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What Tells the Timing of Dividend Payment to Shareholders? The Case of French Companies

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Abstract

Purpose: This paper aims to extend and contributes to prior French research on the determinants of the timing of dividend payment. It seeks to investigate the impact of ownership structure, duality of the manager as chairman and president of the board, liquidity, size and growth opportunities, profitability, variation of the amount of dividend on the real timing of dividend payment.

Design/methodology/approach: Using a panel of French listed firms from 2003 to 2008, the paper uses a cox regression to investigate the relationship between the corporate determinants and the timing of dividend payment.

Finding: The paper finds that large shareholders influence the timing of dividend payment but there is no significant relationship between the duality of the manager and the fixing of the dividend payment. The finding is consistent with agency theory since rapid dividend payment can be employed for mitigating agency conflict as timing of dividend payment can be substituted for shareholder monitoring. Further, the empirical results reveal that Cox regression is more appropriate in explaining the duration of dividend payment with variables associated to corporate governance and ownership structure.

Originality/value: The paper contributes to prior research related to the timing of dividend payment by being the first French study to examine the determinants of the timing of dividend payment for listed companies in CAC 40.

Keywords: Dividend payment-date, Ownership structure, Risk of non-payment of dividends, Hazard model, Cox regression, French companies

JEL Classification codes: F34, G21, G24, G32 and G35

1. Introduction

Dividend payment timing is fixed by a company in the general meeting date with the consensus between all shareholders and after a motivated proposition of the manager. Dividend payment date is an essential financial decision made by the board of directors and the management and this decision is one of the fundamental components of dividend policy. In France, companies are free to decide the timing of the dividend payment date after the end of a financial business year as long as this date will take place in the period of nine months after the close of the fiscal year. In 2017 in France, the dividend propensity augmented which could be in part due to the corporate information environment.

Although a large body of literature on the timing of dividend payment, researchers don't have a consensus on why a firm pays its dividends before one another and what determines the preferential timing of dividend payment. So, these unsolved problems motivate us for working in this field of research.

Many theories are suggested to explain the timing of dividend payment of companies. Signaling models are based on the assumptions that managers have enough information about the cash flow of the firm (Gugler 2003) so, they pay rapidly dividends to signal the financial performance of the firm, and any changes in the moment of payment can be a source of conflict between managers and investors. Therefore, the respect of the timing of dividend payment provides assurance for managers and can reduce the cost of control associated to the relationship principal/agent.

This study contributes to the dividend' field of research. For example, the current study not only updates previous research but it also introduces other variables and measures that can improve the theoretical model on explanation of the duration of dividend payment.

The next section exposes the theoretical and empirical literature. Then the third section presents the data and describes the theoretical model. In section four we present the empirical results before concluding this study in section five.

2. Key Literature Review

2.1 Dividend Theories

2.1.1 Agency Theory

In accordance to Jensen and Meckling (1976), agency theory is defined as an engagement between two people in minimum, namely the owner (principal) and the manager (agent), where the manager is mandated by the principal to perform services on his behalf. This relationship is conflictual and the problem is driven by asymmetric information existing between managers and shareholders. There are many mechanisms used to mitigate this conflict, and dividend policy is one of them (Rozeff, 1982; Easterbrook, 1984 and Jensen et al., 1992)). In addition, fixing a rapid date of dividend payment could also mitigate the conflictual relationship between managers and shareholders.

2.1.2 Signaling Theory

Bhattacharya (1979), John and Williams (1985), Miller and Rock (1985) are the pioneers of the signaling theory. They assume that managers have more information than investors, which affects also the value of the firm. According to our research in (2013), a firm that announces a near date of dividend payment would be regarded as financially healthy, but investors consider the announcement of a distant date of dividend payment as bad news. Given that the timing of dividend payment is assumed to be used as a signal of the firm's future performance, a positive sign in the relationship between French dividend policy and information asymmetry is expected. Similarly, a positive association between the timing of dividend payment and profitability is anticipated.

2.1.3 Pecking Order Theory

According to Myers (1984) and Myers and Majluf (1984), managers possess private information that investors do not have. They also prefer to finance their projects by existing retained earnings or in second venue by debts. Based on this theory, a positive relationship between the timing of dividend payment and debt ratio is expected. Furthermore, more profitable firms are expected to finance their projects on retained earnings, thus meaning that a positive relationship is expected between the timing of dividend payment and profitability. In addition, Myers and Majluf (1984) consider that information asymmetry existing in a firm is considered as an underinvestment and according to Deshmukh (2005) this leads with the lemon problem. We think that asymmetric information could be reduced by revealing a near timing of dividend payment. Therefore, the pecking order theory anticipates a negative association between the timing of dividend payment and information asymmetry.

2.1.4 Transaction-Cost Theory

In accordance to Rozeff (1982) paying high dividends increase the transaction costs that constrains external sources of financing. To limit transaction costs, firms pay high dividends and rely on equity financing rather than debt (Al-Najjar and Hussainey, 2010). We think that large firms announce near timing of payment to limit transaction cost, so a positive relationship is expected between firm size and timing of dividend payment.

2.2 Literature Review and Hypotheses

2.2.1 The Timing of Dividend Payment and Information Asymmetry

Us-based research provided evidence that asymmetric information affects dividend policy (Deshmukh, 2003, 2005; Li and Zhao, 2008). For Deshmukh (2003, 2005), the association between dividend initiation of dividend and information asymmetry is consistent with pecking order theory and inconsistent with signaling theory. This result was also confirmed by Li and Zhao (2008).

2.2.2 The Timing of Dividend Payment and Firm Characteristics

In (2010; 2013) we examined the factors that drive firms' decisions to declare a rapid timing of dividend payment or distant one. In terms of firm characteristics, we investigated a set of firm

specific characteristics such as firm' liquidity, size, growth opportunities, profitability, ownership structure, duality of the manager as chairman and president of the board, variation of dividends and the last duration of dividend payment. These characteristics are the most cited in preceding literature also. For us in (2013), the significant three characteristics are profitability, liquidity and the last duration of dividend payment in determining firms 'decision to fixing the timing of dividend payment for French firms.

2.2.3 The Timing of Dividend Payment and Profitability

Belanes and all (2007) related the profitability of dividend payments from mature and profitable firms to growth. Eriotis (2005) found that the firm's earnings and size are the most determinants of dividend policy. In (2013), we empirically examined the relationship between the timing of dividend payment and profitability. We found that profitable firms are more likely to pay dividends earlier than non-profitable ones and also find a significant association between these two variables. Based on the above reviewed article, we formulate the following hypothesis:

Hypothesis 1: There is a negative relationship between the timing of dividend payment and firms 'profitability.

2.2.4 The Timing of Dividend Payment and Liquidity

Roy (2015) found that the proportion of cash and cash equivalent to total asset, used as a measure of firm liquidity, has an influence on the dividend policy. In (2013), we empirically examined the relationship between the timing of dividend payment and liquidity. She found that firms with more cash are more likely to pay dividends earlier than others and also find a significant association between these two variables. Based on the above reviewed article, we formulate the following hypothesis:

Hypothesis 2: There is a negative relationship between the timing of dividend payment and firms 'liquidity.

2.2.5 The Timing of Dividend Payment and Growth Opportunities

Decamps and Villeneuve (2007) explained the decision for the managers between investing or paying dividends. They found that there is an interaction between the optimal dividend policy and the decision to invest in growth opportunity. The examination of the association between the timing of dividend payment and growth opportunities in France showed that the result is in contract with predictions. In fact, in (2013), we empirically examined the relationship between the timing of dividend payment and growth opportunities but there is no significant association between these two variables.

Hypothesis 3: There is a relationship between the timing of dividend payment and growth opportunities.

2.2.6 The Timing of Dividend Payment and Firm Size

In accordance to Baker and al (2007), the most important determinants influencing dividend policy are earnings, the size of the firm, the stability of earnings and the pattern of past

dividends. So, mature profitable firms prefer to pay more dividends. And we think that large firms are less vulnerable to pay rapidly their dividends. However, the examination of the association between the timing of dividend payment and firm size in France showed that the result is in contract with predictions. In fact, in (2013), we empirically examined the relationship between the timing of dividend payment and firm size but there is no significant association between these two variables. Therefore, the following hypothesis is formulated as follows:

Hypothesis 4: There is a relationship between the timing of dividend payment and firm size.

2.2.7 The timing of Dividend Payment and Ownership Structure

The study of Al-Nawaiseh (2013) aims to determine whether ownership structure is linked to the dividend policy on industrial Jordanian companies. Results show that ownership dispersion as measured by the natural log of the number of stockholders (STOCK) seems to be not related to dividend policy in Jordan. In (2013) we investigated the determinants of the timing of dividend payment in France. The empirical results indicated a negative association between the timing of dividend payment and the ownership structure. We formulate the following hypothesis:

Hypothesis 5: there is a negative relationship between the timing of dividend payment and ownership structure.

2.2.8 The Timing of Dividend Payment and Duality of the Manager as Chairman and President of the Board of Directors

Roy (2015) uses a panel of 51 top Indian listed firms, in terms of market capitalization), over the 5-year period from 2007–2008 to 2011–2012 and concludes that the Corporate Governance variables, namely, board size, independent directors and the proportion of non-executive directors on the board have significant impact on the dividend policy of the firm.

When we investigated the determinants of the timing of dividend payment in France in 2013, we found no significant association between the timing of dividend payment and the duality of the manager as chairman and president of the board of directors. But we formulate the following hypothesis:

Hypothesis 6: there is a relationship between the timing of dividend payment and duality of the manager as chairman and president of the board of directors.

2.2.9 The Timing of Dividend Payment and Variation of Dividends

We investigated in 2013 the determinants of the timing of dividend payment in France, there is a significant association between the timing of dividend payment and the variation of dividends. So, we formulate the following hypothesis:

Hypothesis7: there is a relationship between the timing of dividend payment and the variation of dividends.

3. Methodology

Before presenting our results, we expose hereafter the sample, the dependent variable and the independent variables.

3.1 Sample Selection

The sample for the study includes 35 companies from the largest sectors (industrial, trading, services, consumers, technologies, energy…) on the CAC 40 whose annual reports are available for the period 2003 to 2008. The data are hand-collected from the individual web-sites of the firms. The final sample contains 129 observations.

Table 1. Descriptive statistics of the sample

Variables	Minimum	Maximum	Mean
Net Profit	0	13535000	1745893
Debt	0	42793000	4997423
Book value of equity	142238	66967000	10899270
Dividend	0	11	1.7
Total Assets	464271	727555008	47567224
Turnover	350809	158752000	23430881
Cash	8000	22494000	2420620

3.2 Variables of the Study

The main purpose of this paper is to study the impact of ownership structure and other corporate variables on the fixing of the timing of dividend payment. It is important to introduce these variables and other control variables that could influence this relationship.

3.2.1 The Dependent Variable

Dividend payment. DURATION is the timing of dividend payment. It is measured by the number of days between the date of the annual general meeting and the effective date of payment.

3.2.2 The Independent Variables

3.2.2.1 The Ownership Structure

Based on the review of literature, theoretical and empirical studies, the impact of ownership structure and duality of functions of the manager on the timing of dividend payment can be examined through the relationship between selected variables cited below and the timing of dividend payments. The ownership variable (OwnStr) deals with the ownership concentration.

Following Harada and Nguyen (2011) and Khan (2006) ownership concentration was measured by the sum of shares handled by the five largest shareholders. Large shareholders can influence the dividend pay-date and the timing of dividend payment could be a discipline mechanism if large shareholders are strongly represented in the board. On the other hand, in accordance to Laporta (2000), large shareholders can expropriate minority shareholders and extract private benefits rather than distributing dividends rapidly to all shareholders. Therefore, we expect a negative relationship between ownership concentration and the timing of dividend payment.

3.2.2.2 Duality of the Manager as President and Chairman of the Board of Directors

Dual: a proxy for the variable Duality of functions of the manager as chairman and president of the board of directors is used as another characteristic of governance. We think that the manager can influence the timing of dividend payment even his knowledgment of the real financial situation of the firm. So, we consider a dummy variable Dual which equals 1 if the chairman is also the president of the board of directors and we expect a negative relationship between the variable Dual and the timing of dividend payment.

3.2.2.3 The Liquidity, Business Growth, Profitability and Changes of Dividends

Liquidity: in accordance of signaling theory, the dividends payers have higher liquidities. Deshmukh (2003) finds that the time until initiation of dividends is negatively related to liquidities. We use the ratio Cash / total assets to measure the variable liquidity.

Profitability: the profitability is employed to study the firm performance. In accordance to signaling theory, we think managers communicate a near date of dividend payment when the performance of the firm is poor. This is to diverge shareholder 'attention to study carefully the real financial results of the firm De Angelo (2000). We employ the variable ROE to measure the performance of the firm.

Growth opportunities: the variable 'Growth opportunities' corresponds to the past growth of the company. We expect a negative relationship between growth opportunities and the fixing of the timing of dividend payment. It is measured by the Turnover t – turnover t-1

GrowDiv: In accordance to Hussainey (2011) dividend policy can play a role similar to debt in controlling discretion of managers. In fact, dividends can reduce the funds in the hands of the manager, that's why we anticipate negative relationship between the growth of dividends and the timing of dividend payment. The variable Growdiv measures the increase of the dividend per share. So we conduct a dummy = 1 if dividend t > dividend t-1 and 0 otherwise.

VarDiv: the variable VarDiv corresponds to the increase of the dividend per share and its part in the profitability. We anticipate negative relationship between vardiv and the timing of dividend payment. We measure this variable by the ratio (div t - div t-1) / Net profit.

3.2.2.4 Control Variables

To study the relationship between the dividend payment date and characteristics of governance such as ownership structure and duality of functions of the manager, we control our research by

introducing some control variables that could also influence this relationship. We think that firms are more encouraged to announce a rapid timing of dividend payment to meet the positive expectations of potential investors. This could be verified especially with big dividend payers, in strong sectors of activities. So, we introduce the control variable cited below:

Size: is a variable employed to measure the size of the firm. It is measured by the Log of total assets. We think that the larger the firm is, the lower would be the timing of dividend payment. We measure the variable Size by Log of total assets (Deshmukh, 2003).

Sector: is a variable of control in our model introduced to test if a company fixes a timing of dividend payment different from a sector to another. To measure this variable, we use a dummy variable Sec = 1 if the sector is financial and 0 otherwise (Gugler and Yortoglu, 2003; Farinha, 2002 and Pandey, 2001).

Table 2. Description of the independent and control variables

Independent variables	**Measure**
Growth opportunities	Turnover t – turnover t-1
Size	Log of total assets (Deshmukh 2003)
ROE	Net profit / book value of equity (Dumontier 2000)
Liquidity	Cash / total assets
GroDiv	Dummy = 1 if dividend t > dividend t-1 and 0 otherwise.
VarDiv	(div t - div t-1) / Net profitt
SharMaj	Dummy variable = 1 if the ownership is concentrated, 0 otherwise.
Dual	Dummy variable = 1 if the chairman of the company is the president of the board, 0 otherwise.
Sector	Sec = 1 if the sector is financial and 0 otherwise (Gugler and Yortoglu (2003), Farinha (2002) and Pandey (2001).

3.3 Model

Following our methodology in (2013), our empirical model is used to test the hypothesis of the link between the timing of dividend payment and governance characteristics, and is presented as follows:

$$\text{Duration} = f\,(b_0 + b_1\,\text{Size}_{it} + b_2\,\text{ROE}_{it} + b_3\text{Liqui}_{it} + b_4\text{Grodiv}_{it} + b_5\text{OwnStr}_{it} + b_6\,\text{Dual}_{it} + b_7\,\text{Grow opp}_{it} + b_8\text{VarDiv}_{it} + b_9\text{Sector}_{it})$$

4. Findings

We present respectively in this section our results by beginning by the descriptive statistics, after that our regression results. We present also their analysis.

4.1 Descriptive Statistics of the Dependent Variable

Table 3 presents descriptive statistics of the dependent variable Duration. This table shows that the timing spent by the listed French companies is 21 days.

Table 3. Descriptive statistics of the dependent variable

Variables	observations	Minimum	Maximum	Mean
Duration days	129	2	37	21

This table demonstrates that the French listed companies in CAC40 pay dividends after at least 21 days after the end of the year which is in the period of 180 days after the date of the general meeting, and this time is effectively legal.

4.2 Multivariate Analysis

To approach our model, we use in this study a Cox regression which was also used by us (2013), Kale et al. (2006), Bulan et al. (2005) and Deshmukh (2003). This hazard model is more appropriate to our dependent variable Duration which is a delay between the date of the general meeting of shareholders and the real timing of payment of dividends. We only precise that we don't need to do a correlation analysis because Cox regression is a hazard model.

Table 4. Cox regression results

Variable	Coefficient b	Wald Statistic	Significance
Size	0.3658	0.2345	0.1188
ROE	-2.5976	4.8811	0.0272**
Growthopportunities	-2.68	0.510	0.4747
Liquidity	6.2872	11.7616	0.0006***
Grodividend	-0.2697	0.5024	0.4784
Dual	0.0520	0.0723	0.7880
SharMaj	-1.0127	3.8875	0.0486***
Var Dividend	0.6566	6.1018	0.0135**
Sector	-0.0392	0.0086	0.926

Note: ***Significance = 1% **Significance =5% Significance = 10%

Significance of the model is given by -2 Log Likelihood = 997.874; Significance = 0.0016***

Size: Log of total assets ROE: Net profit / book value of equity

Growthopportunities: Dummy = 1 if dividend $_t$> dividend $_{t-1}$ and 0 otherwise.

Liquidity: Cash / total assets GrowDiv: Dummy = 1 if dividend $_t$> dividend $_{t-1}$ and 0 otherwise. VarDiv = (div $_t$ - div $_{t-1}$) / Net profit$_t$

Dual: Dummy variable = 1 if the chairman of the company is the president of the board, 0 otherwise. SharMaj: Dummy variable = 1 if the ownership is concentrated, 0 otherwise.

Sector: Sec = 1 if the sector is financial and 0 otherwise (Gugler and Yortoglu (2003), Farinha (2002) and Pandey (2001).

From this table, it can be seen that our model is globally significant and the significance of the model is given by -2 Log Likelihood = 997.874 and means that the overall model is significant at 1%.

The purpose of this study is to estimate the parameters of the hazard model. This function describes the evolution of the probability that the dividend payment-date is close to the date of the general meeting of the shareholders. That is to verify the determinants of the fixing of a dividend payment date near the date of the general meeting. The assumption of homogeneity of inter-company durations is verified.

On the concepts of corporate governance, the variable Ownership structure which is represented by the variable (SharMaj) in our model is significant and it sign is predicted. This result signifies that French companies announce a near dividend payment date when the ownership structure is concentrated. This result is confirming our result in (2013) where large shareholders seek their dividends rapidly and influence the company to pay their dividends in a small time.

The coefficient of the variable Duality of function of the manager as chairman and president of the board (Dual) is not significant. This is to proof that the manager doesn't really influence the fixing of the dividend payment date.

The coefficient associated to annual earnings (ROE) and Liquidity (Liq) are significant at 1%. This result confirms our result in (2013) and shows that the timing of dividend payment is dependent on these two variables above. So, we can confirm that the more the company is profitable and has enough cash, the more rapidly French companies pay dividends to shareholders.

The coefficient of the variable variation of dividends (VarDiv) is significant at 5% and implies that the timing of dividend payment is influenced by the amount of dividend to pay and also by the changes of the amount of dividend announced between t and t-1.

The size (size) and the sector (sec) of the companies which are control variables are not significant determinants of the timing of dividend payment. However, these results contradict

our expectations.

The variable company's investment opportunities (Growth opportunities) are not significant. This result means that the opportunities of growth of the firm don't influence the fixing of the dividend payment date which contradicts the Grullon and al. (2002) hypothesis of maturity.

5. Research Limitations and Implications

This paper provides an empirical analysis conducted using a Cox regression of the explanation of the timing of dividend payment date in France. The major objective of this study is to reveal the influence of ownership structure on the fixing of this dividend payment date. In fact, the respect of this timing could reduce the risk of non-payment of dividends.

To reach this objective, we used a sample of 35 dividend payers over the period 2003 -2008 listed in CAC 40. Our results reveal the influence of the ownership structure on the timing of dividend payment in France. More precisely, we find that the concentrated ownership can influence this timing of dividend payment and the more near would be the dividend payment date. Our research findings confirm the results of Roy 2015).

The cox regression conducted on hazard model reveals also a strong effect of the profitability, the liquidity and the variation of dividend on the fixing of the timing of dividend payment which is in accordance to Fama and French (2001). In sum, our research indicates that "the timing of dividend payment" is signal of financial strengthen of the firm.

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