

## **Dividend policy: a long-term investigation**

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The return from investing in stocks can be disentangled in two components: capital gains and dividends. For long-run investors, dividends form the largest part of the income. In this dissertation, we investigate dividend policy of firms listed on the Brussels Stock Exchange using data of almost two centuries (1824–2012).

In the first study, we investigate how dividend policy evolves over our sample period. We show the institutional environment in which firms operate, which is generally believed to affect corporate dividend policy, changed drastically: investor protection improved seriously over time and dividend taxation was introduced. Despite these huge changes, we find dividend policy to be surprisingly stable over time.

The second study explores whether the motives to pay dividends depend on (1) the institutional environment in which firms operate, (2) the state of the economy and (3) the maturity of the industry in which the firm is active. We find common determinants of dividend policy in different environments. Large firms, firms with a low level of idiosyncratic risk, firms with a high share price and more liquid firms are more likely to pay dividends. While this is consistent with life-cycle arguments, our evidence raises doubt about signaling as a first-order explanation of dividends.

The third empirical study adds a new explanatory variable to the dividend debate. Consistent with imprinting theory, we show that dividend policy at the moment of the firm’s first listing has a long-lasting impact on future dividend policy. However, the impact of the initial dividend policy decreases when a company goes through its lifecycle. This indicates managers are both firm and flexible when setting their dividend policy.

In summary, stability seems to be the common denominator. Study I shows dividend policy is very stable over time. Next, we find that the determinants of the decision to pay are stable in different environments. Finally, we show that dividend policy has a stable component that persist over a company’s life.