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Payout Policy of European Companies

Mieczysław Kowerski
University of Management and Administration in Zamość, Poland

Abstract

Despite Europe's global importance, relatively little published researches have examined payout policy on this continent. The rather scarce research which has been conducted in this field throughout European companies cover different countries, groups of companies and timeframes, which makes it very difficult to perform comparisons and formulate proper conclusions. The aim of this work is to analyze the payout policy of European companies with comparison to companies outside the European market. Research on the literature has been performed as well as own analyses. The most important tendencies of the European companies' payout policy have been formulated. Companies in Europe have higher propensity to pay dividends than their counterparts outside Europe and increasing, yet still variable, payout values, both dividends and share repurchases. European companies transfer a substantially bigger part of their net profit to their shareholders than their counterparts from the other continents. An increment in the dividend payout ratio in Europe is clearly visible over the last couple of years. High dividend yields of European companies compensate low yields of governments and corporate bonds.

Keywords: payout policy, European companies, dividend, share repurchase, dividend yield, payout ratio

JEL: G35

"European companies have an investor friendly dividend policy compared to their international peers"[1]

Introduction

Corporate payout policy has been one of the most studied areas in finance literature. Payout policy is a set of company decisions concerning the sharing of earned profit. It is about making the decision to transfer profits to shareholders or not, and if so, then how much of the profit should be transferred, and how much is to be left in the company. Profit may be transferred to shareholders in the form of dividends or through share repurchase (Cwynar and Cwynar 2007, 174). A dividend is a payment made by a corporation to its shareholders, as a distribution of current or retained profits. Share repurchase takes place when the company repurchases its own shares from shareholders for any purpose determined by the General Meeting of Shareholders, including further sale. Most of the existing literature on payout policy focuses on the US market. Researches of the US capital market contributed to the formulation of most of the theories and hypotheses related to payout policy.[2] Despite Europe's global importance, relatively little published researches have examined payout policy on a continent-wide basis. It covers different countries, company groups and timeframes, which makes it difficult to compare and formulate proper conclusions.

1. See: Naumer H-J., Nacken, Dennis. Capital Income: Dividends, Global Capital Markets & Thematic Research, Allianz Global Investor 2017, page 6, [@:] https://www.allianzgi.com/.

2. It is difficult to list all theories and hypotheses here, but the following are worth mentioning: dividend smoothing hypothesis first documented by Lintner (1956), dividend irrelevance theory of Miller and Modigliani (1961), dividend life cycle theory based on the firm life cycle theory proposed by Mueller (1972) and developed amongst others by Damodaran (2007), dividend signalling hypothesis of Bhattacharaya (1979), Myers and Majluf (1984) and John and Williams (1985) which although has the roots in works of Lintner, and Miller and Modigliani, referring to agency theory free cash flow hypothesis by Jensen (1986), dividend clientele hypothesis of Miller and Modigliani, and Black and Scholes (1974) and catering dividend theory of Baker and Wurgler (2004a, 2004b).

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The aim of this work is to present the dividend payout policies of European companies compared to companies from non-European markets and to arrange the results of different studies. Literary research as well as own analyses have been conducted and the most important tendencies in dividend payout policies of European companies have been identified.

1 Declining, yet still higher than that of non-European markets, propensity to pay dividends

In the United States the decline of the propensity to pay dividends was observed already in the 1960s. The share of companies paying dividends in the total number of companies listed on New York stock exchanges fell from 78,0% in 1963 to 22,3% in 2000, with a short-term reversal of the downward trend in 1974–1977.[3] This percentage began to decline so fast that Fama and French (2001) introduced into the literature the term of “disappearing dividends.” The years 1990–2003 are called the “dividend dark ages” (Miller 2006, 244). Frankfurter and Wood (2003, 36) explained this condition with the decline of the importance of dividends as a source of information on the condition of companies.

Fama and French (2001) conducted detailed analyses of changes in the structure of industrial companies[4] listed on the New York stock exchanges,[5] which indicated that the decline in propensity to pay dividends was about half due to an increase in the share of companies possessing characteristics not favorable for paying dividends (small companies with low profitability and large investment opportunities), which began to enter the stock markets after 1978 in large numbers. The other half came from the reduction in the propensity to pay dividends. DeAngelo, DeAngelo and Skinner (2004, 428), in turn, confirmed a very large drop in the number of industrial companies paying dividends between 1978 and 2000, but at the same time noted that the number of payers of dividends among financial and utility companies increased by 9,5%. Although, due to an even faster increase in the total number of companies, the share of paying dividends also declined in this group (from 79,9% in 1978 to 71,6% in 2000), the drop was significantly lower than in the industrial group, among which at the time it fell from 65,1% to 19,4%. The decline in the shares of companies paying dividends on the New York stock exchanges was most influenced by the rapid growth of small companies with low profitability (or unprofitable performance). At that time, the largest companies systematically paid dividends.

Floyd, Li, and Skinner (2015) compared the payout policies of US banks to those of industrials and non-bank financials over a thirty-year period, including the 2008 financial crisis and documented that banks had a higher propensity to pay dividends, than other companies. The large majority of banks consistently pay dividends from 1980 to 2008. Banks also repurchase, but repurchases rarely represent more than one-third of bank payouts and never exceed dividends.

From 1980 to 1990, the fraction of banks that paid dividends declined from 99% to 87% before dropping to around 80% in the recession of the early 1990s. After this it remained in the 80% range until 2008. A first hint of a reversal in the decline of propensity to pay dividends in the US market can be found in Julio and Ikenberry (2004), who in late 2004 noted that dividends might be “reappearing.” This phenomenon was confirmed by DeAngelo, DeAngelo and Skinner (2009), followed by Farre-Mensa, Michaely, and Schmalz (2014), who stated that 2000 was the last year in the US market with a drop of share of companies paying dividends and calculated that in 2012 the companies paying dividends amounted to 35% and it was the highest since 1985.

The most comprehensive survey of the company payout policy in 15 “old European Union” countries at the turn of the 20th and 21st century was conducted by von Eije and Megginson (2008). The research covered 6 946 companies operating in industry and transport (the authors left out financial and utility companies), listed between 1989 and 2005, for which the information about

3. [In the journal European practice of number notation is followed — for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style). — Ed.]

4. Industrials companies are: all companies excluding utilities and financial firms.

5. Fama and French analysed the industrial companies listed to 1963 only on the NYSE, in the years 1963–1972 listed on the NYSE and AMEX, and since 1973 also on the NASDAQ.

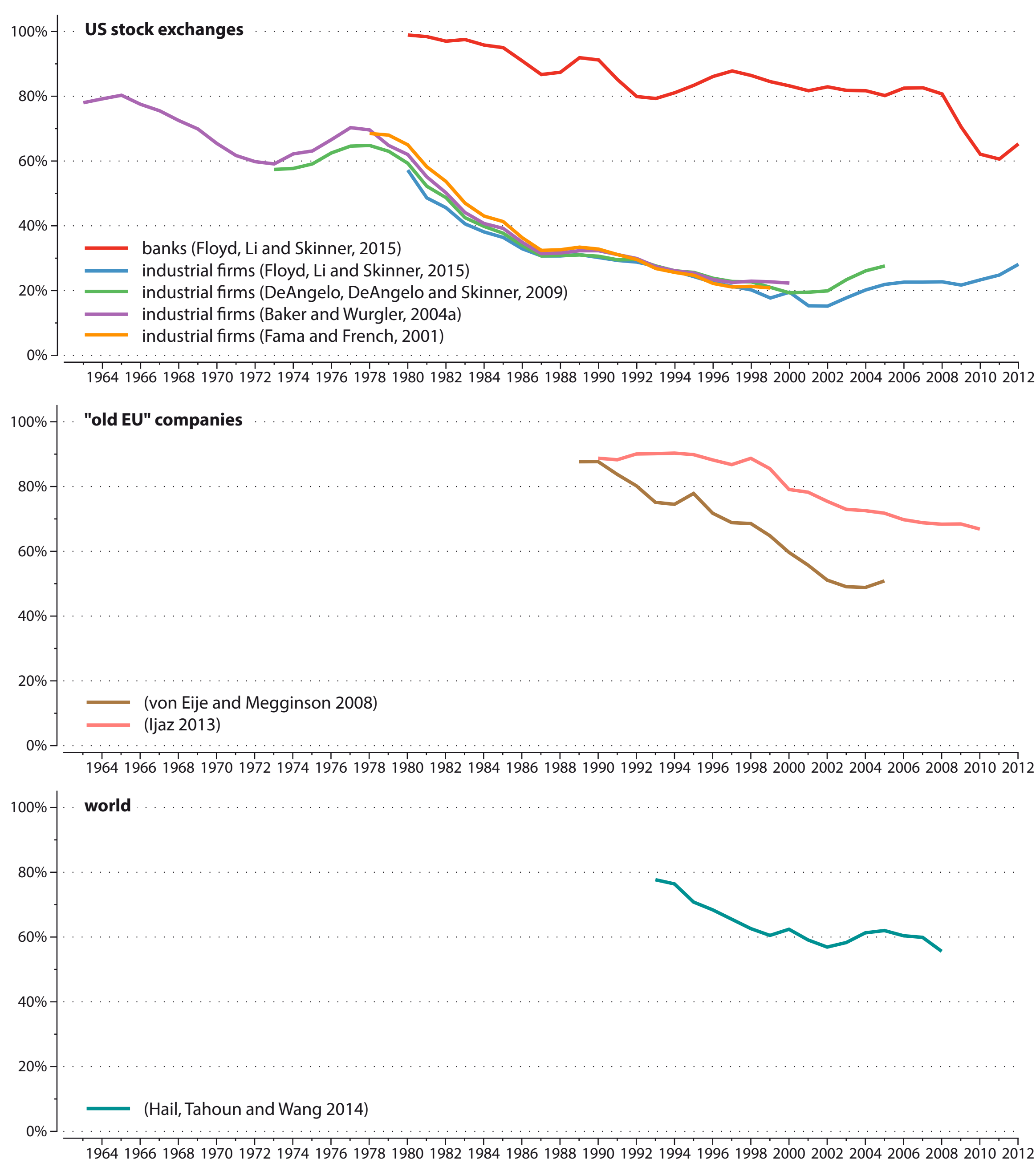

Fig. 1. Changes in propensity to pay dividends in the years 1963–2012 according to various studies

Source: Own study based on Baker and Wurgler (2004a, 1134), DeAngelo, DeAngelo and Skinner (2009, 130), Floyd, Li, and Skinner (2015, 302–303), Hail, Tahoun and Wang (2014, 417–418), Ijaz (2013, 6–9), von Eije and Megginson (2008, 358)

Note: The small differences in dividends paid by companies estimated by different authors in the same years are due to the additional criteria for eliminating individual companies from the sample and do not influence the assessment of changes over time. Correlation coefficients between comparable time series calculated by individual teams exceed 0,9832.

shareholder payout decisions was available. These were active companies as well as dead and suspended listings in order to avoid survivor bias. For 1989, data for 2 301 companies was collected. In 2005, the number of surveyed companies increased to 4 153. According to the authors, this increase was not only due to the appearance of new companies on the stock exchanges but also to the "improvement" of the data register system. The final collection included 60 729 observations (firm-years), 39 731 of which paid dividends (the share of payers in the period under review was 65,4%). British companies had the largest share in the collected number of observations (40%), 16% came from France, 13% from Germany, 5% from the Benelux group, 12% from South Europe (Greece, Spain, Portugal, Italy), and 13%, as the authors called it, from "other countries" (Austria, Denmark, Finland, Ireland, and Sweden).

According to von Eije and Megginson, the share of companies paying dividends in the "old EU" decreased from 87,7% in 1989–1995 to 50,9% 15 years later. This is a phenomenon similar to that diagnosed on the New York stock exchanges, but in Europe it began much later than in the United States (1990 and 1952 respectively) and was relatively faster when compared to the passage of time. The increase in the number of companies that did not pay dividends was the result of an increase in both the number of companies that had previously paid and ceased, as well as those who had never paid. The share of companies paying dividends fell almost systematically in all countries during the period considered. Von Eije and Megginson, based on a constructed sample, estimated a higher decline in the proportion of UK companies paying dividends than did Ferris, Sen and Yui (2006), who estimated that the propensity to pay dividends in that country dropped from 92% in 1989 to 42% in 2005.[6] In Germany, the share of paying dividends reached a maximum in 1991 (84%),[7] then fell to the minimum (37%) in 2004 and again climbed to 40% in 2005. The reasons for these changes are not entirely clear, although the emergence of new exchanges with slightly reduced accession criteria (Alternative Investment Market in Great Britain and Neuer Market in Germany) was probably significant. Bancel, Bhattacharya and Mittoo (2009, 71–81) conducted a dividend policy study of 22 European countries that made a broad Datastream index between 1994 and 2006, meaning only large companies were selected, which undoubtedly limits comparability to previous studies. In 1994 it was a total of 1106 companies, and in 2006–2036. The authors did not limit themselves to developed markets — they also took into account emerging markets such as the Czech Republic, Greece, Hungary, Poland, Russia, and Turkey. The highest number came from Great Britain (21,6%), Germany (11,8%), and France (8,2%). According to these studies, in 1994 85,5% of large European companies paid dividends. The share of payers dropped to 73% in 2003, to rise again to 77,4% in 2006.[8] It should be recalled that von Eije and Megginson also observed an increase in the share of dividends paid by the "old EU" companies in 2005, following an uninterrupted decline in 1989–2004.

Ijaz (2013) analyzed data of industrial companies headquartered in twenty-one European countries (Austria, Belgium, Cyprus, Denmark, Finland, France, Great Britain, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey) in the years 1990–2010. Following previous studies, he eliminated firms with negative common stockholder's equity and delisted companies (with missing delisting dates) were also excluded. He gathered data for 32 447 observations (companies–years). The author estimated that propensity to pay dividends by companies with positive net earnings in all analyzed countries declined from 88,7% in 1990 to 66,9% in 2010. Hail, Tahoun, Wang (2014) using data from 32 531 companies with assets in excess of USD 10 million from 49 countries (European and non-European) with at least 10 dividends paid between 1993 and 2008 (222 766 observations) showed that at that time there occurred a significant decline in the share of payers of dividends from 77,7% in 1993 to 55,6% in 2008. It varied depending on the continent. Twenty-four European countries were included in the sample. In the years 1993–2008 the average propensity to pay dividends in the world was 61,7%, while in Europe it was 66,7% and outside of Europe 60,6%. He et al. (2017) based on 174 340 company-year observations for 23 429 non-financial firms across 29 countries, estimated the average propensity to pay dividends throughout the world in the years 1990–2010 as 59,5%. In 14 European countries (Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Turkey, and UK), the propensity to pay was 70,2% and outside of Europe the propensity was 56,4%.[9]

6. Da Silva, Goergen, and Renneboog (2004, 75) estimate that between 1991 and 1992 the share of companies paying dividends in the UK ranged from 88% to 90%. Von Eije and Megginson, especially at the beginning of the survey, had a much smaller sample of larger companies, which could have influenced the "overstatement" of the payers' share.

7. Da Silva, Goergen, and Renneboog (2004, 75) estimate that in the years 1991–1992 the share of companies paying dividends in Germany was around 75%.

8. This relatively small decrease was surely partly due to the fact that large companies were considered.

9. The US market had a decisive role for such result with 37,6% of all observations and the propensity to pay dividends of 37,2% in the years 1990–2010.

Tab. 1. Average propensity to pay dividends by European companies versus outside Europe in the years 1993–2008

Country	Unique Firms	Firm-Years	Dividend Payments	Propensity (in %)
Europe				
Switzerland	132	1 187	933	78,6
Finland	129	879	689	78,4
Luxembourg	24	136	102	75,0
United Kingdom	2 178	14 329	10 693	74,6
Austria	49	213	158	74,2
Belgium	138	732	543	74,2
Spain	167	1 037	756	72,9
Denmark	206	1 929	1 374	71,2
The Netherlands	173	1 020	712	69,8
France	830	4 338	2 819	65,0
Sweden	376	2 585	1 653	63,9
Italy	123	607	384	63,3
Greece	330	1 987	1 202	60,5
Russian Federation	89	237	143	60,3
Ireland	73	356	212	59,6
Norway	241	1 592	923	58,0
Portugal	62	349	192	55,0
Germany	611	2 686	1 379	51,3
Hungary	26	96	43	44,8
Czech Republic	49	164	73	44,5
Turkey	159	1 020	375	36,8
Poland	243	1 006	306	30,4
Subtotal	6 408	38 485	25 664	66,7 [a]
Europe (total)	6 408	38 485	25 664	66,7 [a]
Africa				
Egypt	58	266	175	65,8
South Africa	445	2 640	1 904	72,1
Subtotal	503	2 906	2 079	71,5 [a]
Asia				
Japan	4 404	44 048	37 283	84,6
Sri Lanka	34	252	212	84,1
India	886	4 715	3 829	81,2
Thailand	524	3 965	2 665	67,2
Malaysia	1 044	7 910	5 304	67,1
Pakistan	112	782	507	64,8
Korea (South)	1 170	7 200	4 476	62,2
Hong Kong	916	6 651	4 093	61,5
Taiwan	1 283	7 897	4 453	56,4
Indonesia	330	2 238	1 156	51,7
China	1 517	7 482	3 502	46,8
Israel	182	1 003	384	38,3
Subtotal	12 402	94 143	67 864	72,1 [a]
Australia and Oceania				
Australia	1 410	6 627	3 949	59,6
New Zealand	134	820	639	77,9
Subtotal	1 544	7 447	4 588	61,6 [a]
North America				
Bermuda	54	226	146	64,6
Mexico	114	769	365	47,5
United States	8 529	62 000	27 422	44,2
Canada	1 544	7 356	2 874	39,1
Subtotal	10 241	70 351	30 807	43,8 [a]

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Tab. 1. (continued)

Country	Unique Firms	Firm-Years	Dividend Payments	Propensity (in %)
South America				
Chile	166	1 308	1 117	85,4
Colombia	37	230	177	77,0
Singapore	631	4 311	3 134	72,7
Brazil	283	1 578	1 102	69,8
Peru	67	256	115	44,9
Philippines	186	1 275	555	43,5
Argentina	63	476	198	41,6
Subtotal	1 433	9 434	6 398	67,8[a]
Outside Europe (total)	26 123	184 281	111 736	60,6[a]
Total	**32 531**	**222 766**	**137 400**	**61,7**[a]

Source: Hail, Tahoun and Wang (2014, 417–418)
[a] Propensity in the continent/world as a whole

The research, although different in terms of their periods of analysis and the characteristics of the companies concerned (size, profitability) show that although similarly as for non-European and, in particular, American companies, European companies have shown a decline of the propensity to pay dividends for many years, however in Europe the propensity to pay is higher than outside of it.

2 Increasing value of paid dividends

The decline in the tendency to pay dividends is accompanied by an increase in the value of payouts in both nominal and real terms. DeAngelo, DeAngelo and Skinner (2004) found that in the years 1978–2000 the value of dividends paid by companies listed on the New York stock exchanges increased by 224,6% in nominal terms (yearly average rate of growth 3,5%), and by 22,7% in real terms (yearly average rate of growth 0,93%). As a result, the shareholders recorded a real increase in dividend income. This result was confirmed by Floyd, Li, and Skinner (2015) who estimated that the real yearly average dividend rate of growth (converted to 2012 dollars using the consumer price index) of American industrial firms in the years 1980–2000 was 0,98%. At that time an especially high rate of growth of dividends was noticed in American banks, which had a real yearly average rate of growth of 7,94%. This growth was continued in the years 2001–2007 (real yearly average rate of growth 6,62% for industrial companies and 6,08% for banks). After a 2008–2009 small decrease, the payments of dividends by industrial companies continued the growth (real yearly average rate in the years 2008–2012 of 4,59%), but banks drastically restricted payouts by 60% — from USD 46,879 billion in 2007 to USD 18,717 billion in 2017.[10]

Von Eije and Megginson (2008, 355) found that total real cash dividend payments by EU listed industrial firms increased modestly from EUR 34,8 billion in 1989 to EUR 42 billion in 1994 then surged more than 170% between 1994 and 2001, to peak at EUR 114 billion. Total cash dividends then fell to EUR 89 billion in 2003 before rebounding to EUR 112,5 billion in 2005 as Europe's economic recovery gathered strength.[11] The sharp rise in dividends during the late 1990s is caused partly by an increase in the number of dividend paying companies, but is mostly due to increased dividend payments by the original dividend payers of 1989.

Throughout the whole period analyzed by von Eije and Megginson the real average annual growth rate of dividends paid by industrial companies in the old EU was 7,61%, which is more than double than the growth rate of dividends paid by American industrial companies (3,25%) noted in the same timeframe.

10. Own calculations based on Floyd, Li and Skinner (2015, 305–306)

11. Von Eije and Megginson, while conducting their research, expressed values in 2000 prices, using the consumer price index (CPI) as a deflator. The authors did not notice significant changes in the taxation of dividend payments in the analysed EU countries.

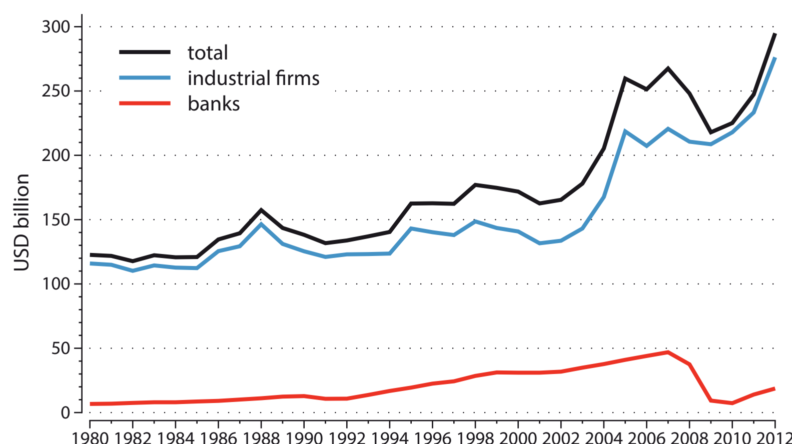

Fig. 2. Dividends paid by American companies in the years 1980–2012 (constant 2012 dollars)

Source: Own study based on Floyd, Li and Skinner (2015, 305–306)

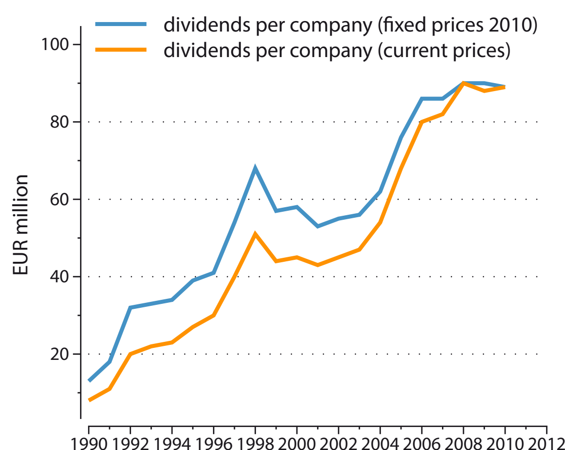

Fig. 3. Changes in the dividends per company in 21 European countries analyzed by Ijaz

Source: Own study based on Ijaz (2013, 6–9)

According to Ijaz, the real (in 2010 prices) average yearly dividend growth rate per company[12] for the period 1991–2010 was 10,2%. For the years 1991–2005 Ijaz estimated yearly growth by 12,62%, which is 65,8% more than it would seem in the studies by von Eije and Megginson.

Every year, the investment company Hederson Global Investors analyses dividends paid by the world's largest by market capitalization 1200 companies in 45 countries which create 90% of world GDP. This is the basis for constructing the Henderson Dividend Global Index, which measures the progress global firms are making in paying their investors income on their capital using 2009 as a base year-index value 100. The index is calculated in USD, and can be broken down into continents. A ranking of 20 companies — the largest payers of dividends in the world is also published.

According to the study by Henderson Global Investors,[13] the value of dividends paid by the largest companies in the world grew dynamically in 2010–2014, reaching USD 1 049,6 billion in 2014 (64,9% more than in 2009). In the years 2015–2016 there was a slight reduction in payouts (by 2,9%). Especially big growth of payouts was observed in American companies, which have seen a slowdown in growth over the last two years, but have not had a significant drop in earnings. In 2016, American companies paid dividends of USD 412,5 billion, more than double of the 2009 figure (growth by 104,2%).

12. Due to a relatively small number of observations at the start of the study period, absolute payouts cannot be compared. Their dynamic growth was due to the increase in the number of analysed companies.

13. See: Henderson Global Dividend Index. Edition 13. February 2017, [@:] https://az768132.vo.msecnd.net/documents/103674_2017_06_07_06_41_54_737.gzip.pdf.

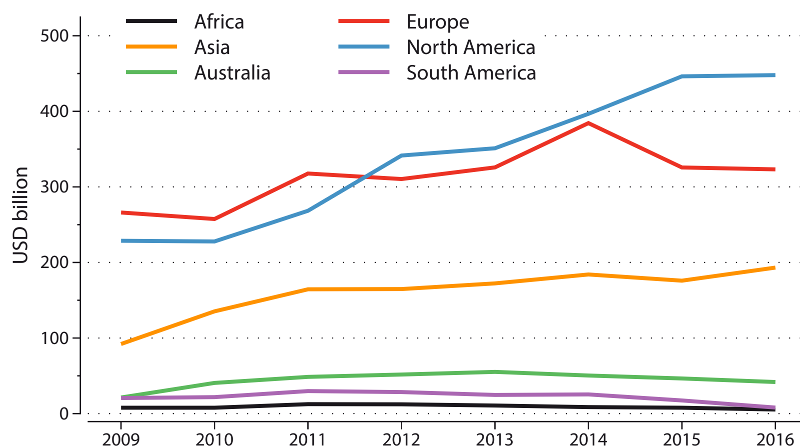

Fig. 4. Changes of dividends payouts by the largest 1 200 companies in the world (current prices)

Source: Henderson Global Dividend Index. Edition 5. February 2015, [@:] https://az768132.vo.msecnd.net/documents/36790_2017_03_29_07_23_25_080.gzip.pdf; Henderson Global Dividend Index. Edition 13. February 2017, op. cit.

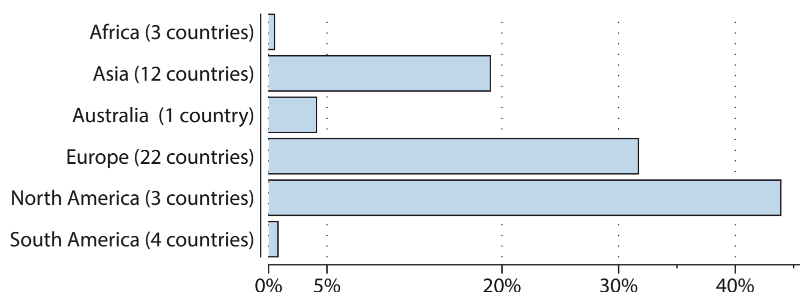

Fig. 5. The structure of dividends payouts by the continents in 2016

Source: See: Henderson Global Dividend Index. Edition 13. February 2017, op. cit.

In Europe, companies from 22 countries (Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, and Turkey) are "eligible" for the top 1200 companies in the world. In 2010–2014, the value of dividends paid by these companies increased dynamically, reaching USD 384,4 billion (growth by 44,5% from 2009), with USD 11,9 billion coming from emerging European markets. In the years 2015–2016, there was a significant reduction in payouts (by 15,9%). In 2016, European companies paid 21,5% more dividends than in 2009. In 2016, the dividends paid by the largest European companies accounted for 31,7% of the dividend payouts of the world's largest companies.

By far the most extensive database of payout policy in the world is being developed by Aswath Damodaran,[14] which uses data from more than 42 000 companies, including over 6 650 from Western Europe. According to Domadaran's estimates, dividends of USD 1 617,9 billion were distributed worldwide between October 2015 and September 2016, with the largest share of companies from emerging markets (31,3%).[15] Western European companies paid dividends of USD 401,6 billion (24,8% of total dividend payments).

3 Increasing concentration of dividend payments

The increase in payouts, accompanying the decline in the propensity to pay dividends, means the concentration of payouts, so that the ever-smaller percentage of companies pay more and more when the others stop paying and if they are paying at all, the amounts are small.

14. See: Damodaran online, [@:] http://pages.stern.nyu.edu/~adamodar/.

15. Among them are probably companies from developing European markets, which means that Europe's share in the total value of dividends is likely to be higher.

Tab. 2. European companies occupying places (ranks) in the top twenty largest dividend payers in the world, in the years 209–2016

Company (country)	2009	2010	2011	2012	2013	2014	2015	2016
Royal Dutch Shell plc (Great Britain-Netherlands)	2	1	1	2	1	2	2	1
HSBC Holdings plc (Great Britain)	15	10	8	5	5	6	8	6
BP plc (Great Britain)	1	11	19	13	11	14	15	15
Vodafone Group plc (Great Britain)		5	5	1	8	1		
Banco Santander S.A. (Spain)	10	9	10	8	9	9		
Total S.A. (France)	8	7	9	10	14	17		
Nestle AG (Switzerland)		16	11	12	16	15	16	14
Novartis AG (Switzerland)		18	16	18	18	18	17	17
Telefonica (Spain)	11	4	3					
Gazprom (Russia)			12	11				
Eni Spa (Italy)	14	19						
GDF Suez (France)	12							

Source: See: Henderson Global Dividend Index. Edition 13. February 2017, op. cit.

Tab. 3. Dividend policy in the world on the Damodaran data

Year	USA	Western Europe	Emerging	Japan	Global
Number of companies					
2013	7 766	6 073	19 083	3 528	40 906
2014	7 887	6 532	19 929	3 592	42 410
2015	7 480	6 568	19 896	3 631	41 889
2016	7 330	6 655	20 578	3 679	42 678
Dividends (USD billion, current prices)					
2013	375,9	374,9	547,5	52,0	1 452,9
2014	440,1	420,8	930,9	76,5	1 976,9
2015	485,1	391,1	516,8	72,8	1 564,9
2016	491,3	401,6	506,5	121,8	1 617,9
Dividends. Global = 100% in each year					
2013	25,9	25,8	37,7	3,6	100,0
2014	22,3	21,3	47,1	3,9	100,0
2015	31,0	25,0	33,0	4,7	100,0
2016	30,4	24,8	31,3	7,5	100,0
Average dividend per company (USD million, current prices)					
2013	48,4	61,7	28,7	14,7	35,5
2014	55,8	64,4	46,7	21,3	46,6
2015	64,9	59,6	26,0	20,0	37,4
2016	67,0	60,3	24,6	33,1	37,9

Source: Own study based on Daomodaran (see: Damodaran online, op. cit.
Note: Statistics are computed from October year $t-1$ to September year t. For example, it means that 2016 embraces 12-month data from October 2015 to September 2016.

In the United States, between 1978 and 2000, the number of companies paying dividends exceeding USD 100 million increased by 81%, and the total value of dividends paid by those companies increased in the real terms by 74,2%. On the other hand, the number of companies paying dividends at 1978 prices below USD 100 million fell by 60%, as well as the total real value of dividends paid by these companies. In the group of companies paying dividends below USD 5 million, the number of payers decreased by 67,6% (DeAngelo, DeAngelo, and Skinner 2004, 433). While in

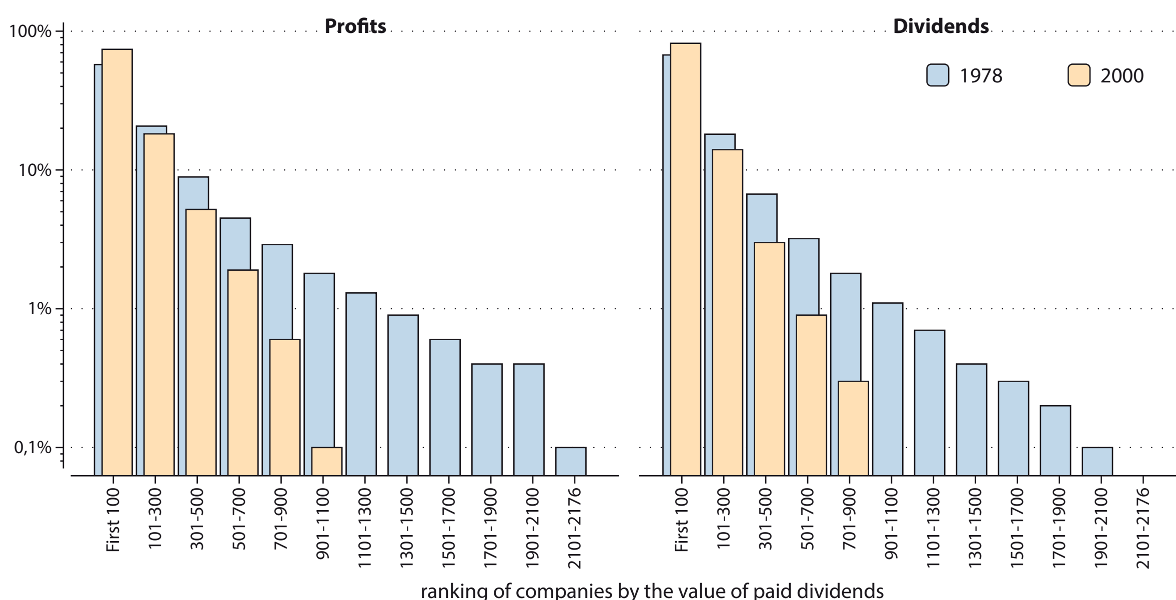

Fig. 6. Profits distribution in 1978 and 2000 according to the ranking of companies paying dividends

Source: Own study based on DeAngelo, DeAngelo and Skinner (2009, 139–140)
Note: Logarithmic scale on vertical axis

1978 the 100 largest payers paid 67,4% of all dividends, in 2000 the 100 largest payers paid 81,8% of all dividends.

Research by von Eije and Megginson (2008) shows that also in Europe there is an increase in the already high concentration of dividends. In 1989, the share of dividends paid by the smallest payers (companies making up the first decile on account of the value of the payout) in the total value of dividends was less than 0,1%, and the value of the dividends paid by the second-decile companies constituted only 0,1% of all payments. On the other hand, 20% of the largest payers (9th and 10th deciles) paid 89,9% of the total payout, with 79% for the 10th decile. In 2005, the share of the smallest payouts in the total value of dividends was lower than 0,1%, and 20% of the largest payers made payments, which constituted 97,8% of the total value of dividends paid this year. The growth of concentration is also attested by the increase of the Herfindahl-Hirschman Index from 0,639 to 0,851. On the other hand, if we take the size of the company as measured by its assets as a criterion of division into deciles, then in 1989 the first 10% of the European companies with the smallest assets (the first decile) paid 0,2% of the total amount of this year's dividend. The last 10% (companies with largest assets) paid out 72,9% of the total dividend and one fifth of the largest companies paid 85,8% of the dividends. In 2005 the concentration deepened further and the share of payouts of the first 20% (assets-ranked) companies in total paid dividends did not exceed 0,1%, while 20% of the largest companies paid 94,1% of the total dividend paid in 2005. Herfindahl-Hirschman concentration index increased from 0,554 to 0,748. The huge concentration of dividend payments continues to persist throughout the world.

Tab. 4. Concentration of dividend payments in the world in 2016

Specification	Dividend (USD billion)	The share in total value of paid dividends (in %)
The 10 largest payers of dividends in the world	109,6	6,8
The 20 largest payers of dividends in the world	183,6	11,3
1200 largest companies in the world	1 019,5	63,0
World	1 617,9	100,0

Source: Own calculations based on Henderson Global Dividend Index. Edition 13. February 2017, op. cit.; Damodaran online, op. cit.

4 The highest in the world and growing dividend yields and payout ratios

European companies for many years have had highest dividend yields in the world. Dividend yields of companies from MSCI Europe, MSCI North America and MSCI Asia indexes[16] for the years 1971–2016 calculated by Naumer and Nacken show that only in 1986–1991 Europe did not have the highest values.[17] The arithmetic mean of dividends yields in the years 1971–2016 was the highest in Europe (3,9%). At that time in North America it was 3,2% and in Asia it was 2,1%. Since 1996 the dividend yields of European companies has been steadily increasing. At the end of 2016, European dividend yield was around 3,5%. These trends are also confirmed by the much larger sample of Damodaran for recent years. Damodaran's dividend yield for European companies in 2016 was calculated at 3,0%[18] and was 0,6 percentage points higher than the global average.

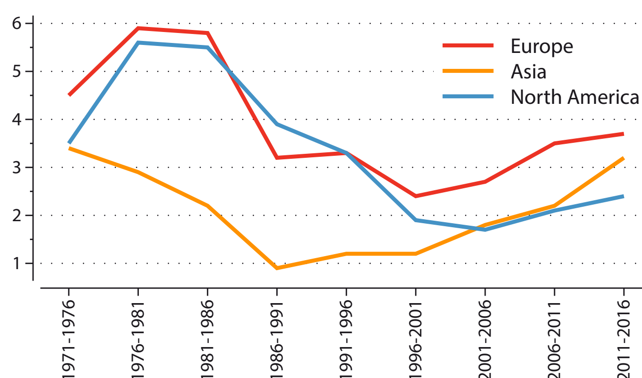

Fig. 7. Changes of dividend yields estimated on the MSCI Europe, MSCI North America and MSCI Asia indexes in the years 1971–2016

Source: Own study based on Naumer H-J., Nacken, Dennis. Capital Income..., op. cit., pages 8–9

Fig. 5. Dividend yields and payout ratios in the world in the years 2013–2016 (in %)

Year	USA	Europe	Emerging	Japan	Global
Dividend payout ratio					
2013	33,2	60,5	47,2	18,5	44,0
2014	37,2	54,7	75,4	27,1	54,4
2015	52,2	67,8	46,1	25,2	52,3
2016	56,1	72,2	46,8	41,4	56,4
Dividend yield ratio					
2013	1,8	2,6	3,1	1,2	2,4
2014	1,8	3,0	4,9	1,8	3,0
2015	2,1	2,8	2,6	1,5	2,4
2016	1,9	3,0	2,5	2,5	2,4

Source: Own study based on Damodaran online, op. cit.

16. The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom). With 446 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe. The MSCI North America Index is designed to measure the performance of the large and mid-cap segments of the US and Canada markets. With 725 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US and Canada. The MSCI AC Asia Index captures large and mid-cap representation across developed markets countries (Hong Kong, Japan and Singapore) and emerging markets countries (China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan, and Thailand) in Asia. With 954 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

17. See: Naumer H-J., Nacken, Dennis. Capital Income..., op. cit.

18. Lower dividend yield in Damodarana studies than Naumer and Nacken studies for 2016 arise from the fact that the first also takes into account the small companies, which are less likely to pay dividends and if they decide to pay their dividend yields are lower.

The high dividend yields of European companies is largely derived from high payout ratios. European companies allocate a much larger portion of their net profits to shareholders than companies from other continents. In recent years there has been a tendency to increase the dividend payout ratio in Europe. According to Damodaran in 2016, the average dividend payout ratio for companies in developed European markets was 72,2% and was by 15,8 percentage points higher than the world average. Naumer and Nacken estimated on the companies of MSCI indexes that the dividend payout ratio in European developed markets was around 80%, and was considerably above its pre-crisis level;[19] the distribution ratio in the United States and Asia, at approximately 50% and about 45% respectively, was more modest.

5 Dividend policy of European companies stabilizing the total rate of return

Dividends can potentially help achieve additional stability in the portfolio. In the past, investors in European equities were the main beneficiaries of high dividend payouts that also helped in stabilizing the overall performance in years of declining stock prices. Dividends were able to partially or even totally compensate for any price losses. Over the entire period (1971–2016), the performance contribution of dividends to the annualized total portfolio return for the MSCI Europe was approximately 38%, MSCI North America — 31,7% and MSCI Asia — 28,9%.[20] In the years 1996–2001, when share price rate of return were negative, paid dividends allowed European investors to make a small profit. In the years 2001–2006, with a share price gain of −2,4%, a dividend yield of 2,7% resulted in a total return of 0,3%. In the years 2006–2011, with a share price gain of −1,8%, a dividend yield of 3,5% resulted in a total return of 1,7%. Dividends also affect the stabilization of total returns.

Tab. 6. The changes of the structure of the total return throughout the world in the years 1971–2016 (in %)

	Europe				North America				Asia			
	Share price rate of return	Dividend yield	Total return	Relation of dividend yield to total rate of return	Share price rate of return	Dividend yield	Total return	Relation of dividend yield to total rate of return	Share price rate of return	Dividend yield	Total return	Relation of dividend yield to total rate of return
1971–1976	2,0	4,5	6,5	69,2	−1,5	3,5	2,0	175,0	11,2	3,4	14,6	23,3
1976–1981	3,7	5,9	9,6	61,5	10,1	5,6	15,7	35,7	11,4	2,9	14,3	20,3
1981–1986	20,2	5,8	26,0	22,3	8,7	5,5	14,2	38,7	13,9	2,2	16,1	13,7
1986–1991	4,8	3,2	8,0	40,0	8,5	3,9	12,4	31,5	10,6	0,9	11,5	7,8
1991–1996	10,6	3,3	13,9	23,7	13,2	3,3	16,5	20,0	1,4	1,2	2,6	46,2
1996–2001	19,3	2,4	21,7	11,1	16,6	1,9	18,5	10,3	−2,6	1,2	−1,4	−85,7
2001–2006	−2,4	2,7	0,3	900,0	−0,9	1,7	0,8	212,5	4,3	1,8	6,1	29,5
2006–2011	−1,8	3,5	1,7	205,9	0,8	2,1	2,9	72,4	−7,1	2,2	−4,9	−44,9
2011–2016	3,7	3,7	7,4	50,0	9,1	2,4	11,5	20,9	6,9	3,2	10,1	31,7
Mean	*6,7*	*3,9*	*10,6*		*7,2*	*3,3*	*10,5*		*5,6*	*2,1*	*7,7*	
Stand. dev.	*8,3*	*1,3*	*9,6*		*6,3*	*1,5*	*7,8*		*7,1*	*0,9*	*8,1*	
Variability	*124,7*	*32,4*	*90,8*		*88,5*	*44,3*	*74,5*		*128,6*	*43,4*	*105,1*	

Source: Own study based on Capital Income. Dividends. Allianz Global Investors GmbH, op. cit., page 8–9.
Note: Dividend yields and share price gains/losses estimated on the MSCI Europe, MSCI North America and MSCI Asia indexes. Relation of dividend yield to total return > 100 means that dividends not only compensate low, sometimes negative share price gains but make it possible to attain a profit. Negative value of relation of dividend yield to total return means that dividends did not fully compensate negative share price gains.

19. See: Naumer H-J., Nacken, Dennis. Capital Income..., op. cit., page 11.
20. See: Ibid., page 7.

6 Dividend yields of European companies compensate low yields of governments and corporate bonds

In the environments of very low interest rates, investors increasingly focus on high dividend yielding equity as an alternative. In this context, Europe offers very attractive characteristics. Compared to the US but also compared to the aggregate of global developed markets, Europe offers persistently higher dividend yields.[21] The difference between dividend yields and yields on government and corporate bonds in Europe began to grow rapidly from 2011. While the dividend yields after the decline from 4% to 3,5% between 2011 and 2013 stabilized between 3% and 3,5%, then the European corporate bonds yields fell from 4% to 2% between 2011 and 2013 and in subsequent years they decreased to 1%. Yields of 10-year Government bonds fell from 2% in 2011 to 1% in 2014, to fall to 0% in the next two years, with even negative values in the autumn of 2016. Divergence between dividend yields and yields on government and corporate bonds in Europe has never been as large as it is today.[22] The dividend yield on the MSCI-USA seems positively modest in comparison with Europe. T-Bond yields are still a little higher than the S&P500 dividend yields, but the difference in favor of bonds is minimal and in some months 2016 and 2017 both rates were the same.

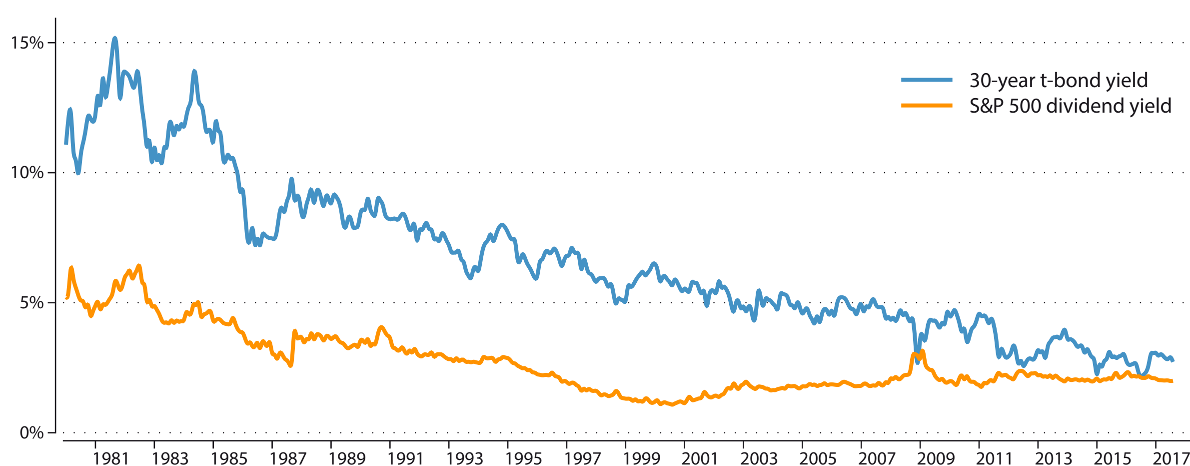

Fig. 8. S&P500 dividend yields and 30-year T-Bond yield in the years 1980–2017

Data source: Fernandez (2015) and updates at http://web.iese.edu/PabloFernandez/Book_VaCS/valuation%20CaCS.html

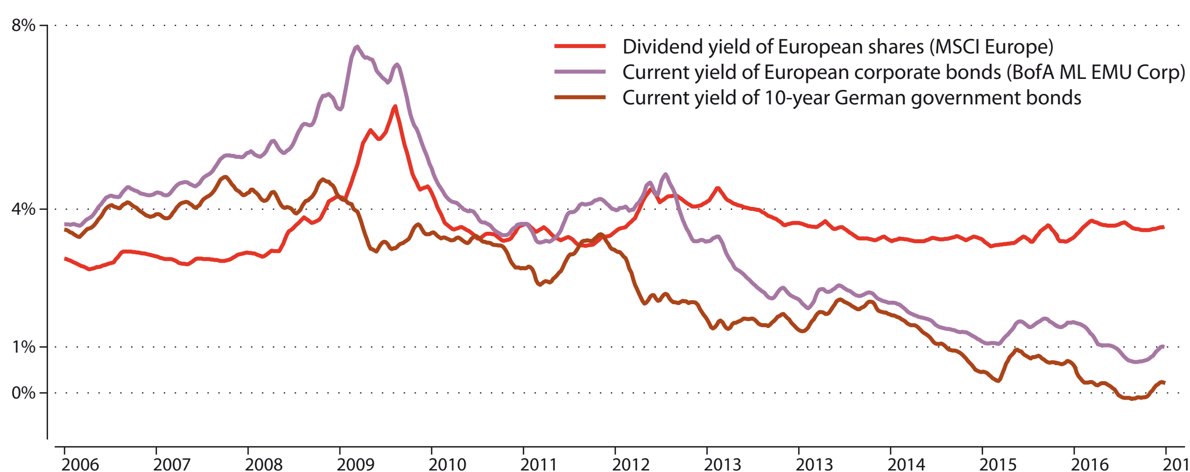

Fig. 9. Changes yields of MSCI Europe dividend, 10-year German government bonds and European corporate bonds

Source: Own elaboration based on Naumer H-J., Nacken, Dennis. Capital Income..., op. cit.

21. See: Gaining Access to the European Equity Market: STOXX Europe 600. By Jan-Carl Plagge, STOXX Ltd., February, 2017, [@:] http://www.eurexgroup.com/blob/2946020/8b64d4daac66ffbe97e3f6ad7e21a2de/data/20170313_gaining_access_to_the_european_equity_markets.pdf.

22. See: Naumer H-J., Nacken, Dennis. Capital Income..., op. cit., page 4.

7 Increase of the share repurchases value

Contrary to dividends, share repurchases are quite a new legal institution, which gained importance in developed capital markets as late as in the last twenty five years of the 20th century. In the USA share repurchases have gained popularity since the beginning of the 1980s. In 1972–1983, the value of repurchased shares amounted on average to 10,9% of the value of paid out dividends. However, since the mid-1980s, we can observe dynamic growth of the value of share repurchases. In 1998, the value of share repurchases for the first time exceeded the value of dividends. In 2000 it reached 113,1% of the value of dividends (Grullon and Michaely 2002, 1656). And even though the research conducted by Denis and Stepanyan (2009, 56) shows that in 2001–2003 paid dividends again slightly exceeded the value of share repurchases, in 2004 the relation of the value of share repurchases to dividends was 116,8%, while in 2005 it reached 125,6%, which indicates a stable tendency of higher value of share repurchases than value of dividends.

We may also ask why companies were so late to repurchase their shares of substantial value. Grullon and Michaely attribute it to the unclear regulations of the American Securities and Exchange Commission (SEC) before 1982. Although share repurchase has never been forbidden in the USA, the regulations made company boards doubt whether it was legal. In individual cases the SEC, using the 1934 Act, treated share repurchase as an activity aiming at manipulating prices. It was only in 1982 that the SEC issued its commentary on the right to repurchase own shares in the open market (Rule 10b–18), in which it stated explicitly the principles governing the use of this instrument, which resulted in considerable growth in the value of repurchased shares (Grullon and Michaely 2002, 1678).

In European countries the institution of share repurchase appeared even later than in the USA.

Share repurchase was legally limited in France and Germany until the late 1990s (Denis and Osobov 2008, 75). In Great Britain it was forbidden until the beginning of the 1980s and unfavorably taxed in comparison to dividends until the mid-1990s (Andres et al. 2009, 47). In Ireland the process of share repurchase took place for the first time in 1992, in Luxemburg in 1995, in Austria in 1999 and in Greece in 2000. In Belgium companies performed repurchase of small value shares in 1993, and then in 2000 (von Eije and Megginson 2008, 356). In December 2003 the European Commission initiated a new regulation on repurchase programmes (EC Directive 2003/6/EC and EC Regulation 2273/2003)[23] in which share repurchase is regarded as a useful tool in stabilizing markets. The regulation defined necessary conditions and restrictions regarding repurchase to provide a safe harbor for companies as long as they observe certain conditions (Sakinç 2017, 5).

The analysis of the regulatory background shows that there is a variety between European countries in the implementation of repurchase programs adopted with shareholder approval, even though many EU countries implemented EC recommendations and directives into their corporate law throughout the 2000s (Sakinç 2017, 8). A significant increase in the share of companies repurchasing their shares at the end of the 1990s in 15 countries of old European Union was noted by von Eije and Megginson (2008). Until 1997 the propensity to share repurchase was below 6,5%. In 2000 it was over 10% while in 2005 it reached 16,9%. In the period analyzed by von Eije and Megginson (2008, 354) the following phenomena could be observed

- radical fall of the share of companies only paying dividends from 83,9% in 1989 to 38,5% in 2005, although contrary to what is happening in the USA (Grullon and Michaely 2002) this group is losing importance but "not becoming extinct"
- dynamic growth of the share of companies which neither pay dividend nor repurchase their shares from 9,8% in 1989 to 44,7% in 2005
- slow growth of the share of companies only repurchasing their own shares, from 0,3% in 1989 to 3,9% in 2005

23. See: Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse). No longer in force, OJ L 96, 12.4.2003, pages 16–25; Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments (Text with EEA relevance). No longer in force, OJ L 336, 23.12.2003, pages 33–38. In early of 2016 directives were updated.

- increase in the share of companies paying dividends and repurchasing their own shares, from 6,0% in 1989 to 12,9% in 2005

The changes in value of repurchased shares reflect the changes in the number and share of companies repurchasing their own shares. Von Eije and Megginson (2008, 356) estimated changes in the value of repurchased shares in 1989–2005 at the prices of 2000 in euro. In 1989 the value of shares repurchased by companies from old EU countries equaled EUR 6,1 billion. In 1990–1996 it was below EUR 2,5 billion, and in 1997 it began to grow dynamically. In 2005 it amounted to EUR 58,8 billion and was 30 times higher than in 1996. This growth also resulted from the development of European stock exchanges and enlargement of the sample on which calculations were made. Therefore, changes in repurchasing own shares are better reflected by their value per company. In 2005, in fixed prices, it was 22 times higher than in 1996. This data shows that at the end of the 1990s, the European Union countries experienced a quality change concerning share repurchasing, which, just like in the USA, is gaining significance in companies' payout policy. Unlike in the USA, where the value of repurchased shares exceeds the value of paid out dividends, in the European Union countries it is still below the value of dividends (in 2005 the value of repurchased shares equaled 52% of the value of paid dividends and 34% of total payouts).

This growth lasted until the crisis of 2008. This is illustrated by the study of Sakinç (2017) who analyzed payout strategies of 298 of the largest European companies from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom) which in the years 2000–2015 were a part of the S&P Europe 350 index, which covers around 70% of Europe's market. These studies show that in the years 2000–2015 the payments made by 298 European companies were subject to high fluctuations. Share repurchases had a particularly high variability (variability index = 300,7%); variability index of the rate of growth of dividends was 200,5%. In 2007, the value of purchased shares was by 268,8% higher than in 2000, the value of dividends increased by 94,6%. As a consequence, the relation of acquired shares to dividends amounted to 63,7% (fraction of repurchased shares in total payouts was 38,9%) and was the highest until that moment. In the next two years, the value of acquired shares drastically decreased; in 2008 by 40,5% (compared with the previous year), and in 2009 by as much as 79,7% (compared with 2008). Repurchase activity in Europe didn't recover after the peak years of global recession as happened in the US (Sakinç 2017, 12). Share repurchases in 2015 were by 56,5% smaller than in 2007, but by 60,3% higher than in 2000. Dividends in 2008–2015 increased by 22,9% and were by 139,3% higher than in 2000. From 2000 through 2015 these 298 companies expended EUR 945 billion on stock repurchases, an average of EUR 3,17 billion per company, and distributed a total of EUR 2,88 trillion in cash dividends, an average of EUR 9,66 billion per company (Sakinç 2017, 11). It means that the relation between value of repurchased shares and dividends was 32,8% and that repurchases constituted 24,7% of total payouts, with the largest repurchase share in total payouts in Switzerland (38,4%), Denmark (36,1%) and Luxembourg (33,5%).

In total, these companies on average spent around 77% of their net income on share repurchases and dividends during that period. In Italy, the ratio was greater than 100% and in Great Britain it became very close to the total net income of the companies (95%). The biggest repurchaser in

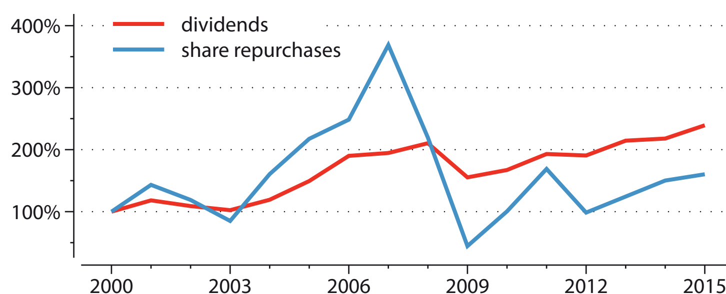

Fig. 10. Changes of rate of growth of dividends and share repurchases of 298 analyzed companies in the years 2000–2015. Year 2000 = 100

Source: Own study based on Sakinç (2017, 12)

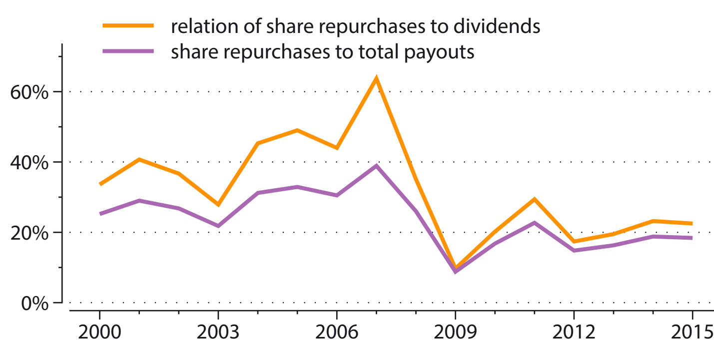

Fig. 11. Changes of the relations of share repurchases to dividends and to the total payouts in the years 2000–2015

Source: Own study based on Sakinç (2017, 12)

Tab. 7. Payout strategies of companies in the years 2000–2015 by countries (in %)

Country	Payout ratios			Share of repurchases in total payouts	Relation of repurchases to dividends
	Share repurchase	Dividend	Total		
Switzerland	31	50	81	38,4	62,4
Denmark	25	44	68	36,1	56,6
Luxembourg	25	50	76	33,5	50,5
Netherlands	22	46	68	32,2	47,5
Finland	24	64	88	27,0	37,0
Great Britain	24	71	95	25,3	33,9
Ireland	19	58	77	24,4	32,3
France	12	36	48	23,3	30,4
Germany	18	61	79	20,4	25,6
Spain	12	46	58	20,1	25,1
Austria	13	50	63	18,8	23,1
Belgium	10	42	52	17,6	21,4
Norway	12	58	70	16,5	19,8
Sweden	9	46	55	15,5	18,4
Italy	10	52	62	7,1	7,7
Portugal	7	94	101	2,0	2,1
Total	1	57	58	24,7	32,8

Source: Sakinç (2017, 15)

Tab. 8. Share repurchases in the world in 2016

USA	Europe	Emerging	Japan	Global
Value of share repurchases (in USD billion)				
551,7	87,4	32,1	24,7	648,2
Share repurchases to dividends (in %)				
112,3	21,8	6,3	20,3	40,1
Share repurchases to total payouts (in %)				
52,9	17,9	6,0	16,9	28,6

Source: Own study based on See: Damodaran online, op. cit.

Europe during the 16-year period was an energy company BP p.l.c. (Great Britain), even though it stopped repurchasing its own shares and reduced dividend amounts for a period after 2009. In the second place was a food, beverage and tobacco company Nestle (Switzerland) and in third a pharmaceuticals, biotech & life Sci. company Novartis (Switzerland). Of the companies entering the top thirty of share repurchasers a capital goods company Koninklijke Philips (Netherlands)

Philips spent the largest part of total payouts for its own shares (68,4%) in 2000–2015. Diversified financials company UBS (Switzerland) is the only company in the top 30, which made much larger payouts between 2000 and 2015 than it earned at the time (total payout ratio 145%). Combined, all 348 companies in the S&P 350-Europe Index in 2015 repurchased EUR 64 billion of their own stock and distributed EUR 284 billion in dividends (the value of repurchased shares equaled 22,5% of the value of paid dividends and 18,4% of total payouts). The total payout ratio was 110%.

Based on a much larger number of companies, Damodaran's research shows that in 2016 companies from the developed European markets allocated USD 87,4 billion to acquire shares, equivalent to 21,8% of dividends paid and 17,9% of total payouts.

Conclusions

Corporate payout policy is one of the major manifestations of shareholder value-oriented corporate governance practice (Sakinç 2017, 5). The analyses show that European companies, especially the large and medium ones, are especially friendly to shareholders by systematically providing them additional income in the form of dividends and share repurchases. European companies have the highest propensity to pay dividends, and their payments are becoming higher. European companies have the highest dividend yields in the world, which in low or negative share price gains have allowed European investors to make small gains. The stable dividend yields of European companies are significantly higher than the yields of governments and corporate bonds, which enables investors to obtain satisfactory returns in an environment of very low interest rates.

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