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DIVIDEND PAYOUT POLICY

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ABSTRACT:
The paper examines the factors influencing dividend payout decisions. Our analysis is based on unbalanced panel data with 799 observations of companies from 15 countries over a period of 14 years. The study develops eight research hypotheses and uses a modelling approach based on the random effects panel probit model. An important conclusion reached in our study is that a company's financial situation in preceding year influences the dividend payout decision. In addition, the key significant determinants of dividend payout decision in the period covered by our study include free cash flow, growth, liquidity, profitability and size. These important research results are confirmed by other studies in the field. They are therefore essential for determining dividend policies. Individual effects across investigated enterprises also played an important role in the dividend policy.

INTRODUTION:

Dividend is a price that a company pays to investors for the capital invested by them in the company. For this reason, dividend payout decisions do not depend solely on financial results and cash flow distribution. Managers' decisions on dividend payments may be dictated by the hedging of funds in a situation of economic downturn, increased profit volatility, limited external financing or high future capital needs. Thus, the 'dividend puzzle' has been the object of an ongoing investigation. However, a study of the emerging markets could shed more light on the topic, contributing to the growing body of research on dividend policy (Glen, Karmokolias, Miller, & Shah, Citation1995).

The issue of dividend payout in a given company, called the 'dividend puzzle', gives rise to several research problems that could be studied at various levels of detail. One of these problems relates to the companies' financial condition. In this case, the importance of dividend payouts manifests itself in the value creation of publicly quoted enterprises or in the investors' recommendations (Carleton, Chen, & Steiner, Citation1998). The second issue linked to the dividend puzzle is the relationship between the company dividend policy and the operations, transfers and risk characteristics of the emerging markets.

The discussion on the 'dividend puzzle' in literature took the form of a 'disappearing dividend puzzle', which is still an important problem linked to the following issues: the trend to lower transaction costs for stock sales, the growing role of stock options for managers who prefer capital gains to dividends, the improvement in corporate governance technologies as compared with the lower value of the benefit of dividend payments in the management of agency problems between stockholders and managers (Fama & French, Citation2001), and the level of earnings that affects managerial decisions on payout policy (Shapiro & Zhuang, Citation2015). This approach builds on theories which seek to explain managerial motivation in a situation of a decreasing relevance of agency costs (Bahreini & Adaoglu, Citation2018). Our model provides a comprehensive framework for the main determinants of payout decisions as part of the 'dividend puzzle' evaluation approach. In this regard, the study contributes to international business research that has established models and furnished crucial knowledge about the economy of the emerging markets, as the nature and characteristics of dividend policies differ between the developed and emerging countries.

The main purpose of this study is to identify the factors that influence the dividend payout decisions in relation to the companies' financial situation among publicly listed food industry companies operating in emerging European markets. Understanding the dividend policy is crucial for further forecasts of possible dividend payouts. The panel data analysis was used to identify factors influencing the dividend policy of companies in different financial situations. The following variables were considered: net income, liquidity, growth, profitability, free cash flow, leverage, company size and the price per earnings (P/E) ratio. These data cover only internal analyses of the dividend policy. We examined the characteristics of dividend payers and non-payers which are common across the countries under study, by using international data from the food sector. The panel sample comprises 799 observations of a changing number of companies from 15 countries in the period 2003–2016. In our analysis, particular attention was paid to dividend payments in the developing economies. The availability of investment capital is, in fact, one of the essential (and necessary, if not sufficient) conditions for a given company's further development. This issue is important in case of countries in transition (Skare & Sinković, Citation2013), where financial liquidity is the key variable associated with dividend payout.

THEORETICALBACKGROUND:

The corporate determinants of dividend policy have become a fixed element of the modern theories of finance. We can distinguish three principal theories that help illuminate the dividend policy, that is: information asymmetries, tax-adjusted theory and behavioural theories.

DETERMINANTS OF DIVIDEND POLICY FOR A FIRM AND COMPANY:

Top 11 determinants of dividend policy for a firm:
1.Share holder expectation
2.Type of company
3.Financial need of the company
4.Legal restriction
5.Liquidity
6.Access to the capital market
7.Restrictions of creditors
8.Control
9.Inflation
10.Dividend payout ratio
11.Insolvency

CONCLUSION:

We have estimated a random effects probit panel model which confirms the significant influence of free cash flow, company growth, liquidity, profitability ratio and the logarithm of the size on the decision concerning dividend payments. The higher the values of these variables, the greater the probability of dividend payments. There are significant unobservable individual firm-specific effects that determine the dividend policy.

We also investigated the robustness of the results for the outlier observations that were included in the sample. The removal of outlier observations did not change the overall results, which is why we can suppose that the significantly higher values of individual observations are the result of the same data-generating process as underlies all other observations.

The results indicate that highly profitable firms with more stable earnings can afford larger free cash flows, which increases the likelihood of dividend payouts. A similar conclusion was also reached by Naceuer et.al. and Kim and Jang (Kim & Jang, Citation2010; Naceur, Goaied, & Belanes, Citation2006). The results of Kaźmierska-Jóźwiak's research (2015) substantiate the conclusion that it is necessary to further investigate the correlation between dividend payout and profitably.

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