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VOLUNTARILY LOWER-DIVIDEND PAYING FIRMS: DETERMINANTS AND CONSEQUENCES

Abstract:

This paper investigates the firm characteristics and consequences of ‘voluntarily lower or zero dividend paying’ phenomenon. ‘Voluntarily lower dividend paying’ firms are defined as the ones whose incomes are above the median and yet whose dividend payouts are below the median in a given industry and a given year (or, HILND: High Income Low or No Dividend) (Ko and Park, 2014). Signaling theory, agency theory, residual dividend theory, life cycle theory explain the relations between firm characteristics and dividend payouts. This paper builds upon these theories and, controlling for all the variables so far known, additionally examines CEO overconfidence and market competition. We discover that CEO overconfidence, as well as its interaction with CEO ownership, affects HILND positively. Young, small firms with more growth opportunities are more likely to perform HILND. Moreover, HILND policy relates positively to capital expenditures on fixed assets, but negatively to capital expenditures on R&D which is intangible and risky. Firm risk has nothing to do with HILND. Higher market competition leads to more HILND decisions, which supports the substitution model rather than the outcome model of market competition and dividend. Finally, HILND firms have better market and operating performance.

Keywords:

Dividend, Payout policy, ‘Voluntary lower dividend paying’, CEO overconfidence, Market competition

JEL Classification: G02, G32, G35