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Does globalization impact dividend policy and payout rate?

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Abstract

The impact of globalization on dividend policy has been one of the most arguable topics in financial literature. This paper investigates selected countries through 2007 to 2016 and find out the disappearing dividends phenomenon supported by Fama-French (2001) does not appear except during 2007-2009 financial crisis period. Moreover, the project suggests that developed countries are paying more dividends than developing countries due to a better legal protection for investors' rights.

JEL Classification - G15 - International Financial Markets

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1. Introduction

There is virtually no country that can escape from the impact of globalization with increasing economic integration among countries worldwide,. The pressure from globalization leads to more intense competition. No more it is a privilege for a company to only compete with similar companies in specific industry and specific market, but it also has to compete with similar companies from other markets and/or other countries

One of the measures that have a significant impact on cost of capital of a company is its dividend policy. Fortunately, dividend policy is an internal decision of Board of Directors of a company and that decision may not be entirely determined by factors externally to the company. A very profitable company may have shareholders friendly policy by paying high dividends to the shareholders but this will result to lower retention rate which eventually result to higher cost of capital for capital expenditure.

In addition, the decisions of paying out dividends or not includes a certain amount of determinants. For instance, firm's characteristics, such as earnings, firm size, and

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profitability may have the direct internal linkage with the dividend payout rate. However, evidences are showing companies in different countries are paying fewer dividends gradually, which known as disappearing dividends phenomenon. This phenomenon was first reported by Fama and French (2001) who analyzed all the public firms listed on NASDAQ, NYSE, and AMEX to find out that the proportion of dividend payout rate has declined from 66.5% to 20.8% during for the time period of 1978 to 1999. Evidences are suggesting more firms are using share repurchase rather than paying dividends as alternative methods to distribute cash to shareholders. Grullon, Paye, Underwood and Weston (2011), pointed out that the annual growth rate of dividend payout is less than the percentage of share repurchases, which indicated the decreasing dividend payout could due to the substitution of share repurchases.

The income level of economic development for different countries contributes to another element in influencing the dividend policy. Glen et al. (1995) found that dividend policies in developing markets differed from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds of that of developed countries. In addition, La Porta, Lopez-de-Silanes, Shleifer, and Vishny, (2000) pointed out it is evident that companies in the developing countries pay very low dividend if not none at all. Therefore, economic development becomes the first determinant when choosing the selected countries for this research.

According to the World Bank, the main classifications of developed countries group and developing country group is by income level with its economic development. More specifically, there are two main variants: one which includes low and middle income economies only is labeled developing and the high income economies are defined as developed. For this study, Australia, Canada, Italy, New Zealand, and Singapore are considered as developed countries, while Brazil, Chile, India, Mexico and Turkey are developing countries. Therefore, this study investigates whether there is a decreasing trend in dividends payment happening in listed companies in these ten countries.

The motivation of undertaking this empirical research paper is to investigate whether global companies are paying less dividends as a whole, and to investigate if there are any differences between developed countries and developing countries in terms of paying dividends. In addition, the paper also examines whether legal system is a significant factor that contribute to the differences in dividend policy among the selected countries. Most importantly, this paper investigates the relationship between globalization and dividend policy as well as payout rate for listed companies in the selected countries.

This paper answers two main research questions. Firstly, what is the trend of dividend payment on the selected countries as a result of globalization? And secondly, is there any differences in impact of globalization on dividend policy between developed and developing countries?

2. LITERATURE REVIEW

A. Disappearing dividend phenomenon

Miller and Modigliani (1961) who introduced the dividend irrelevance theory, pointed out that shareholders' wealth did not have the direct relationship with the changing of dividend policy. Fama and French (2001) found that the proportion of dividend payout rate has declined from 66.5% to 20.8% during for the time period of 1978 to 1999. They suggested that firms with small size newly listed that have much investment opportunities are potentially pay less dividends. However, the proportion to pay dividends still decreasing even after controlling the firm characteristics makes the disappearing dividends become a finance puzzle. On the other hand, DeAngelo et al. (2004) reported that during 1978 to 2000, the dividend payout rate was actually increasing at about 23%. They argued that the disappearing dividends phenomenon did not exist, but the aggregate value of dividends were increasing as a fact. They suggested that the supply of dividends are more concentrated in largest dividend payers, thus potentially decreased the number of dividend-paying companies. Therefore, although fewer companies are paying out dividends, more dividends are paid by those companies with large increasing consolidated earnings.

B. Liquidity explanation to dividend policy

Banerjee, Gatchev and Spindt (2007) suggested new evidences in the relationship between dividend policy and stock market liquidity. By analyzing the firms listing in AMEX and NYSE from 1963 to 2003, collected the data related to liquidity factors, they concluded that the relationship between stock liquidity with dividend payout rate was negative. Firms with higher stock liquidity tend to pay less dividends compared with low stock liquidity firms. To explain this, they suggested that investors prefer to invest in companies with higher liquidity and large net profit earnings. Therefore, in order to improve the firm valuation to attract more investors, companies with low liquidity tend to pay out more dividends. In this case, stock liquidity is one of the factors that could explain the changing in dividend policy.

C. Impact of globalization

McLuhan and Fiore (1968) firstly introduced “global village” concept by express the globalization is a growth of international trade of goods and services. More specifically, the growing economic integration is linked with the growth of foreign direct investment as well as the political and social exchange systems. Ariff and Khalid (2005) pointed out that these export-oriented policies with poorly implemented structure force the domestic countries lost large investment opportunities. However, because of the unique geographic differences, the globalization impact could result to different aspects or standards towards different countries. Gaston, Khalid and Ebrary (2010) found that China has become a major player in the global economy by surpassing the trade shares of six major East Asian countries in 2006. Meissner and Oomes (2008) suggested that the phenomenon of China factor could contribute to the choice of a particular anchor currency, depending on the amount of trade with countries that use that anchor currency

D. Comparision between developed and developing countries

Glen, Karmokolias, Miller, and Shah, (1995) reported that the fraction of earnings paid as dividends to investors in developing countries was about two thirds the level paid in developing countries in 1994. However, before 1984, developing countries performed a higher dividend yield than developed country markets. Iwata and Wu (2009) supported this statement by showing an increasing volatility of developing markets because of the vulnerable economic shocks. On the contrary, Chiou (2008) suggested that countries in East Asia and Latin America, and other developed countries are able to diversify and reduce the volatility through risk-sharing, therefore benefits the most from the financial liberalization.

Given the above, this paper investigates and tests the main hypothesis as below:

Hypothesis 1: Firms in developing countries are paying less dividends than firms in developed countries.

3. DATA AND METHODOLOGY

Data for this paper are gathered from Thomson One database. The main data sample comprises of 16 countries for different sections. The first section comprises of ten countries namely Australia, Brazil, Canada, Chile, India, Italy, Mexico, New Zealand, Singapore and Turkey. These countries are chosen since the analyses need to have five developed countries and five developing countries. The second section adds new countries, which are China, France, Japan, Korea, Malaysia, and UK. The reason to

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replace the small countries to larger countries is because for countries in the first section like Brazil, Chile, Italy, Mexico, New Zealand and Turkey, these countries have data for less than 100 companies, and upon testing, the regression results are insignificant. Upon replacing Brazil, Chile, Italy, Mexico, New Zealand and Turkey with China, France, Japan, Korea, Malaysia, and the UK, the regression results are insignificant. The data collected for this paper is for 10 years from January 2007 to December 2016.

World Bank database is also used in this report in order to distinguish the country groups by different income level and economic development. More specifically, there are two main variants: one which includes low income, which is defined as those with a GNI per capital, calculated using the World Bank Atlas method, of $1,045 or less in 2015; and middle income economies, are those with a GNI per capita of more than $1,045 but less than $12,746; is labeled developing countries. The high income economies are those with a GNI per capita of $12,746 or more are defined as developed countries. Therefore, based on Table 1, Australia, Singapore, Canada, New Zealand and Italy are those with high income level countries belongs to developed group; Chile, Brazil, Turkey, Mexico and India are countries with middle income level which regarded as developing group.

Table 1: Country groups by income and ranking

Economy	Atlas methodology (US dollars)	Ranking
Australia	65,520	14
Singapore	54,040	25
Canada	52,200	31
New Zealand	35,520	48
Italy	34,400	50
Chile	12,230	73
Brazil	11,690	86
Turkey	10,950	91
Mexico	9,940	95
India	1,570	174

The basic model is as following:

(1) DPit = α + β1Profitabilityit + β2Sizeit + β3AGRit + β4M/Bit +εit

Where:

DPit is dividend payer

IPit is the degree of import penetration

Profitabilityit is return on assets

Sizeit is log of total assets

AGRit is the asset growing rate

M/Bit is the market price to book value ratio

RE/TAit is retained earnings divided by total assets

RETVOLit is the stock price volatility

Variables explanations:

Dependent variable

DPit is dividend payer that represents the total dividends per share declared during the calendar year. It includes extra dividends declared during the year. Dividends per share is based on the "gross" dividend of a security, before normal withholding tax is deducted at a country's basic rate, but excluding the special tax credit available in some countries. This tax credit is due to the imputation system of corporate income tax under which shareholders are entitled to credit a certain proportion of the corporate income tax on distributed profits against the income tax imposed on the dividends received.

4. FINDINGS AND RESULTS

The paper investigates whether dividend payment has been decreasing between year 2007 to 2016 from four different perspectives, the global perspective, country-by-country perspective, and developed and developing countries perspective.

A Disappearing dividend phenomenon

- Global perspective

Table 2: Aggregate dividends paid

Aggregate dividends paid (in millions of dollars)

Year	Global number of firms	Global total amount ($m)	Absolute Percentage Change
2001	2756	39452.06	
2002	3022	40958.36	3.82%
2003	3325	63143.45	54.16%
2004	3737	79250.54	25.51%
2005	4493	103663.67	30.80%
2006	5956	125022.17	20.60%
2007	6763	170866.69	36.67%
2008	7092	146528.85	-14.24%
2009	7303	144395.78	-1.46%
2010	7470	168622.41	16.78%

From a global perspective, Table 2 indicates the global number of firms, global total amount of aggregate dividends for each country including Australia, Brazil, Canada, Chile, India, Italy, Mexico, New Zealand, and Singapore from 2007 to 2016.

Table 2: Global number of firms, dividend payers and dividend nonpayers

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
All firms	2756	3022	3325	3737	4493	5956	6763	7092	7303	7470
Number of Payers	913	994	1126	1348	1587	2264	2522	2524	2369	2638
Percentage of Payers	33.13	32.89	33.86	36.07	35.32	38.01	37.29	35.59	32.44	35.31
Number of Nonpayers	1843	2028	2199	2389	2906	3692	4241	4568	4934	4832
Percentage of Nonpayers	66.87	67.11	66.14	63.93	64.68	61.99	62.71	64.41	67.56	64.69

Table 2 reports the annual number of firms, number of dividend nonpayers, number of dividend payers and percentage of dividend payers for each year. With the increasing of global number of firms, the global total amount of aggregate dividends paid is increasing accordingly. In addition, both the number of payers and number of nonpayers all increase significantly over this period. However, the percentage of nonpayers is 67.56% and the number of nonpayers is 4934 in 2015 which is the highest during the period of study. This suggests that there are more companies reduced their dividend payments or become nonpayers during the period of study.

B Developed and Developing Countries Perspective

The results in Table 4 show that there is a distinct difference in number of dividend paying firms between developed countries group and developing countries group. Based on the results, the number of firms increased gradually for both developed countries and developing countries from year 2007 to 2016. The number of payers was also increasing through most of period except in 2014 where the number of payers decreased from 1194 to 1167, and 1111 in 2015. The developing countries group also has a decline in the number of payers from 1357 firms to 1258 firms in 2014. With the decreasing in number of payers, the aggregate dividends also declined from 2014 to 2015.

The average value in number of firms, number of payers, aggregate dividends, and aggregate dividends per payer was higher in developed countries group than the developing countries group. From 2007 to 2011, there were more dividends payers in developed countries than those in developing countries although the aggregate dividends in developed countries exceeded those in developing countries by about four times on average. This finding conforms the first hypothesis that firms in developing countries are paying less dividends than firms in developed countries. Jack, Yannis, Robert, and Sanjay (1995) suggested that the fraction of earnings paid as dividends to investors in developing countries was about two thirds the level paid in developed countries. This extensive difference reflects both the importance of internally-generated financing in developing countries, as well as willingness on the part of investors in developing countries to forego current dividend cash flow in anticipation of higher future growth in earnings.

Table 4: Comparison between developed countries and developing countries

	Developed Countries Group (Australia, Canada, Italy, New Zealand, Singapore)			
	No. Firms	**No. Payers**	**Aggregate Dividends**	**Aggregate dividends per payer**
2007	1803	573	29236.88	16.22
2008	1997	623	34216.81	54.92
2009	2185	707	48676.14	68.85
2010	2432	830	65733.88	79.20
2011	3002	982	84268.27	85.81
2012	3290	1098	100938.52	91.93
2013	3802	1194	135421.33	113.42
2014	4002	1167	118805.03	101.80
2015	4104	1111	114398.24	102.97
2016	4212	1184	129206.24	109.13
Average	3083	1070	86090.13	82.42

Developing Countries Group
(Brazil, Chile, India, Mexico, Turkey)

	No. Firms	**No. Payers**	**Aggregate Dividends**	**Aggregate dividends per payer**

2007	953	340	10215.18	30.04
2008	1025	371	6741.56	18.17
2009	1140	419	14467.31	34.53
2010	1305	518	13516.67	26.09
2011	1491	605	19395.40	32.06
2012	2666	1166	24083.65	20.65
2013	2961	1328	35445.36	26.69
2014	3090	1357	27723.82	20.43
2015	3199	1258	29997.54	23.85
2016	3258	1454	39416.17	27.11
Average	**2109**	**882**	**22100.26**	**25.96**

This empirical research investigates the impact of globalization on dividend policy and payout rate to find out the trend of dividend payments from several perspectives. The main findings are divided into two sections. Section one focused on the decreasing dividend phenomenon by testing the ten selected countries, including Australia, Brazil, Canada, Chile, India, Italy, Mexico, New Zealand, Singapore, and Turkey though 2007 to 2016. From a global perspective, the research found that with the increasing of global number of firms, the global total amount of aggregate dividends paid is increasing accordingly. However, during the Global Financial Crisis period of 2007 to 2009, many companies reduced their dividend payments or become nonpayers during the period. From country-by-country perspective, Australia, Brazil, Canada, Italy, and New Zealand have a lower propensity to pay dividends gradually, but Chile, India, Mexico, Singapore and Turkey are countries that willing to pay more dividends. More importantly, the figure in the absolute change of total number indicated that the speed of nonpayers increases fast than the dividend payers.

In addition, most of the countries have a steady increase for aggregate real dividends, mean and median real dividends per dividend paying firm, and the dividends payment in each country is concentrated by the top 50 percent of dividend payers. From developed and developing countries perspective, the average value in number of firms, number of payers, aggregate dividends, and aggregate dividends per payer is higher in developed countries group than the developing countries group. This finding supports the hypothesis that firms in developing countries are paying less dividends than firms in developed countries, which is in line with Jack, Yannis, Robert, and Sanjay (1995), who reported the fraction of earnings paid as dividends to investors in developing countries was roughly two thirds the level paid in developed countries

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