Determinants of dividend policies for ADR firms

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Abstract

Purpose

Cross-listed firms may face unique incentives for establishing dividend policies in comparison to US firms. This study aims to test the implications of the lifecycle and signaling theories of dividend policy in the context of non-US firms cross-listed on US stock exchanges via American depository receipts (ADRs).

Design/methodology/approach

ADRs are classified according to the firms' dividend paying histories as regular payers, non-payers, former payers, new payers and switchers. Multinomial logit regressions measure the likelihood of dividend payers to pay dividends, as well as the possibility of a dividend amount increase, decrease, or no change, based upon previously identified determinants of dividend payments and a measure of economic conditions in the home country.

Findings

The results indicate that firm size, growth opportunities, and the mix of earned and contributed capital partially explain observed dividend policies for ADR firms. Multinomial logit regressions reveal profitability and home-country macro-economic conditions significantly affect ADR firms' decisions to change their dividend policies.

Originality/value

The findings suggest macro-economic conditions affect dividend payment changes among ADR firms. The results also imply that the lifecycle and catering theories may help explain dividend changes among ADR firms.

American depository receipts | Catering theory | Cross-listed | Dividends | Lifecycle theory | Signaling theory

Citation

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