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## Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?

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From 1978 to 1999, the proportion of publicly traded companies paying cash dividends fell from 66.5 percent to 20.8 percent. This period is distinguished by changing demographics of publicly traded companies. The authors find that although the changing demographics of the company population is important in explaining the declining proportion of dividend-paying companies, companies also now have a lower propensity to pay dividends. The lower propensity to pay is found after adjusting for company characteristics and is at least as important an explanatory factor as changed company demographics in explaining the authors' findings.

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In the view of some finance theoreticians, dividends are less valuable to shareholders than capital gains because they are taxed at a higher rate. Presumably, then, companies that pay dividends have a higher cost of equity and are at a competitive disadvantage. Although many companies pay dividends, the historical evidence shows a decline in the percentage of publicly traded companies paying dividends during the past 20 or so years. From a high of 66.5 percent dividend payers among nonfinancial, nonutility companies in 1978, the percentage declined to 20.8 percent in 1999. The dividend decision is dependent on not only a company's characteristics and its ability to pay but also the willingness of management to pay dividends.

The authors address three questions regarding the decline in the percentage of dividend payers: What are the characteristics of dividend payers? Is the decline in the percentage of dividend payers the result of a decline in the prevalence of these characteristics in the

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company population? And have companies with dividend-paying characteristics become less likely to pay?

The authors obtain available data for 1926–1999 from the CRSP and Compustat databases covering NYSE, Amex, and Nasdaq companies. For each year, they categorize companies according to their dividend payment history: *Payers* or *Non-Payers*. The latter group is further divided into those companies that *Never Paid* dividends and those that *Did Pay* at some time in the past. The data show a large increase in the number of companies in the sample after 1978 because of the very large increase in the number of newly listed companies. There were 3,638 nonutility, nonfinancial companies in 1978 and 5,670 in 1997. Although about one-third of newly listed companies paid dividends in 1978, only 3.7 percent of newly listed companies paid dividends in 1999.

The authors use summary statistics and logit regressions to identify the characteristics that separate *Payers* and *Non-Payers*. The key variables driving dividend payments are profitability, investment opportunities, and company size. Companies with low profitability, small size (as measured by market capitalization), and strong growth opportunities (as measured by high asset growth rates, high asset market values to book values, and high relative research and development expenditures) tend to be companies that have never paid dividends. The surge in new listings during the 1980s and 1990s and the changing nature of new listing companies caused the population of publicly traded companies to shift toward the characteristics of companies that have never paid dividends. The changing characteristics of companies is important in the declining percentage of dividend payers, but it is only half the explanation. The authors show that companies that used to pay dividends now choose not to pay; the surge in new listings masks widespread evidence of a lower propensity to pay dividends for the companies in the study. In the authors' view, the declining propensity to pay suggests that companies have become aware of the tax disadvantage of dividends. Furthermore, they show that share repurchases are primarily the province of dividend-paying companies and that their primary effect is to increase the already high cash payouts of dividend payers.

The lower propensity to pay is general in nature but much stronger among companies that have never paid or that formerly paid dividends. Lower profitability and strong growth opportunities are associated with much lower expected rates of dividend initiation by companies that have never paid. Those companies that are dividend payers (large, profitable companies), however, have become only slightly more likely to stop paying dividends. The evidence suggests that the perceived benefits of paying dividends have declined over time. The authors suggest several motivations for the declining perceived benefits, including lower transaction costs that may encourage the sale of shares for consumption purposes and agency issues that lower the benefits of cash dividends (versus stock options use) in controlling these issues between stockholders and managers.

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