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 **Title: Dividend smoothing on emerging stock markets – the evidence from the Latin American stock exchanges**

**(Structure of the presentation)**

**Research area and brief literature review**

Each shareholder, as a provider of capital for a company, requires an appropriate rate of return on the investment. As it is generally understood that the shareholders’ wealth stems from the stock price appreciation and dividends, no agreement is made on the theoretical explanations of profit sharing and dividend payouts from the company’s perspective. As such the problem of dividend policy, its determinants and means have puzzled financial economists for many years and attracted considerable attention. However, despite years of research, still in the financial literature there are many competing theories of the dividend policy. Among them, the one that takes into account the managers perceptions and states that decisions concerning dividend policy are rather “sticky” is the Lintner dividend smoothing theory (Lintner 1956). Having done 28 interviews with managers Lintner argues that managers’ decisions reveal conservatism and inertia. Thus, Lintner formulates the dividend partial adjustment model.

The Lintner’s work influenced the research in the field of dividend policy. It must be stressed that in most of the empirical studies the underlying data covered companies from highly developed/mature stock markets based in advanced economies [for example McDonald et al. 1975, Khan 2006, Aivazian 2006, Andres et al. 2009, Leary and Michaely 2011, Michaely and Roberts 2012, Chen et al. 2012, Fama and Babiak 1968]. The results, in overall, confirm the existence of smoothing behavior on different stock markets. Taking the geographical coverage into account one can see that in recent years, there is a growing interest to investigate the problem of dividend smoothing on the less developed stock markets from emerging countries. Here we can find studies of Javakhadze et al. (2014), Benavides et al. (2016), Aivazian et al. (2003), Chemmanur et al. (2010), Jeong (2013), Adaoglu (2000), Omet (2004), Al-Najjar (2009), Pandey and Bhat (2007), Tran and Nguyen (2014), Al Yahyaee (2010), Al-Malkawi et al. (2014), Wolmarans (2003), Al Ajmi and Hussain (2011). However, also in this group of studies, except Javakhadze et al. (2014), and just recently published Benavides et al. (2016) paper, studies are devoted to the one particular country and there is a lack of comparisons in a broader international context.

**Research aim, Questions And Hypotheses**

The main goal of the research is to prove the existence of dividend smoothing phenomenon among the companies listed on the selected emerging stock markets on the basis of the Lintners’ dividend partial adjustment model (1956). The basic research question is the as follows: Can we distinguish companies on the selected emerging stock markets whose dividend policy undergoes smoothing?

Every stock market has its own characteristics determined by the legal and economic environment. Moreover, on the stock markets there are listed companies representing different sectors of the economy. This statement brings us to the next question whether there are differences concerning dividend smoothing effect between the markets and/or within the sectors. Two hypotheses were formulated to analyse the dividend smoothing behaviour on the selected stock markets.

H1: The effect of dividend smoothing was present on the selected Latin American emerging stock markets in the period of 1994-2013.

H2: The speed of dividend smoothing varied among the sectors of the economy.

**Research sample and data**

The preliminary sample covered 1297 companies listed on five Latin American stock exchanges, namely: BM&FBOVESPA (Brazil), Santiago SE (Chile), Colombia SE (Colombia), Mexican Exchange (Mexico) and Lima SE (Peru). All the markets selected to the sample are classified as the emerging ones according to the MSCI Market Classification Framework and are included in the MSCI Emerging Market Index. The history of the selected companies’ dividend payouts was collected from the Thomson Reuters Eikon 4. This database includes all publicly traded companies on the world’s stock markets. Data was collected under a special agreement between the University of Gdansk and the Thomson Reuters company. The exact data samples from each stock markets and the filtering rules are presented in the table 1.

**Table 1.** Preliminary sample sizes and after filtering

|  |  |
| --- | --- |
| Country  | Sample size  |
| initial  | only ordinary dividend payouts for at least 6 consecutive years; no financial sector\* | only regular dividend payout policy; no missing financial data  | SOA statistically significant | after removing outliers |
| Brazil | 429 | 140 | 112 | 72 | 70 |
| Chile  | 253 | 96 | 96 | 41 | 41 |
| Colombia | 144 | 28 | 28 | 5 | 5 |
| Mexico | 195 | 44 | 41 | 25 | 25 |
| Peru | 276 | 48 | 43 | 21 | 21 |
| Whole sample | 1297 | 356 | 320 | 164 | 162 |

\* Financial and insurance companies.

**Methodology**

Preliminary model specification, coming from Lintner (1956), can be noted as follows:

 , (1)

where ,  – target dividend payout ratio for firm *i*,  – current year’s profits (earnings after taxes),  – dividends which the company would have paid in the current year if its dividends were based simply on the fixed target payout ratio ,  – change in dividend payments, ,  () – amount of dividend paid in year *t* (*t-1*), ,  – structural parameters, – error term. Dividend adjustment coefficient SOA is estimated as  from equation (1).

Following works of Fama and Babiak [1968], Dewenter and Warther [1998], Brav et al. [2005], and Javakhadze et al. [2014] we end up with the specification (2):

, (2)

where  – target level of dividends for firm *i* in year *t*, – *ith* firm’s earnings *per share* in year *t*, – parameters, – error term. The parameters of equation (2) were estimated using the OLS method. The SOA coefficient, which indicates how dividends change in response to a change in earnings, was estimated as  from the equation (2). In order to control for the scale effects, both the dividends and earnings were divided by the number of common shares outstanding [Fama and Babiak 1968, Brav et al. 2005].

In order to find out the statistical significance of the SOA coefficient arithmetic average the parametric tests for one mean is employed as well as the Levene's test for equality of variances, test for differences between two means and the one-way ANOVA analysis. Having considered the distribution of the SOA coefficient in the whole research sample (N=162), the additional non-parametric tests including either the Mann-Whitney U test or the Kruskal-Wallis rank test and the median test are performed.

**basic conclusions**

The obtained SOA values are positive and significantly different from zero. The mean and median values of the SOA coefficient are suggesting rather low levels of the dividend smoothing among the selected emerging stock markets. The means of the SOA coefficient and its medians are homogeneous among the Latin American stock markets and within the sectors. Thus, although we find examples of companies in the selected stock markets that strongly smooth their dividends, the broader view on the country samples gives rather weak support for the first hypothesis. Moreover, since we find no differences in the estimated SOA values either among the selected markets or the sectors, the second research hypothesis should be rejected.

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