 Time-Series of Thai Firms : The Percentage of Firms in Each Dividend Group

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Payers	24.5	29.4	34.8	43.8	51.5	61.0	68.0	72.6	71.9	69.4	72.5
Not new list payers	24.5	28.4	34.8	43.0	51.1	57.3	62.3	64.0	64.2	66.7	70.7
New listed payers	0	1	0	0.8	.4	3.7	5.7	8.6	7.7	2.7	1.8
Non	75.5	70.6	65.2	56.2	48.5	39.0	32.0	27.4	28.1	30.6	27.5
Never paid	4.2	4.4	4.6	4.0	4.1	3.8	2.8	1.3	0.9	0.9	0.9
Former	70.7	66.2	60.6	51.8	44.0	34.5	28.1	24.8	25.6	29.1	26.3
New List Nonpayer	0.6	0	0	0.4	0.4	0.7	1.1	1.3	1.6	0.6	0.3

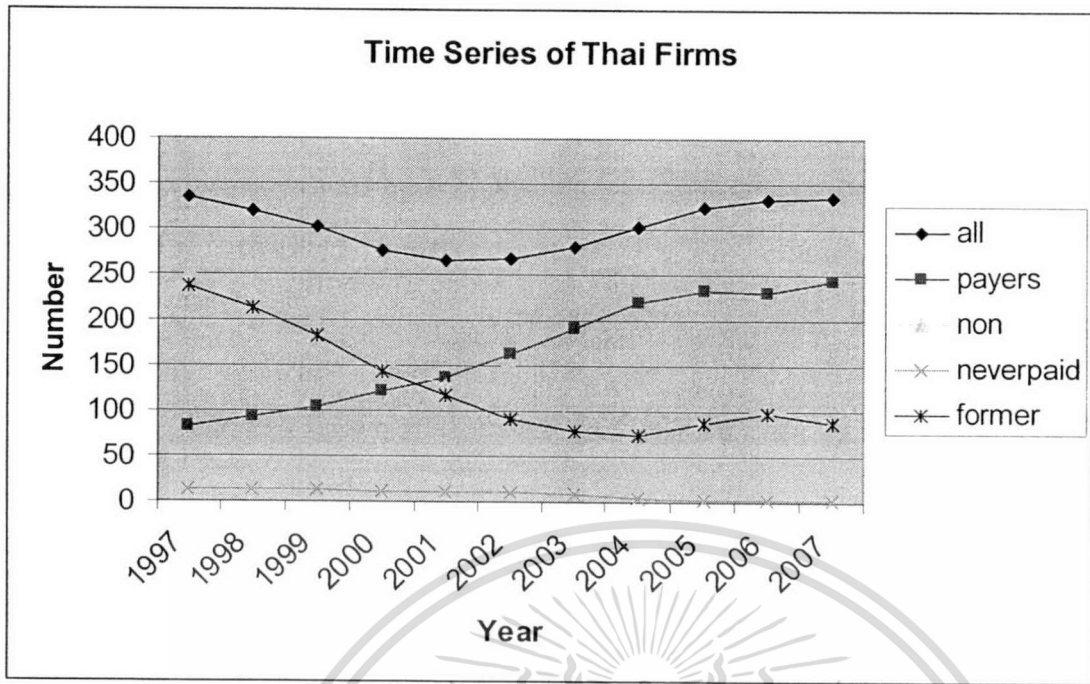


Figure 1a: Time Series of Thai Firms (Number of Firms)

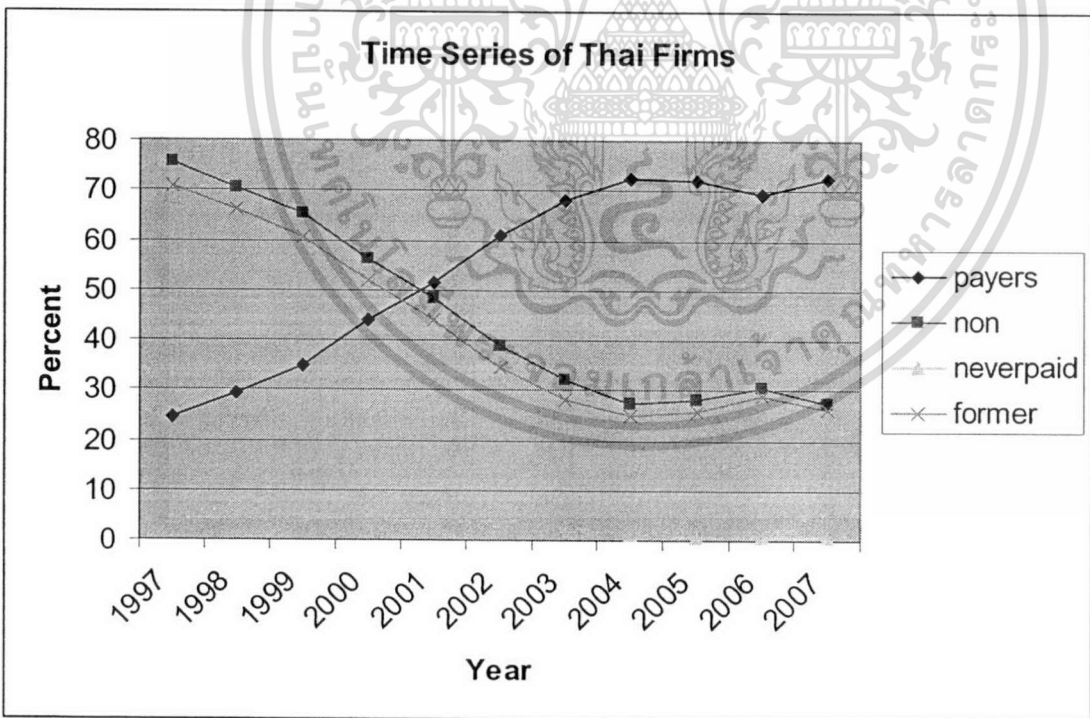


Figure 1b: Time Series of Thai Firms (Percentage of Firms)

Figure 1. clearly reveals that the increase of the number of dividend paying and the percentage of dividend payers in Thailand increases monotonically over the sample 1997 to 2007. The decline in the percentage of nonpayers appears attributable to a corresponding decrease in the percentage of former dividend payers.

In table 3 clearly reveals that the percentage of companies paying dividends has increased from 24.5 percent in 1997 to 72.5 % in 2007. This corresponds to only 82 dividend paying firms in 1997 compared to 243 such firms in 2007

Unlike that found in UK., a sharp increase in the percentage of dividend payers among new lists is found in Thailand (Table 3). The percentage of new lists that pay dividends increases from 50% in the year 2000 to a sample of high of 92.6% in 2005 and rises to 85.7% in 2007.

Table 4 Time-Series of Thai Firms : The Percentage of Firms in Each Dividend Group

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
New Lists payer	-*	100	-*	50	50	83.3	84.2	86.7	92.6	81.8	85.7
New Lists non payer	100	-*	-*	50	50	16.7	15.8	13.3	7.4	18.2	14.3

Note: * means no new lists firms that year

Table 5 What Happens in Year t to Firms That Do and Do Not Pay Dividends in Year t-1? (Number of Firms)

Firm Categories	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-2007
Continue to pay	65	85	100	116	131	153	173	193	207	231	145
Stop paying	15	5	3	3	4	9	15	23	26	0	10
Merge or delist	2	4	2	0	1	1	3	3	0	0	2
Missing data in year t	0	0	0	1	1	0	0	0	0	0	0
Start Paying	28	20	20	19	22	22	20	15	15	9	19
Do not Pay	212	192	151	125	98	78	64	63	74	93	115
Merge a delist	13	6	11	3	4	3	4	4	1	0	5
Missing data in year t	0	8	15	7	5	1	2	1	1	0	4
Never paid in t-1 but pay in t	0	0	1	0	0	1	2	1	0	0	1
Former Payers in t-1 but pay in t	28	20	19	18	21	21	16	12	12	9	17
New lists nonpayers in t-1 but pay in t	0	0	0	1	1	0	2	2	3	0	1

Table 6 What Happens in Year t to Firms That Do and Do Not Pay Dividends in Year t-1? (Percentage of Firms)

Firm Categories	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-2007
Continue to pay	79.3	90.4	95.2	97.5	95.7	93.9	90.6	88.1	88.8	98.7	91.9
Stop paying	18.3	5.3	2.9	2.5	2.9	5.5	7.8	10.5	11.2	0	6.7
Merge or delist	2.4	4.3	1.9	0	0.7	0.6	1.6	1.4	0	1.3	1.4
Missing data in year t	0	0	0	0	0.7	0	0	0	0	0	0
Start Paying	11.1	8.9	10.1	12.3	17.0	21.1	22.2	18.1	16.5	8.8	14.6
Do not Pay	83.4	85	76.7	81.2	76.0	75	71.1	75.9	81.3	89.2	79.5
Merge a delist	5.1	2.6	5.6	2.0	3.1	2.9	4.5	4.8	1.1	2	3.4
Missing data in year t	.4	3.5	7.6	4.5	3.9	1	2.2	1.2	1.1	0	0
Never paid in t-1 but pay in t	0	0	5	0	0	5.3	10	6.7	0	0	2.7
Former Payers in t-1 but pay in t	100	100	95	94.7	95.5	94.7	80	80	80	100	92.0
New lists nonpayers in t-1 but pay in t	0	0	0	5.3	4.5	0	10	13.3	20	0	5.3

In Table 6 demonstrates an analysis of the subsequent status of firms that both pay and do not pay dividends. More specifically, the nature of firms that do and do not pay dividends in year t-1 has been examined to see what occur to them in year t. For firms that pay dividends in year t-1, table 6 shows that nearly 92% continue to do so over the entire sample period. The percentage of these payers that terminate dividends is small and demonstrates relatively little variability.

The frequency with which firms that do not pay dividends in t-1 subsequently initiate dividends also declines over the sample period. From 11.1% in 1998 , 8.8% begin paying dividends in 2007. But there is an increase over some periods. For the beginning years of the sample 1998-2000, about 10 % of the firms that did not pay dividends in year t-1 pay dividends in year t. For 2001-2006, an average of 18% of firms that did not pay dividends in year t-1 initiate dividends. In table 6 , it is observed that the set of firms that initiate dividends emerge from former payers rather than from those that have never paid dividends. 92% of former payers initiate dividends over the entire sample period. However, since the number of never paid firms and new lists are small, this study did not analyze these groups.

Characteristics of dividend payers

Many researchers identified that dividend policy is related with firm profitability, size, and its investment opportunities (Smith and watt, 1992; Grave, 1993; Barclay, et.al., 1995; Fama and French, 2001; De Angelo et. Al., 2004; Ferris et.al., 2006,). In this study firm characteristics across dividend groups of Thai firms are examined. This study investigates whether dividend payers and dividend nonpayers, differ from each other on the basis of profitability, size, and investment opportunities. Since the number of never paid firms (on average less than 15 firms per year) and new lists (on average less than 5 firms per year) are small, the information about these groups are not informative.

A. Profitability

The analysis of comparative profitability in table 7 is started by focusing on earnings before taxes but after interest standardized by total assets. For the entire sample period, the mean profitability of dividend payers is higher than that of nonpayers. These differences in profitability remain when these payers are separately compared with firms that have never paid dividends and those that were former payers. Over the entire sample period, the payers' profitability averages 10.7 % compared to a loss of 6.9 % for nonpayers. The differences in profitability still hold when profitability of dividend payers are separately compared with firms that have never paid dividends and those that were former payers.

Profitability is also measured by using after-tax earnings available to common stock standardized by book value of assets. Researchers (Fama and French, 2001; Ferris,et.al., 2006) document that since this earnings measure sum up the profits that

are obtainable for distribution to shareholders of the firms, it is significant for board when determine the dividend level. Over the entire sample period, the payers' profitability averages 8.0 % compared to - 6.2% for nonpayers.

It can be concluded from this analysis that dividend payers are more profitable than those that do not pay dividends. It also holds across all subperiods and is robust to alternative measures of profitability.

Table 7 Financial Characteristics for Firms According to Dividend Group

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-2007
A. Profitability: Earnings before Taxes but after Interest Standardized by Assets												
All firms	-2	-2.2	-9.5	1	.2	5	6.2	6.9	7.3	5.9	4.6	2.1
Payers	12	12.1	10	10.9	10.6	10.8	11	10.7	10.3	10.2	8.8	10.7
Nonpayers	-6	-8.2	-19.2	-7.5	-10.9	-5	-3.3	-3	-.6	-4	-6.7	-6.9
Never paid	-6	-2.5	-12.7	-5.9	-3.8	1	4.4	1.3	-.9	.04	-.8	-2
Former	-6	-8.5	-20.5	-8	-11.6	-6	-5	-4	-1	-4.2	-7.3	-7.5
After-Tax Earnings Available to Common Standardized by Assets												
All	-13.5	-4	-8.7	2	4.8	3.4	6.6	5.5	5.8	4.2	2.8	.8
Payers	5.6	9	7.7	8.4	8.3	8.4	8.7	8.7	8.1	8.1	6.7	8
Non	-19.7	-9.8	-17	-4	1	-4.3	1.96	-3.1	-.07	-4.4	-7.3	-6.2
Never paid	-21	-1.3	-12.3	-1	-3.3	.6	5.6	1.2	-2.1	.02	-1	-3.1
Former	-19.7	-10.3	-17.8	-4	1.4	-4.7	1	-3.9	-.4	-4.7	-7.7	-3.2
B. Investment Opportunities: Asset Growth Rate												
All		-.05	-4.8	2.2	.3	9.6	10.8	15.4	11.5	7.3	4.0	5.6
Payers		-2.3	5.3	6.7	5.4	12.7	14.3	20	11.5	9	6.5	8.9
Non		-6.3	-10.2	-1.3	-.04	4.9	3.7	4.2	11.6	3.7	-2.5	.8
Never paid		.9	-5.2	-4.1	-6.0	44.4	-.8	4.6	1.9	1	-3.2	3.35
Former		-6.8	-10.6	-1	-4.9	0.6	4.1	4.2	11.9	3.7	-2.4	.08
Total Market Value Standardized by Total Assets												
All	1.02	.98	1.18	.98	.98	1.11	1.53	1.28	1.19	1.19	1.31	1.16
Payers	1.04	.91	1.00	.90	.95	1.11	1.90	1.26	1.22	1.26	1.31	1.17
Non	1.02	1.01	1.27	1.04	1.01	1.10	.74	1.38	1.10	1.02	1.30	1.09
Never paid	1.09	.98	1.20	.98	.99	.99	.63	2.34	1.06	.99	1.04	1.12
Former	1.02	1.01	1.28	1.05	1.01	1.11	.74	1.33	1.08	1.02	1.26	1.08
C. Size: Average Assets (000s)												
All	8.46	8.16	7.59	7.01	7.31	7.67	7.83	12.61	9.38	10.24	10.86	8.83
Payers	4.13	3.39	4.64	5.61	8.26	8.48	8.45	15.03	10.59	12.19	12.87	8.51
Non	9.81	10.15	9.16	8.10	6.32	6.40	6.52	6.25	6.27	5.81	5.44	6.8
Never paid	27.78	27.27	26.42	24.65	23.22	27.31	30.70	44.97	58.66	62.70	62.07	37.8
Former	8.80	9.17	8.08	6.63	4.76	4.02	3.83	4.34	1.43	3.93	3.52	5.32

B. Investment Opportunities

Two proxies for the comparative analysis of corporate investment opportunities among dividend payers and nonpayers which are asset growth and firm's market-to-book ratio are used. Using the annual percentage change in the

firm's total assets, It is found that Thai payers do consistently demonstrate higher asset growth rates than dividend nonpayers which is similar to that observed for UK firms (Ferris, et.al., 2006) but contrast to U.S. firms(Fama and French, 2001). However, this measure cannot be calculated for new lists since the firm's asset size immediately prior to listing is not available.

The other proxy for the firm's investment opportunities is its market-to-book ratio. This measure is calculated by dividing the ratio of the firm's market value (market value of equity and the book value of liabilities) to the book value of assets. Over the entire sample period dividend payers do not consistently demonstrate higher mean market-to-book ratios than payers. On the whole in the Thai context, higher growth and growth opportunities have not resulted in lower dividend payments by corporate firms. This findings contradicts the findings of Fama and French, whereby they contend that growth opportunities are important reason for reduced dividend payments by firms.

C. Size

The last characteristic that is compared between payers and nonpayers is firm size as measured by total assets. It is found that indeed, Thai dividend payers are not consistently larger size than nonpayers. Over the entire sample period, the assets of dividend payers are larger than those of nonpayers. During 1997-2000, dividend nonpayers are on average bigger than payers but during 2001-2007 dividend payers are on average larger than nonpayers. Thai dividend payers are not consistently larger size than nonpayers. During 1997-1999 period, There was a financial crisis in Asia which includes Thailand. Therefore, the reasons for not paying dividend during those

period may be the result of financial disaster not because of the characteristics of the firms.

The Simultaneous Effects of Size, Profitability, and Investment Opportunities

Table 8 presents results from a logit analysis of the simultaneously impact of size, Profitability, and Investment Opportunities

Table 8 presents results a logit analysis of the simultaneous impact of size, profitability, and investment opportunities on the firm's decision to pay dividends. The independent variables are earnings before taxes but after interest standardized by total assets (profitability), the growth rate in assets (investment opportunities), the market-to-book ratio (investment opportunities), and the percentage of firms with the same or lower market capitalization as the specific firm (size). The results from this section will demonstrate whether dividend-paying firms are larger and more profitable than nonpayers but have fewer investment opportunities, apply in an emerging market, Thailand as applied in developed countries like U.S. and U.K. findings (Fama and French, 2001; Baker and Wurgler (2004a), and DeAngelo, DeAngelo, and Skinner (2004), Ferris, (2006).

Table 8 demonstrates that in general, across the entire sample period, firm size and profitability are significantly positive influences on the decision to pay dividends. These findings confirm the hypothesis that larger firms are more likely to pay dividends compared to small firms. Profitable firms are more likely to pay higher dividends compared to less profitable firms or loss making firms. The results showed that in some periods, the investment opportunities of a firm as measured by market to book ratio reduce the likelihood of paying dividends. The investment opportunities

of a firm as measured by asset growth rate exerts a positive impact but is consistently insignificant. This result contradicts the findings of Fama and French where their study finds that firms with more investment opportunities pay lower dividends.

Table 8 Logit Regression Analysis of a Firm's Decision to Pay Dividends

Time Period	Intercept	Capitalization	MTB Ratio	Growth in Assets	Earnings to Assets
A regression Estimates for the Aggregate Sample					
1998	-1.878** (19.04)	.018** (13.05)	-.247 (.64)	.000 (.00)	.077** (35.13)
1999	-2.071* (15.96)	.032** (19.88)	-.624* (4.78)	.018 (3.10)	.238** (56.02)
2000	-1.646** (9.031)	.027** (14.17)	-1.192** (9.857)	.002 (.207)	.262** (57.28)
2001	-1.010* (3.87)	.019** (8.59)	-1.285** (10.721)	.019 (3.76)	.262** (53.80)
2002	-.535 (.906)	.014* (4.31)	-1.349* (8.10)	.006 (.003)	.322* (49.72)
2003	-31.457* (.046)	.728* (3.83)	8.463 (3.75)	.022 (.218)	.166 (2.759)
2004	-.778 (2.83)	.030** (15.23)	-.94** (5.8)	.013 (2.42)	.232** (40.71)
2005	-.183 (.211)	.030** (15.85)	-1.616* (19.62)	-.003 (.747)	.298* (56.94)
2006	-1.242** (6.709)	.030** (18.760)	-.586 (2.32)	.009 (2.074)	.298** (56.54)
2007	-.556 (2.64)	.025** (17.60)	-.231 (2.02)	.016 (.22)	.173** (43.26)

* significant at 5 percent level

** significant at 1 percent level

Chapter 4

Conclusions

This study examines whether Thai firms follow stable dividend policy.

Sample includes 122 listed firms on the Stock Exchange of Thailand during the period 1997-2007, the balanced number of pooled observations is 1,464.

Lintner's model is used to test for dividend stability of firms. Pooled OLS regressions results support the Lintner model. The results indicates the reluctance of the Thai companies to avoid payment of dividends. The regression coefficients of current earnings (EPS_t) and the past dividends (DPS_{t-1}) are highly significant but the generally higher coefficients and the associated t-statistics of DPS_{t-1} imply the greater importance of past dividend in deciding the dividend payment. The results clearly demonstrate that Thai firms rely on both current earnings and past dividends to fix their dividend payment. However, the study shows that dividends tend to be more sensitive to prior dividends than current earnings.

This study also investigates dividend payment trends in Thailand and analyzes the influence of firm characteristics such as profitability, investment opportunities, and size on the dividend payment pattern. Sample data includes the pooled sample of 2,980 firms from the period of 1997-2007. The study shows that both the number and percentage incidence of dividend payment by Thai firms increase over the sample period which is contrary to the phenomenon of US and UK. Indeed, the percentage of companies paying dividends has increased from 24.5 percent in 1997 to 72.5 % in 2007. 92% of firms that paid dividends in year t-1 continue to do so over the entire period. Consistent with what has been found in developed countries, dividend paying firms are more profitable and larger than nonpaying firms. However, investment opportunities does not reduce the likelihood of paying dividends.

References

- Aharony, J. & I. Swary, 1980. "Quarterly Dividends Earnings Announcement and Stockholders' Returns: An Empirical Analysis," *Journal of Finance*, 35, pp1-2.
- Adaoglu, Cahit , 2000. "Instability in the Dividend Policy of the Istanbul Stock Exchange (ISE) Corporations: Evidence from an Emerging Market", *Emerging Markets Review*, 1(3), 252-270.
- Anand, M., 2004, "Factors Influencing Dividend Policy Decision of Corporate India" *ICFAI Journal of Applied Finance*, Vol., 10, No. 2, pp. 5-16.
- Asquith, P., & Mullins, Jr., 1983 "The Impact of Initiating Dividend Payments on Shareholders' Wealth," *Journal of Business*, 56 , pp. 76-96.
- Baker and Wurgler , 2004. "A Catering Theory of Dividends", *Journal of Finance*, 59, 1125-1165.
- Brigham, E., & Ehrhardt, M. 2002, *Financial Management: Theory and Practice* (Thomson Learning: Singapore).
- Denis, D. and Osbov, I., 2007, "Why Do Firms Pay Dividends? International Evidence on the Determinants of Dividend Policy" Working Paper.
- Dewenter, K. L., and V. A. Warther, 1998, "Dividends, Asymmetric Information, and Agency Conflicts: Evidence from a Comparison of the Dividend Policies of Japanese and US Firms", *Journal of Finance* , 53, 879-904.
- Fama E. and Babiak H., 1968 , "Dividend policy of individual firms: an empirical analysis", *Journal of the American Statistical Association*, 63: 1132-1161.
- Fama, E. and K. French, 2001. "Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?", *Journal of Financial Economics* 60, 3-43.
- Ferris , S., Sen, N., and Yui, H.P., 2006, "God Save the Queen and Her Dividends: Corporate Payouts in the United Kingdom" *Journal of Business*, Vol. 79, No. 31, pp.1149-1173.
- Lasher, W. 2008. *Financial Management: A Practical Approach*. Thomson Southwestern. China.
- Lintner, J., 1956 , "Distribution of Incomes of Corporations Among Dividends, Retained Earnings and Taxes", *American Economic Review*, 97-113
- Miller, M., & F. Modigliani. 1961. "Dividend Policy, Growth, and the Valuation of Shares," *Journal of Business*, 34, pp. 411-433.

Naceur, S., Goaid, M. & Belaine, A., 2004, “On the Determinants and Dynamics of Dividend Policy” Working Paper.

Ross, S., Westernfield, R., & Jaffe, J., 1996. Corporate Finance. Irwin McGraw-Hill.

Ross, S., Westernfield, R., & Jordan, B., 2008. Essentials of Corporate Finance.

McGraw-Hill Irwin

