

3.9 An investigation of dividend policy behavior and information content of dividends in selected countries

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ABSTRACT

Any company that essentially exists with the objective of maximizing the wealth of its shareholders is faced with the choice of either paying dividends now or reinvest now to pay later. This choice forms the background for the dividend policy decision that defines the time pattern of dividend payout.

Numerous theoretical and empirical publications have kept dividend policy in its prominent status in corporate finance literature. Studies on dividend policy have been applied on companies listed in stock markets of both developed and developing countries.

Employing meta-analysis that combines the results of several studies conducted on capital markets of a selected sample of countries, this paper analyses the dividend policy behavior of countries around the world in terms of dividend policy stability and the information content of dividend announcements.

The paper concludes that the state of development of the country does have an impact on the dividend policy stability as companies in more matured markets in developed countries tend to maintain dividend stability although companies in emerging markets of developing countries have been unable to do so. On the other hand with respect to information content of dividend announcements it is evident that dividends have significant information content in all share markets and that on average all markets react negatively to surprise decreases in dividends which is more than proportionate to the positive reaction to surprise increases in dividends. Further it can be concluded that emerging markets take considerable time to fully incorporate information contained in dividend announcements while in mature markets it is less so. Mature markets tend to be more inline with the market efficiency hypothesis with respect to dividend announcements.

As future research an investigation of dividend policy behavior and information content of dividends in a Sri Lankan context is to be conducted.

Keywords: dividend policy, dividend announcements, market efficiency hypothesis