

Does financial crisis influence the information content of dividend policy ?

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Abstract

This study investigates the dividend announcement effect under different crisis periods from the listed companies in Taiwan. The data is separated by dividend forms that include cash, stock and dual dividend. Moreover, the sample is divided into three periods that are pre-crisis, crisis time and post-crisis periods. The results indicated that dividend announcements depict positive impact on stock returns during different financial crises. Especially for the sample of cash dividend, there was a positive reaction before the dividend announcement, however, the results from stock dividend and dual dividend revealed that dividend announcement reflects opposite changes between dividend announcements and the stock returns during pre-crisis and post-crisis periods. Although financial crisis may be caused by various reasons, it would influence the information content of dividend announcement indeed.

Keywords: Financial crisis, Dividend announcement, Information content, Market efficiency, Event study

I. Introduction

Dividend policy is the strategies that the earnings of company be paid to shareholders by specific rate, or retained earnings as reinvestment funds. This policy

is a trade-off between declared dividends to shareholders, and retained earnings to investment in projects. Financial crisis often made firms' and investors' assets lost a large part of profits quickly and unexpectedly. Thus, in the absence of a clear recovery message, investors have to turn into a defensive investment targets, the stocks would be more favored by investors which with a high dividend or low PE ratio. Our study is interested about the dividend announcement effects in different periods of pre-crisis, crisis time or post-crisis, and the effects between cash, stock or dual dividends.

The purposes of this paper are to investigate the dividend announcement effect on the stock return in Taiwan stock market and to examine whether it reveals a leakage of information and the existence of abnormal return before or after dividend announcement. This study compares whether the dividend announcement having consistent features before and after the global financial crisis.

II. Methodology

This study collected the announcement news to investigate the dividend effect on stock returns, and all of companies which are listed on the Taiwan stock exchange. The sample was separated by dividend forms that include cash, stock and dual dividend. Moreover, it also divided into three crisis periods which are pre-crisis, crisis time and post-crisis periods. This study used event study method and calculated cumulative abnormal returns (CAR) by ordinary least squares (OLS) model, which measures the investors' total return over a period starting from well before the dividend announcement to well after the announcement day.

III. Conclusion

The Asian financial crisis in 1997 has obvious differences between these periods, especially for stock dividend and dual dividend. The market reacts positively to the

dividend announcement as the investors believed the declared dividend as positive signal of future optimum earning under the financial crisis of 1997 in Asia. For Taiwan stock market, the reaction of stock dividend announcement is more positively than cash dividend and dual dividend. Under the global financial crisis in 2008, the announcement effects of stock dividend have the same response time approximately, the financial crisis has obvious difference between pre-crisis and post-crisis periods. The market reacts positively to the dividend announcement as the investors believed the declared dividend as positive signal of future optimum earning, furthermore, the reaction of cash dividend announcement is more positively than stock dividend and dual dividend.

As a result, this study used the event study on event window surrounding the day of dividend announcement, and it is consistent with the signaling hypothesis approximately according to the findings. The results indicated that dividend announcements depict positive impact on stock returns during different financial crises. Especially for the sample of cash dividend, there was a positive reaction before the dividend announcement, however, the results from stock dividend and dual dividend revealed that dividend announcement reflects opposite changes between dividend announcements and the stock returns during pre-crisis and post-crisis periods. The findings from most subsamples were obtained from a day posterior to the event that lead us to a strong form of efficiency where as improbable leakage of information from the insider information of the companies. Although financial crisis may be caused by various reasons, it would influence the information content of dividend announcement indeed. In consequence, dividend announcements are viewed as a signal for the corporate profitability, and the information content of dividend announcements would affected by financial crisis indeed, especially when them in different times of crisis.