Dividend Policy and Smoothening Behavior of the Southeast Asian Countries Including Japan

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ABSTRACT

This study examines the dividend policy and smoothening behavior of major Southeast Asian countries including Japan. The study uses firm specific variables including corporate governance measures as independent variables. The results indicated financial leverage, return on equity, asset tangibility, Tobin Q, market concentration (HHI), and life cycle are the main determinants of dividend policy for the Southeast Asian region. In addition to this, the corporate governance measures (board composition, audit quality, and ownership structure) are also found as significant determinants of dividend policy of the selected economies. However, the results for cash flow and business risk are found to be contradictory due to their insignificant impacts on dividend policy in some economies. Thus, the study concludes that most determinants of dividend policy are similar within the regions. The study also used probit model in order to find probable factors that may influence the dividend policy and the results show similarity between determinants of dividend policy and probability factors that influence dividend policy. The probable factors are the same as the determinants of dividend policy. In addition to this, the study also tested the application of Lintner model, and the results clearly depicted that last year dividend as well as the current year earnings are the main factors that impact dividend policy of the firms within the region. More so, focusing on the speed of adjustment and target payout ratio of the firms, the study unites that firms have moderate speed of adjustment, and management is reluctant to cut dividends. Lastly, the target payout ratios of the firms also suggest that firms do have moderate target payout ratio except for Singapore with target payout ratio almost equal to 1. Conclusively, the study reveals that the determinants of dividend policy for the Southeast Asian countries are quite similar, firms do follow smooth dividend policy, and management is reluctant to cut dividends in the long run.

KEYWORDS
Corporation Governance, Dividend Policy, Lintner Model

1. INTRODUCTION

The absence of an adequate theory to explain determinants of dividend policy and its observed effect on its value is cogently stated by Black (1976) and Brealey and Myers (2003), who argued that the “dividend controversy” is of one of the ten puzzle in corporate finance that are “ripe for productive research”. DeAngelo and DeAngelo (2006) challenge Black’s proposition and state that this “puzzle” is not a puzzle because it is rooted in the mistaken idea that Miller and Modigliani’s (1961) irrelevance theorem applies to payout/retention decisions. Bhattacharyya (2007) was unconvinced by that argument, and concluded that dividend policy remains a puzzle. The conflict remains unresolved.

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because the researchers attempted to connect the pieces from different economies with different market structures, investors’ behavior and geographical location (Kania and Bacon, 2005; Das (2017). This adds to the puzzle rather than resolving it (Valipor and Rostamility, 2009; Devaki & Kamalaveni, 2012). These contradiction echo the view of Baker et al. (2002, p. 255), who assert that “despite a voluminous amount of research, we still do not have all the answers to the dividend puzzle”.

The study aims to address the dividend puzzle in Southeast Asian context. For the purpose, the study conducts different analyses in order to address the dividend puzzle. Importantly, the study conducts different analyses to solve the dividend puzzle in Southeast Asian countries. The findings are expected to contribute in existing literature by highlighting the determinants of dividend policy, comparative analysis of markets, application of Lintner, (1956), firms’ dividend behavior and speed of adjustment. The comparative analysis provides a new insight into dividend policy of the firm’s Southeast Asian context, so the following sub-objectives are generated to address the issue of dividend policy.

1. To examine the determinants of dividend policy in Southeast Asian regional markets.
2. To examine any significant differences among dividend policy of the selected countries.
3. To test the application of Lintner, (1956) model in selected countries.
4. To test whether the firms follow smooth dividend policy or not.
5. To find out the speed of adjustments of the selected economies.

2. SELECTION OF SAMPLE

Consisting of 11 countries reaching from eastern India to China, Southeast Asia is generally divided into “mainland” and “island” zones. The mainland—comprising Burma, Thailand, Laos, Cambodia, and Vietnam—is an extension of the Asian continent, while Island Southeast Asia includes Malaysia, Singapore, Indonesia, the Philippines, Brunei, and the new nation of East Timor, formerly part of Indonesia. These countries’ diversity lies at the heart of the region’s rapid economic growth. Southeast Asia’s 11 countries have a combined gross domestic product (GDP) of $1.9 trillion; a population of almost 600 million people; and an average per-capita income nearly equal to China’s, according to Southeast Asia: Crouching Tiger or Hidden Dragon?, an article published by the International Economic Bulletin. Over the past decade, the countries have averaged a growth rate of more than five percent per year. If Southeast Asia were one country, it would be the world’s ninth-largest economy. It would also be the most trade-dependent, with a trade-to-GDP ratio in excess of 150 percent.

The growth prospects of OECD countries remain modest; it remains conducive in all emerging Asian economies including ASEAN 10 and china for 2015-19. The Table 1 shows the real GDP growth of the Southeast Asian countries including Japan. The growth prospects and forecasting suggest the importance of these countries in the region.

3. REVIEW OF EMPIRICAL LITERATURE

3.1 Development of Hypotheses and Methodology

The effect of previous dividends payments have long been regarded as the primary indicator of a firm’s capacity to pay dividends (Lintner, 1956), because it is assumed that the management will maintain a stable dividend policy. Furthermore, the information asymmetry hypothesis assumes that dividend policy is “sticky” or shows a tendency to remain at the level of previous dividends (Baskin, 1989).

3.2 The Effect of Profitability

Lintner (1956) hypothesizes that earnings can be used as one primary indicator of a firm’s capacity to pay dividends. Since dividends are usually paid from annual profits, profitable firms will logically
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