Doctoral Dissertation

Empirical Analysis of Payout Policy in Japan

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Summary

A firm’s payout policy suggests the distribution of free cash flows to shareholders after paying interest to the firm’s creditors. Payout policies are set in two ways, that is, cash dividends and share repurchases.

A very important practical concern for financial practitioners and scholars concerns firms’ decisions about whether to reinvest in projects or pay their shareholders out of the free cash flows generated from their management practices.

Miller and Modigliani (1961) advocate that payout policies do not affect firm value, given certain conditions (Modigliani–Miller theorem). These conditions include the absence of taxes, information asymmetry, and transaction costs, as well as the existence of complete contracts.

Why has not payout policy, which has been used for many years in Europe, the United States, and Japan, had any impact on firm value? How does payout affect firm value in the first place? Are dividends and share repurchases indifferent, and are they substitutes for the payout method? This study answered these questions and explained the dividend decision mechanism by focusing on the relationship between dividends and profitability.

In chapter 2, this study tested the announcement effect of share repurchases on Japanese stock prices from 2010 to 2013. The chapter documented an average abnormal return of 2.35% on the announcement

day among 392 firms listed on the First Section of the TSE and that repurchased shares. Abnormal returns appeared over 20 trading days following, but not preceding, the announcement. Higher abnormal returns were associated with a larger number of shares to be repurchased and with firms having smaller market capitalization. Although these results endorsed those of earlier studies, this study's original contribution is that it empirically confirmed different announcement effects for shares repurchased in the open market and via off-floor trading; that is, through the ToSTNeT. The announcement effect was less among the 54% of sampled firms that repurchased shares via the ToSTNeT, although positive abnormal returns were evident.

In chapter 3, this study discussed stock market share repurchases with prior announcement from the viewpoint of firm management between February 2010 and December 2013. I found that of about 781 share repurchases for firms listed on the First Section of the TSE, lower liquidity firms were likely to use the ToSTNeT-3. This result supported the certainty and immediacy hypothesis. Furthermore, by focusing on the motivations of both the share seller and buyer, I found evidence that management chooses the ToSTNeT-3 by accepting requests from blockholders (mainly general corporations other than financial institutions).

In chapter 4, this study examined the substitution of share repurchases for dividends among Japanese non-financial corporations since 2008. Earlier Japanese studies have provided no support for this hypothesis, but my results supported it weakly, coinciding with findings that support the hypothesis in U.S. markets. Furthermore, I found stronger substitution effects only among firms repurchasing shares on the open market by examining firms that repurchased shares on Japan's ToSTNeT-3, as reported by the Timely Disclosure Network (TDnet). The results suggested that introducing the ToSTNeT-3 in 2008 stimulated a substitution effect.

In chapter 5, this study investigated how family firms' payout policy, specifically dividend policy, is different from that of non-family firms. Because family firms represent a form of managerial ownership, I tested for an effect on dividend policy by comparing family firms to firms with non-family ownership structures. This study developed a hypothesis that firms with family ownership structures inhibit dividends more than firms with non-family management structures do. The results of my analysis support this hypothesis. I clarified that family management structures with shareholding characteristics inhibit dividends more than do firms with non-family management ownership structures, in favor of pursuing non-market benefits captured by the umbrella term "socioemotional wealth." In addition, I confirmed that managerial ownership inhibits the dividend payout ratio in general ROE levels while the marginal effect of managerial ownership on the dividend payout ratio increases with the ownership ratio.