

Factors Influencing Dividend Payout in Thailand: A Tobit Regression Analysis

Pornumpai Komrattanapanya

Equity Management Department, Thanachart Bank Plc.

444 MBK Tower, 20th floor, Phayathai Rd., Pathumwan, Bangkok, 10330, Thailand

Tel: 662-217-8444 Ext.3097 E-mail: pornumpai@hotmail.com

Phassawan Suntrauk, Ph.D. (Corresponding author)

Martin De Tours School of Management and Economics, Assumption University

Ram Khamhaeng Rd., Soi 24, Hua Mak, Bangkok, 10240, Thailand

Tel: 662-300-4543 Ext.1125 E-mail: phassawansnt@au.edu

Received: October 20, 2013 Accepted: December 02, 2013 DOI: 10.5296/ijaf.v3i2.4443

Abstract

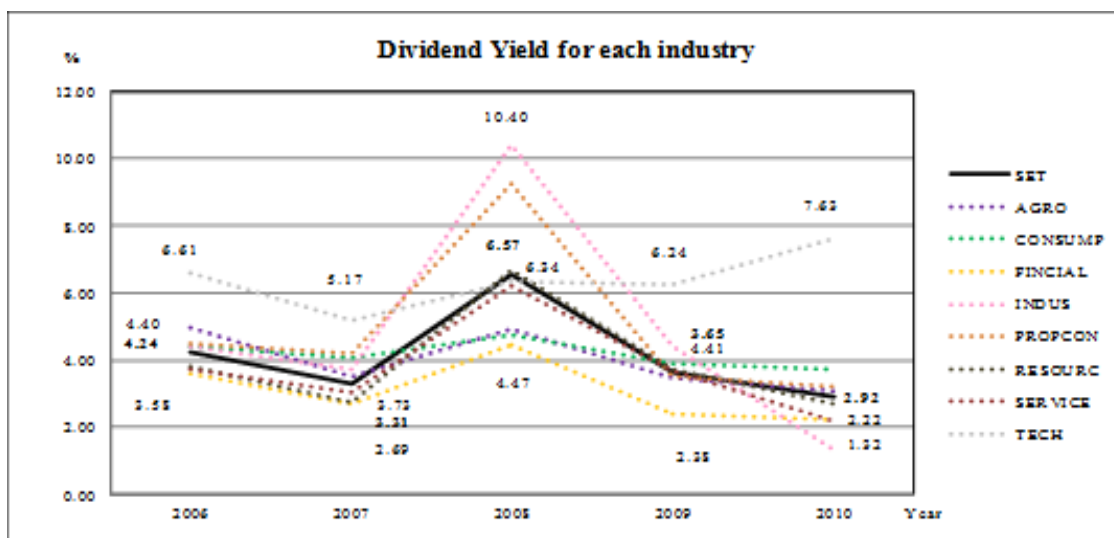
The aim of this paper is to determine the factors that influence the dividend payout of all firms listed in the Stock Exchange of Thailand (SET) during year 2006 to 2010. Using the Tobit regression analysis, results reveal that financial leverage, investment opportunities, and sales growth negatively affected the dividend payout; on the other hand, size of firm is positively affected dividend payout. Moreover, evidence shows that firms in property and construction sector are more likely to pay dividend than others. Additionally, profitable small and large firms tend to pay dividend; meanwhile, profitable medium firms are less likely to pay dividend. However, it is found that profitability, liquidity, and business risk are insignificantly related to dividend payout. The results from this study are beneficial to investors when making a decision regarding stock investment and portfolio management. Furthermore, financial managers can use the results from this study to develop dividend policy in order to achieve the maximization of shareholders' wealth. Those financial managers can decide whether company should keep the profits for investing or to distribute them out as dividends. In terms of academic contribution, this study adds more updated empirical evidences to existing financial literature in Thailand and provides additional international evidence regarding dividend payout.

Keywords: Dividend payout, Tobit regression, Thailand

1. Introduction

Recent world economic recession has affected the world economy, including Thailand. Business sectors and household sectors have to change their ways and needs to create more valuable investment to sustain their wealth and propensity. During economic crisis, money market is likely to turndown (low deposit rate) while capital market is now acting as an alternative investment, which is preference to the most firms and individuals. Hence, investing in capital market is another alternative that people are interested because advantages from capital gains and/or dividends are much more than interest from the deposit.

Indeed, it seems that people who invest in stocks have an opportunity to receive more returns than those savings their money in the banks. According to Figure 1, from 2006 to 2010, the dividend yield of firms listed in the Stock Exchange of Thailand (SET) was on average 3% - 4%. Especially, in year 2008, the dividend yield of firms listed in the Stock Exchange of Thailand (SET) is 6.57%; whereas the savings interest rate is extremely low. As shown in table 1, the savings rate from five commercial banks, which are Bangkok Bank, Krung Thai Bank, Kasikornbank, Siam Commercial Bank and Bank of Ayudhya has decreased from 0.75% in year 2006 to 0.50% in the year 2010. Hence, people who want to invest in stocks are likely to consider characteristics and dividend policy of the firm carefully in order to maximize their benefits.



Source: Stock Exchange of Thailand (2011)

Figure 1. Dividend Yield for Each Industry in Stock Exchange of Thailand

Table 1. Savings Rate from 2006 to 2010

unit : percentage

Banks	2006	2007	2008	2009	2010
Bangkok Bank	0.7500	0.7500	0.7500	0.5000	0.5000
Krung Thai Bank	0.7500	0.7500	0.7500	0.5000	0.5000
Kasikornbank	0.7500	0.7500	0.7500	0.5000	0.5000
Siam Commercial Bank	0.7500	0.7500	0.7500	0.5000	0.5000
Bank of Ayudhya	0.7500	0.7500	0.7500	0.5000	0.5000

Source: Bank of Thailand (2011)

Dividend policy is one of interesting topics in recent financial literature. In classical studies, Miller and Modigliani (1961) proposed the M&M theory of dividend irrelevance. They stated that a firm value and shareholders' wealth are not related to dividend payout in a perfect capital market. However, another group of researchers argued that such M&M assumptions are not practical in the real world because a capital market is imperfect. Gordon (1959) and Lintner (1956) proposed the theory of bird-in-the-hand in which investors prefer dividends from stocks to capital gains. They argued that the dividend yield is less risky than capital gains. As a result, value of dividend paying firm increases if dividend payment is higher. Nevertheless, some investors ignore high dividend stocks. They believed that the costs of dividend payout diminish their wealth by the tax effect. Therefore, these investors prefer capital gains to dividends, supporting the theory of tax-preference (Brennan, 1970; Elton & Gruber, 1970; Kalay, 1982; John & Williams, 1985; Miller & Rock, 1985). Besides tax preference, the difference in dividend demand of investors may affect firm's dividend policy. According to the clientele effect (Pettit, 1977), if most of the firm's shareholders have high dividend demand, the firm considers paying high dividend. Inversely, if most of firm's shareholders have low demand for dividend, the firm considers keeping profits as retained earnings rather than paying high dividend. Recently, Baker and Wurgler (2004) argued that according to the catering theory of dividend, the incentive for a firm to pay dividends to satisfy the investor's demand depends on a dividend premium, which is measured by the difference of a market-to-book (M/B) ratio between dividend-paying firms and non-dividend paying firms. When the dividend premium increases (as investors who prefer dividends pay high price for firm's stocks), a firm has more tendency to pay dividends. On the other hand, a firm tends not to pay dividends when the dividend premium drops.

Although financial theories regarding dividends are highly controversial, many researchers attempted to empirically investigate dividend policy of firms by identifying factors that affects dividend payout. Baker and Powell (1999) investigated this unsolved issue and found

inconsistent results due to countries' effect. In addition, Chay and Suh (2008) pointed out that the difference of rules, regulations and cultures in each country will affect the dividend policy. Dividend policies in those different countries should be different. However, Aivazian, Booth, and Cleary (2003) compared the dividend policies of firms from eight emerging markets, and those of firms in the U.S. Their results indicated that the dividend policies of firms in the emerging markets are similar to those in the U.S.

As a matter of fact financial debate regarding dividend policy is still called for attention. Financial researchers continuously study this topic for the purpose of determining consistent factors that affect dividend payout and attempting to reach the consensus for both developed countries and developing countries. Therefore, the main purpose of this study is to investigate the determinants of dividend payout of the listed firms in Thailand during 2006-2010, which is one of developing countries.

The paper is organized as in the following. The next section discloses prior empirical studies regarding influencing factors of dividend payout. The third section display data collection and Tobit regression model. The fourth section presents empirical results and discussion. The last section concludes.

2. Factors Influencing Dividend Payout

2.1 Profitability

Profitability is treated as a key indicator of firms' earning ability. Aivazian et al. (2003) examined the relationship between dividend payout and profitability. They found that dividend payout for of firms in both emerging markets and in the U.S. can be explained profitability. In addition, Kim and Gu (2009) investigated the financial features of dividend paying firms and non-dividend paying firms in hospital industry in the U.S. by using logistic regression analysis. The findings showed that large and profitable firms tend to distribute the profits as dividends.

In contrast, many researchers found that profitability is negatively related to dividend payout. Kania and Bacon (2005) attempted to reveal what motivates a firm to issue cash dividends. They derived a sample of 542 firms from Multex Investor Database and used Ordinary Least Square (OLS) regression method. The findings indicated that profitability relates negatively to the dividend payout ratio at the 1% level of significance. This means that the firms with higher profit pay lower dividends. Moreover, Gill, Biger, and Tibrewala (2010) found the different results of dividend payout relations in each industry. in the U.S. The analysis showed that the dividend payout ratio is negatively related to profitability in entire sample and particularly in manufacturing industry. However, Anil & Kapoor (2008) found no association between profitability and dividend payout.

2.2 Liquidity

Liquidity measures the extent to which a firm is able to meet its payment obligations. Jensen (1986) stated that the managers may benefit themselves with cash surplus; therefore, a firm should pay dividend out to reduce free cash flow and protect the managers to spend more

cash in unavailing projects. Paying dividend is then a mechanism to control the agency problem. Alli, Khan, and Ramirez (1993) examined determinants of corporate dividend policy by using the sample of 105 all firms listed on the New York Stock Exchange, except firms that were in regulated utilities and banking sectors. Using a factors analysis, their findings indicated that the firms with high cash flow have low systematic risk, which is the signal of high quality to pay more dividends. On the other hand, the firms with cash deficit are less likely to pay dividend. In addition, Anil and Kapoor (2008) investigated determinants of dividend payout ratios in Indian Information Technology Sector during 2000-2006. They found a significant positive relationship between liquidity, measured by cash flow, and dividend payout ratio.

However, Kania and Bacon (2005) presented the opposite results since they found a negative relationship between liquidity and dividend payout. Moreover, Adi, Zafar, and Yaseen (2011) attempted to identify the determinants of dividend payout of 100 firms listed in Karachi Stock Exchange. Using operating cash flow as a proxy of liquidity; they revealed that an increase of operating cash flow reduce the degree of dividend payout. Nonetheless, adding confusion to the existing literature, Kim and Gu (2009), Gill et al. (2010), Al-Kuwari (2009); Marfo-Yiadom & Agyei (2011); Al-Shubiri (2011) found that liquidity did not affect dividend payout.

2.3 Financial Leverage

Since debt financing represents fixed obligation to creditors, it is a control tool to restrict managers to use free cash flow for their personal gains (Jensen, 1986). However, by using high degree of debt financing in capital structure, the firm will encounter financial risk. As a result, firm with high leverage avoids paying more dividends to reserve their cash (Rozeff, 1982). Consistent with Rozeff (1982), Jensen (1986) stated that highly leverage firms are expected to have low dividend payment. Moreover, Aivazian et al. (2003) found that higher debt ratios correspond to lower dividend.

On the other hand, another group of researchers found that the relationship between leverage and dividend payout is positive. Kapoor, Anil, and Misra (2010) examined dividend determinants of Indian service (FMCG) sector trading on the National Stock Exchange during 2000-2008. The results of the Factors analysis showed that dividend payout ratio is positively related to long term solvency at 10% level of significance. They concluded that the level of firm's debt in FMCG sector is very low; meanwhile, the firm's liquidity is high. Therefore, an increase in debt in appropriate portion of capital structure does not affect the capacity of firms to pay dividends. As a result, dividend payout ratio and debt equity ratio are positively related. Moreover, Marfo-Yiadom & Agyei (2011) examined the determinants of dividend payout of sixteen banks in Ghana during the period of 1999-2003. They disclosed that bank's debt is positively related to the dividend payout. As debt financing can reduce the agency cost, resulting in an increase in profitability. Ghana banks having high level of debt pay more dividends. Nonetheless, many studies concluded that financial leverage is not significantly affected dividend payout policy (Kim & Gu, 2009; Al-Kuwari, 2009; Gill et al., 2010).

2.4 Investment Opportunities

Investment opportunity is ongoing opportunity to generate income. According to the pecking order theory, a firm that has more investment tends to use their internal finance in order to minimize the costs of external borrowings (Myers & Majluf, 1984). Hence, a firm having an increase in investment tends to limit dividend payment to reserve internal finance for its investment (Rozeff, 1982). Kim and Gu (2009) empirically found negative relationship between investment opportunities and dividend payout. They asserted that when U.S hospital firms, having fixed assets-intensive, acquire large amounts of new capital, they prefer investing in their projects to paying dividends.

However, Al-Shubiri (2011) examined the determinants of changes in dividend behavior policy in Jordanian industrial firms and found the positive relationship between investment opportunities and dividend. The strong positive relationship pointed out that Jordanian firms, both having high growth opportunities and facing different choices of financing, still pay more dividends. Additionally, Aivazian et al. (2003) suggested that firms with higher investment opportunities rather pay higher dividends. Nonetheless, Anil and Kapoor (2008), Gill et al. (2010) asserted that investment opportunity is not an important factor influencing dividend payout decisions.

2.5 Sales Growth

Sales growth indicates the positive sign of ongoing firms' operations. Increasing level of sales growth in a consistent manner means that a firm potentially enters into stage of expansion of business cycle and would expect positive cash earning power in the future year. A firm with high growth then requires a large amount of financing to invest in its projects. Rozeff (1982) found that a growth firm tries to retain internal finance and limit its dividend payment due to the costs of using external borrowings that are commonly higher than costs of using internal funds. Gill et al. (2010) found negative relationship between historical sales growth and dividend payout for entire sample and particularly in service industry. Additionally, Marfo-Yiadom & Agyei (2011) asserted that sales growth is negatively related to dividend payment because they found that Ghana's banks having high growth rather use funds from financing to expand their projects. In other words, they tend to retain a large amount of earnings for future investment, not for dividend payment.

In contrast, Kania and Bacon (2005) also revealed that the sales growth is the main factor of dividend payout. When the firms have higher profits growth, they distribute higher dividend payment to make shareholders be satisfied. However, Kim & Gu (2009), Anil & Kapoor (2008) and Al-Kuwari (2009) reported insignificant relationship between sales growth and dividend payout.

2.6 Business Risk

Business risk may negatively impact on the operations or profitability of a given firm. When current profits and expected future profits are uncertain, a firm confronts to the business risk. Hence, a firm is impossible to pay high dividend as profits increase (Jensen, Solberg, & Zorn, 1992). Rozeff (1982) asserted that business risk is in accordance with high cash flow

fluctuation. Firms with violent cash flow are reluctant to pay more dividends. In addition, Al-Shubiri (2011) stated that the firms with highly business risk are possible to go bankrupt; therefore the firms may choose to pay lower dividend. Moreover, Aivazian et al. (2003) mentioned that during the declining period or confronting into any business risk, dividend payout should be reduced in order to maintain company's equity level. Nonetheless, Anil and Kapoor (2008) argued that although firms in IT sector have high profitability and face a risk of year-to-year earnings variability, they still pay more dividends. They showed that in the year 2004, Infosys Technologies paid as high dividend as 2.590% during the period of high profitability, and high volatile earnings. However, evidence on the relationship between business risk and dividend payouts are not consistent as Kim & Gu, (2009), Al-Kuwari (2009) Marfo-Yiadom & Agyei (2011) showed the result of insignificant relationship.

2.7 Firm Size

According to the agency theory, shareholders are unable to closely monitor firm's operations because of the ownership dispersion in large firms. Therefore, large firms should distribute dividends to deter agency costs (Jensen & Meckling, 1976). In addition, Holder, Langrehr, and Hexter (1998) revealed that large firms are able to get access to market capital easier and raise funds from external financing with lower costs than small firms do. Hence, large firms prefer paying dividends than small firms. Al-Kuwari (2009) examined the determinants of dividend policies for firms listed in the Stock Exchanges of the Gulf Co-operation Council (GCC) Countries between the years of 1999 and 2003. His results showed that firm size is positively related to dividend payout ratio. Moreover, Kim and Gu (2009) asserted that large hospitality firms are mature firms with few new investment opportunities. When they are profitable, they are more likely to distribute portion of their profits as dividends. Furthermore, Al-Shubiri (2011) found asserted that large Jordanian firms tend to be more diversified than smaller firms, less likely to be sensitive to financial distress, and more able to pay dividends to the shareholders.

However, Kapoor et al. (2010) mentioned small firms have higher risk than large firms; therefore, to attract investors, small firms should pay high dividend payouts. Nonetheless, Adil et al. (2011) found that firm size is not significant to dividend payout in case of firms listed in the Karachi Stock Exchange.

2.8 Industry Dummies

Glen, Karmokolias, Miller and Shah (1995) proposed that the industry differences should have an effect on the dividend policy decisions. They revealed that some industries affect significantly the price fluctuations, and thus earnings. In addition, Gill et al. (2010) pointed out that the different characteristics between service and manufacturing industries in the U.S. make the relationships between dividend payout and the independent variables for service firms differ from those of the firms in the manufacturing industry. Anil and Kapoor (2008) stated that firms in service industry require manpower intensive assets, whereas the firms in manufacturing industry require large capital assets for their operations. Since the funds for recruitment and retention of manpower are relatively lower than the funds for investment in capital assets, service firms are claimed to have liquidity than manufacturing ones. When

liquidity is high, even if there is year-to-year variability in the earnings of firms, firms can easily pay high dividends.

However, Al-Malkawi (2007) examined the dividend payout relationships of all firms listed on the Amman Stock Exchange, consisting of four industries: industrial, service, insurance, and banks. The results showed that the industry effect is not important to dividend payout.

2.9 Interaction Dummies

Prior studies have no clear evidence that only size of firm is enough to be used as the direction to the decision of dividend payout in the predictable pattern. Dividend decision will be made up by the management and depending on many factors. Together with size, net income would be another factor employed by the management when making decision. As a result, this study will further add interaction categories between size and net income which are SFP (Small firms and profit), SFL (Small firms and loss), MFP (Medium firms and profit), MFL (Medium firms and loss), LFP (Large firms and profit), and LFL (Large firms and loss). This concept will explain why large firms with profit do not grant the dividend; while small firms with loss pay dividend.

3. Research Methodology

3.1 Data Collection

The sample of this study consists of all firms listed in the Stock Exchange of Thailand during 2006 – 2010. A total of 435 firms were employed after excluding firms having incomplete data. All data were retrieved from the SETSMART database and Bloomberg database. In addition, to reduce the industry effect, the sample data are categorized into 8 industries consisting of Agro & food Industry, Consumer products, Financials, Industrials, Property & Construction, Resources, Services and Technology. To reduce the size effect, the firm is classified as S (small), M (medium) or L (large) firm according to its market capitalization which is less than 540 million baht, between 540 to 4,400 million baht, or more than 4,400 million baht, respectively (Kapoor, Dlabay, & Hughes, 2007).

3.2 Tobit Regression Model

Due to the unique characteristic of dividend payout ratio (dependent variable) that can have only two possible values; zero value (not pay) and positive value (pay), TOBIT regression analysis is required (McDonald & Moffitt, 1980). The following is the testable model.

$$DIV_{i,t} = \alpha + \beta_1 PROF_{i,t} + \beta_2 OCF_{i,t} + \beta_3 DTE_{i,t} + \beta_4 MTB_{i,t} + \beta_5 GROW_{i,t} + \beta_6 RISK_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 INDUS_{i,t} + \beta_9 INTD_{i,t} + \varepsilon_{i,t}$$

Where, *DIV*= dividend payout ratio, α = the intercept of the regression equation, β_k = coefficients of independent variables, where $k=1,2,3,\dots,8$, ε = error term, *PROF* = profitability, *LIQ* = liquidity, *DTE* = financial leverage, *MTB* = investment opportunities, *GROW* = sales growth, *RISK* = business risk, *SIZE* = firm size, *INDUS* = Industry dummies, and *INTD*= Interaction dummies

The following table 2 presents the measurements of variables

Table 2. Measurements of Variables

Symbols	Description	Measurement
<i>DIV</i>	Dividend payout ratio (in percentage)	Cash dividends of Common Stock / Income before <i>Extraordinary Items</i> – Minority Interest – Cash Dividends of Preferred Stock) * 100
<i>PROF</i>	Return on Assets	Net Income / Average of the beginning balance and ending balance) * 100
<i>LIQ</i>	Cash flow per share	(Net Income + Depreciation & Amortization + Other Noncash Adjustments + Changes in Non-cash Working Capital) / Average total number of shares outstanding
<i>DTE</i>	Debt to Equity ratio	(Total Liabilities/Total Common Equity)*100
<i>MTB</i>	Ratio of stock price to book value per share.	Price to Book Ratio = Last Price / Book Value Per Share
<i>GROW</i>	Change in sales per year	((Net sales for the current period / Net sales for the last period) -1)*100
<i>RISK</i>	Variability in return on asset	The standard deviation of the firm's return on assets in time <i>t</i> and <i>t-1</i>
<i>SIZE</i>	The natural logarithm of current market capitalization	The natural logarithm of current market capitalization time <i>t</i>
<i>INDUS</i>	Industry dummies representing industry <i>j</i> where <i>j</i> = 1, 2, 3, 4, 5, 6, 7, 8.	INDUS1 = agro & food Industry , INDUS 2 = consumer products, INDUS 3 = financials, INDUS 4 = industrials, INDUS 5 = property & construction, INDUS 6 = resources, INDUS 7 = services, INDUS 8 = technology
<i>INT</i>	Interaction dummies representing the interaction between size and profitability	SFP = Small firms with profit, SFL = Small firms with loss, MFP = Medium firms with profit, MFL = Medium firms with loss, LFP = Large firms with profit, LFL = Large firms with loss

4. Results

The TOBIT regression results are shown in the following table 3. It is revealed the financial leverage (*DTE*), is statistically significant at 5% confidence level. The firm's leverage is negatively related to dividend payout, meaning that when leverage of firm increases, dividend payout tends to decrease. This result is consistent with Rozeff (1982) and Jensen (1986).

Table 3. TOBIT Regression Results

Variables	Coefficients	Z Value	Sig.
<i>PROF</i>	0.158	0.403	0.687
<i>LIQ</i>	0.109	0.427	0.669
<i>DTE</i>	-2.265	-3.602	0.000*
<i>MTB</i>	-5.518	-2.127	0.033*
<i>GROW</i>	-0.207	-2.689	0.007*
<i>RISK</i>	-0.966	-1.841	0.066
<i>SIZE</i>	15.023	3.564	0.000*
<i>INDUS1</i>	-3.065	-0.222	0.825
<i>INDUS2</i>	-0.252	-0.018	0.986
<i>INDUS4</i>	-11.816	-0.988	0.323
<i>INDUS5</i>	25.995	2.196	0.028*
<i>INDUS6</i>	6.593	0.414	0.679
<i>INDUS7</i>	-7.413	-0.625	0.523
<i>INDUS8</i>	22.708	1.623	0.105
<i>SFP</i>	118.786	4.099	0.000*
<i>SFL</i>	10.927	0.632	0.717
<i>MFP</i>	-103.122	-4.062	0.000*
<i>MFL</i>	25.127	0.916	0.360
<i>LFP</i>	84.968	3.454	0.001*
Log Likelihood (<i>d.f.</i> =21) = -10424.543, Wald Statistic (<i>d.f.</i> =19) = 208.894			

*significant at 5% confidence level.

In addition, the investment opportunity (*MTB*) is negatively affected dividend payout at 5% confidence level. An increase in investment limit the degree of dividend payment since the firms require internal finance for its investment (Rozeff, 1982, Myers & Majluf 1984, Kim and Gu, 2009). Moreover, in terms of sales growth (*GROW*), it is found that sales growth is negatively related to dividend payout at 5% of confidence level. This result is consistent with the findings of Marfo-Yiadom & Agyei (2011), indicating that sales growth can send the signal regarding the future outlook of firms. Firms decide not to pay the dividend when they want to keep earnings into future project investment to sustain sales growth in the long-run.

Furthermore, size of firms (*SIZE*) is statistically associated with the dividend payout at 5% confidence level. Firms with large size are more likely to pay higher dividends than those of small ones as they seek external financing easier, resulting in a lower cost (Holder et al., 1998). For the industry dummies, it is found that the property & construction industry (*INDUS5*) is positively related to dividend payout at 5% confidence level. This implies that the firms in this industry are more likely to distribute dividends, comparing to others.

Lastly, it is revealed that that profitable small firm (*SFP*) and profitable large firm (*LFP*) are significantly positively related to dividend payout; meanwhile, profitable medium firm (*MFP*) has the negative relationship with dividend payout. These results mean that when small firms and large firms earn profits, dividend payout tends to increase; while when medium firms make profit, dividend payout tends to decrease. The reason behind is that the managers of small firms and large firms want to create positive perception to the market when having profits. Managers wish to signal that their firms are performing outstanding and better than market average, so that the market prices of stocks will increase, resulting in an increase in firms' value. Moreover, it can increase opportunities to easily access financial supports from financial institutions. However, profitable medium firms are less likely to pay dividend because these medium-sized firms require more new investment to grow. They are more likely to keep retained earnings for project investment in the future.

Nonetheless, table 3 shows that profitability (*PROF*), liquidity variable (*LIQ*), business risks (*RISK*) are not statistically significant at 5% confidence level. Firms with high level of profitability and liquidity prefer retaining their cash for debt settlement and/or investment, rather than paying out dividends.

5. Conclusion

The purpose of this study is to determine the factors that affect the dividend payout of Thai listed firms during 2006-2010. Using Tobit regression analysis, this study empirically reports that the financial leverage, investment opportunity, sales growth, firm size, and property and construction sector significantly influence dividend payout of Thai listed firms. Results from this study are beneficial to investors in which they are able to make a right decision regarding stock investment and determinants of dividend payout. It is recommended that investors expecting high dividend avoid investing in firms that have high financial leverage as these firms are more likely to retain their available cash for future debt settlement. Moreover, those expecting high dividend shall avoid investing in firms having high growth and/or high investment opportunity because it signals that these firms tend to have huge investment

projects in the future and are less likely to pay dividend. In addition, those expecting dividend payment shall allocate portion of their cash to invest in the firms in property and construction industry since firms in this sector are more likely to pay dividends, comparing to others. Last but not least, those expecting dividend payment should invest more in profitable small firms and large firms because these firms are likely to distribute more dividends than others.

Furthermore, this study benefits to financial managers. Results from this study provide additional information to financial managers when making decision. This study recommends that those financial managers apply the results to establish proper strategic plans on the financial budgeting. They would be able to decide whether firms should keep retained earnings for future projects, for debt settlement, and/or for dividend payout.

Nonetheless, this study reveals that profitability, liquidity and business risk are insignificantly related to dividend payout decision. For further study, the focus would be on corporate governance practices due to the fact that corporate governance is one of mechanisms used to control the decision making of managers regarding dividend payout. Additionally, it is interesting to investigate this issue by using a sample of small and medium sized firms listed in Market for Alternative Index (MAI), newly emerging secondary market of Thailand. The studies of MAI firms regarding factors affecting dividend payout are limited recently.

Acknowledgement

The authors would like to thank Dr. Wiyada Nittayagasetwat and Dr. Suppanuata Romprasert who kindly give valuable guidance and recommendation to improve this paper.

References

- Adil, M., Zafar, N., & Yaseen, N. (2011). Empirical analysis of determinants of dividend payout: Profitability and liquidity. *Interdisciplinary Journal of Contemporary Research in Business*, 3, 289-300.
- Aivazian, V., Booth, L., & Cleary, S. (2003). Do emerging market firms follow different dividend policies from U.S. firms? *Journal of Financial Research*, 26, 371-387.
- Al-Kuwari, D. (2009). Determinants of the dividend policy in Emerging Stock Exchanges: The case of GCC countries. *Global Economy & Finance Journal*, 2, 38-63.
- Al-Malkawi, N. H. (2007). Determinants of corporate dividend policy in Jordan: An application of the Tobit Model. *Journal of Economic & Administrative Sciences*, 23, 44-70.
- Al-Shubiri, F. N. (2011). Determinants of changes dividend behavior policy: Evidence from the Amman Stock Exchange. *Far East Journal of Psychology and Business*, 4, 1-15.
- Alli, K. L., Khan, A. Q., & Ramirez, G. G. (1993). Determinants of corporate dividend policy: A factorial analysis. *The Finance Review*, 28, 523-547.
- Gill. A., Biger, N., & Tibrewala, R. (2010). Determinants of dividend payout ratios: Evidence from United States. *The Open Business Journal*, 3, 8-14.
- Anil K., & Kapoor, S. (2008). Determinants of dividend payout ratios - a study of Indian

Information technology sector. *International Research Journal of Finance and Economics*, 15, 1-9.

Baker, H. K., & Powell, G. E. (1999). How corporate managers view dividend policy. *Quarterly Journal of Business and Economics*, 38, 18-35.

Baker, M., & Wurgler, J. (2004). A catering theory of dividends. *The Journal of Finance*, 59, 1125-1165.

Bank of Thailand. (2011). *Deposit rates for individuals of commercial banks during 2006-2010*. Retrieved date: 5 December 2011, from: http://www.bot.or.th/English/Statistics/FinancialMarkets/Interestrates/_layouts/application/interest_rate/IN_Rate.aspx.

Brennan, M. (1970). Taxes, market valuation and corporate financial policy. *National Tax Journal*, 23, 417-427.

Chay, J. B., & Suh, J. (2008). Payout policy and cash-flow uncertainty. *Journal of Financial Economics*, 93, 88-107.

Marfo-Yiadom, E., & Agyei, S. K. (2011). Determinants of dividend policy of banks in Ghana. *International Research Journal of Finance and Economics*, 61, 99-108.

Elton, E. J., & Gruber, M. J. (1970). Marginal stockholder tax rates and the clientele effect. *Review of Economics and Statistics*, 52, 68-74.

Glen, J. D., Karmokolias, Y., Miller, R. R., & Shah, S. (1995). Dividend policy and behavior in emerging markets: To pay or not to pay, *IFC Discussion paper 26*, Washington DC: International Finance Corporation.

Gordon, M. (1959). Dividends, earnings, and stock prices. *Review of Economics and Statistics*, 41, 99-105.

Holder, M. E., Langrehr, F. W., & Hexter, J. L. (1998). Dividend policy determinants: an investigation of the influences of stakeholder theory. *Financial Management*, 27, 73-82.

Jensen, G., Solberg, D., & Zorn, T. (1992). Simultaneous determination of insider ownership, debt, and dividend policies. *Journal of Financial and Quantitative Analysis*, 27, 274-263.

Jensen, M. C., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-360.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance and takeovers. *American Economic Review*, 76, 323-329.

John, K., & Williams, J. (1985). Dividends, dilution and taxes: a signaling equilibrium. *The Journal of Finance*, 40, 1053-1070.

Kalay, A. (1982). The ex-dividend day behaviour of stock prices: A re-examination of the clientele effect. *The Journal of Finance*, 37, 1059-1070.

- Kania, S. L., & Bacon, F. W. (2005). What factors motivate the corporate dividend decision?. *ASBBS E-Journal, 1*, 97-107.
- Kapoor S., Anil, K., & Misra, A. (2010). Dividend policy determinants of Indian FMCG sector: A factorial analysis. *Journal of Modern Accounting and Auditing, 6*, 50-64.
- Kapoor, J. R., Dlabay, L. R., & Hughes, R. J. (2007). *Personal Finance*, 8th edition, McGraw-Hill, Chapter 14.
- Kim, H., & Gu, Z. (2009). Financial features of dividend-paying firms in the hospitality industry: A logistic regression analysis. *International Journal of Hospitality Management, 28*, 359–366.
- Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review, 46*, 97-113.
- McDonald, J. F., & Moffitt, R.A. (1980). The uses of Tobit analysis. *The Reviews of Economics and Statistics, 62*, 318-321.
- Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *The Journal of Business, 34*, 411-433.
- Miller, M. H., & Rock, K. (1985). Dividend policy under asymmetric information. *The Journal of Finance, 40*, 1031-1051.
- Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information the investors do not have. *Journal of Financial Economics, 13*, 187-221.
- Pettit, R. R. (1977). Tax, transaction costs and the clientele effect of dividends. *Journal of Financial Economics, 5*, 419-436.
- Prezas, A. P. (1988). Interactions of the Firm's Real and Financial Decisions. *Applied Economics, 20*, 551-560.
- Ravid, S. A. (1988). On Interactions of Production and Financial Decisions. *Financial Management, 17*, 87-99.
- Rozeff, M. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. *Journal of Financial Research, 5*, 249-259.
- Stock Exchange of Thailand. (2011). *Dividend yield for each industry in Stock Exchange of Thailand (2006–2010)*. Retrieved date: 12 November 2011, from: http://www.set.or.th/th/market/market_statistics.html.

Copyright Disclaimer

Copyright reserved by the author(s).

This article is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/3.0/>).