Do firms use dividend changes to signal future profitability? Catering-based evidence from Taiwan stock market

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ABSTRACT

This paper tests a catering-based signaling hypothesis of dividends with samples in Taiwan market. The hypothesis argues that catering outweighs signaling when firms make their payout decisions. Our results support the hypothesis. We find that if dividend catering incentives are strong, the catering substitutes the signaling and becomes the only motive when firms adjust their levels of dividends. The results are robust in most of industries in Taiwan except the construction and food industries.

Keywords: Dividend catering incentive, Signaling effect, Dividend premium.

REFERENCES


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