Weak Institutions and Private Incentives: Evidence from Dividend Policies

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Abstract

The literature on law and finance generally assumes that firms are passive recipients of the influence of weak investor protection. This paper empirically identifies a commitment mechanism through dividends that firms use to build reputation for fair treatment of outside shareholders. We show that growth firms initiate dividends earlier and pay more dividends in weak-protection countries than in strong-protection countries. More strikingly, in weak-protection countries, the well-known negative relationship between growth and dividends turns positive. A growth firm with a good dividend history raises more equity, attain higher valuation, and experience better stock performance during market downturns.

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Introduction

Since the seminal work by La Porta et al. (1997 and 1998), a voluminous literature has accumulated emphasizing the importance of investor protection in determining a country's financial development and its firms' access to external financing. Where laws are protective of outside investors and are well enforced, investors are willing to provide more financing to firms at lower costs. As a result, financial markets are broader (La Porta et al., 1997, 1998), less volatile (Johnson et al., 2000), and arguably more efficient as capital flows to hedge funds are less sensitive to short-term performance (Aragon et al. 2021). Listed firms become larger, more valuable (Kumar et al., 1999, Demirgüç-Kunt and Maksimovic, 1998, and La Porta et al, 2002), and more likely to have dispersed ownership (Foley and Greenwood, 2010, Franks et al., 2012, Aminadav and Papaioannou, 2020). They invest more efficiently and are more willing to engage in long term innovative activities (McLean et al., 2012, Brown et al., 2012). Legal protection of investors also shapes external finance through its impact on firms' financing choices (Demirgüç-Kunt and Maksimovic, 1999), contracting terms (Qian and Strahan, 2007), capital structural adjustment speed (Oztekin and Flannery, 2012), and use of trade credit (Fisman and Love, 2003).

While this literature provides very important insights into corporate finance around the world, an underlying presumption is that firms are mostly passive recipients of the effect of weak investor protection. This view thus largely rules out the possibility that under certain circumstances, firms may take actions to credibly commit to good governance practices to compensate for the negative impact of weak investor protection at the country level. In this paper, we reconsider this conventional view and formally explore the role of private incentives in mitigating weak country-level institutions, so that firms can better realize their growth potential. A set of important empirical questions immediately emerge. What specific mechanisms could firms adopt to make

their commitment to good governance credible, in order to convince the capital market and raise the financing they need? What are the associated costs of such a credible commitment? To what extent are firms successful in obtaining the benefits of the commitment?

This paper documents systematic evidence of one particular commitment mechanism that firms use to establish a reputation for good treatment of shareholders, that is, through dividend policies. To establish such a commitment mechanism, we conduct two sets of analyses. One is on the cost side. Dividends are costly to insiders, because paying out profits as dividends reduces the opportunity for expropriation of retained earnings. Thus, this mechanism is more likely to be used by high-growth firms for which the agency problem is less severe and the need for external equity to finance growth opportunities is greater. Even for these firms, the cost is obvious, as their opportunity cost of internal cash is high. The second set of analyses considers the benefit of commitment, that is, securing better access to equity financing and the resulting higher market valuation. Anecdotal evidence suggests that emerging markets investors do appreciate dividends. In an interview with CNN, Carlson Block, the founder of Muddy Waters Research who achieved fame (and riches) by exposing accounting fraud by US-listed Chinese companies, rated dividends as the "No. 1 criteria" for identifying emerging market stocks to buy for the long term.

It is useful to first point out that the aggregate pattern of dividend payouts and equity issuances in countries with weak investor protection is inconsistent with the conventional wisdom. Moreover, this pattern is not easy to explain without resorting to our reputation-building hypothesis. Figure 1 compares dividend payout ratios of high- versus low-growth firms during 1981-2017 under strong and weak investor protection regimes. The perception that firms pay more dividends when they become mature and in less need of external financing only holds in strong-

protection countries.[3] In countries with weak investor protection, high-growth firms actually pay more dividends than do low-growth firms. Figure 2 further demonstrates that in these countries, growth firms with good dividend histories raise more equity financing.

Our formal empirical analysis, based on a sample of 27,507 firms in 38 countries during 1981-2017, uncovers strong and systematic evidence of reputation building. The first piece of evidence of a commitment mechanism is that growth firms initiate dividends earlier and pay more dividends in weak-protection countries compared to counterparts in strong-protection countries. More importantly and in stark contrast to conventional wisdom, the well-known negative relationship between growth and dividends turns positive in weak-protection countries. That is, within the weak-protection regime, sales growth prompts firms to initiate dividends *earlier*, and high-growth firms pay more dividends than do low-growth firms. The economic magnitudes are significant. According to our baseline estimation, moving from the second to the ninth decile of sales growth in weak-protection countries makes a firm 2.57 times as likely to initiate dividends and boosts the dividend-to-sales ratio by 23% of the median.[4]

The second piece of evidence concerns the benefit of this commitment mechanism. In countries with weak investor protection, a growth firm with a good dividend history actually raises more equity financing in contrast to the conventional wisdom that firms pay out more dividends when they have less need for capital. In addition, a growth firm with a good dividend history in weak-protection countries is able to obtain significantly higher stock market valuation. The benefit of the commitment mechanism is economically substantial. The marginal impact of a good dividend history enables a high-growth firm in weak-protection countries to raise, as a percent of

[3] See Allen and Michaely (2003), for an excellent survey of the empirical findings, as well as the theoretical models, about corporate payout policies.
[4] See Section 4.3 for more details.

market value, 0.5-1.8 percentage point more equity, a significant increase considering the average three-year equity raising is 5.4% of the market cap. In these countries, a growth firm with a good dividend history commands a valuation premium amounting to 23% of the median Q, after controlling for the growth effect on valuation. Finally, we examine whether the commitment mechanism enables growth firms to perform better during market downturns when concerns about expropriation tend to exacerbate (see e.g., Johnson et al., 2000; Rajan and Zingales, 1998). Using the 2008-2009 financial crisis as an experiment, we find that the risk-adjusted returns of a growth firm with a good dividend history is 9-22 percentage points higher.

We also explore how dividend commitment might interact with a well-known channel that might enhance firm-level governance under weak institutions, namely through cross-listings. Coffee (1999 and 2002) and Stulz (1999) propose a bonding hypothesis, that is, cross-listings assure investors of fair treatment and thereby allow firms to have better access to the capital market.[5] The main difference between dividend commitment and cross-listings lies in that the latter focuses on "importing" better institutions from a *foreign* country whereas dividends represent commitment to good governance within the *same* country. Interestingly, we find that firms with cross-listings in the US come from both weak- and strong-protection countries, in roughly equal shares, which suggests that "bonding" is not the only reason for firms to cross-list. Moreover, cross-listed firms in weak protection countries do not seem to use dividends as a commitment, and their dividend behavior is similar to firms in strong protection countries, suggesting that the two mechanisms tend to be "substitutes." Cross-listings, however, are typically

[5] Later empirical work has found support for this hypothesis based on equity issuance (Reese and Weisbach, 2002), valuation premium (Doidge et al., 2004), and the value of cash reserves (Frésard and Salva 2010). Additionally, Aggarwal et al. (2011); Bena et al. (2017); and Giannetti et al. (2015) report that foreign institutional investors from strong-protection countries and directors with foreign experiences can help improve corporate governance in emerging markets.

available to firms that are larger and with a longer track record in the capital market. Thus, for young firms that need a good reputation the most, dividend payout is a viable commitment mechanism.

The main identification concern in cross-country studies is that the results may be driven by unobserved country characteristics. In the current setting, possible changes in tax laws or financial liberalization may alter the marginal preferences for dividends and the availability of external financing. These country-level characteristics may vary over time and thus cannot be simply controlled for by country fixed effects. To address this concern, we include country-year fixed effects (i.e., 942 interactions of country- and year-dummies) to fully control for both time-invariant and time-varying, country-level characteristics. As a result, our study has the important advantage that we make inferences after purging off country-level changes over time.

A number of studies have pointed out the role of dividend and commitment in an agency context. Easterbrook (1984) argues that, by paying out dividends, firms need to come to the capital market to raise external funds in the future, and thus give outsider investors an opportunity to exercise some control over insiders. Building on Easterbrook's argument, La Porta et al. (2000) discusses the possibility that a firm may use dividends to establish a reputation for moderation in expropriating shareholders, though their focus is on how legal protection helps investors extract dividends from firms. John et al. (2015) provides evidence that firms with weak governance can potentially use dividend as a means of addressing agency conflicts. Gomes (2000) theoretically shows that firms may commit to treating minority shareholders well for the purpose of selling equity in the future. Despite its importance, reputation building through dividend policies has never been formally tested. To the best of our knowledge, our paper is the first to systematically document the cost and benefit of a commitment mechanism.

By focusing on reputation building, this paper fills a gap in our understanding of the interplay between country-level institutions and firm-specific governance. We show that private incentives can mitigate weak, country-level institutions. Our findings, however, do not refute the importance of investor protection. On the contrary, it is precisely the poor external financing environment due to a lack of legal protection of investors that prompts firms to establish reputation. Further, reputation building is costly and thus an imperfect substitute for a lack of institutions. In the case of dividends, firms must substitute more expensive external financing for relatively cheaper internal funds.

Our paper also contributes to the understanding of dividend policy around the world. We demonstrate that some well-known empirical patterns in the U.S. data may not be generalizable to other countries, especially those with different legal regimes. More importantly, we propose a new explanation of dividend policies around the world. That is, when investor protection is weak, the need for reputation building plays a significant role in determining dividend policy. This explanation complements the outcome view by La Porta et al. (2000). In an important contribution, La Porta et al. (2000) argue that investors must use their legal power to extract dividends from firms. As a result, dividend payouts are generally lower in countries with weak investor protection. The outcome view, however, does not rule out the possibility that firms with good growth prospects may intentionally pay more dividends to establish a capital-market reputation.[6]

[6] Two other studies use international data to study payouts. Denis and Osobov (2008) use data from six major countries from 1989 to 2002. While they find that the likelihood of paying dividends is negatively related to growth opportunities in common law countries, it is positively related to growth in civil law countries is consistent with our reputation building story. Using data from 15 nations in the European Union from 1989 to 2005, Eije and Megginson (2008) examine both cash dividends and repurchases. They find that, similar to the US trend, the fraction of firms paying dividends declines but total dividends paid increases and repurchases also increase. Moreover, financial reporting frequency is associated with higher payouts.

Many of our empirical findings are difficult to explain with an outcome story. If shareholders exploit their legal power to extract dividends, they should extract fewer dividends from firms with better growth prospects and thus subject to less severe agency problems. They also should extract fewer dividends if the firms are in a greater need of external financing because, to the extent that external financing is more costly, dividends increase the overall cost of financing which is borne by all shareholders. Contrary to these predictions, we find that sales growth in weak-protection countries prompts firms to initiate dividends earlier and that high-growth firms pay more dividends than do low-growth firms. Moreover, growth firms that distribute more dividends raise more equity financing subsequently.

Our research is also related to studies examining firm-level governance ratings. Durnev and Kim (2005) report that firms practice better governance when they have more investment opportunities, higher ownership concentration, and greater need for external financing. Doidge et al. (2007), however, find that country characteristics drive most of the variation in governance ratings. What distinguishes our work is that we identify systematic evidence of reputation building, both of its costs and benefits. Moreover, governance ratings are available only for cross sections of largest firms in international markets and thus relatively mature firms, whereas we focus on growth firms.

The remainder of the paper proceeds as follows. The next section develops our testable hypotheses. Section 2 describes the data and empirical measures. Section 3 presents the main empirical analysis. Section 4 includes additional discussions and assesses the economic significance of reputation building. Section 5 concludes.

1. Empirical Design: Hypotheses and Identification

1.1 Hypothesis Development

Empirically establishing a commitment mechanism requires two sets of analyses: (1) costly commitment, through dividend payouts, is undertaken by firms in need of financing; and (2) the benefit of the commitment, i.e., greater access to equity financing, is actually achieved.

To establish a reputation for fair treatment of shareholders, we expect, in weak-protection countries, growth firms that are in need of external capital to pay more dividends than their counterparts in strong-protection countries. Given the well-known negative relationship between growth and dividends, this behavior implies a less negative relationship between firm growth and dividends in weak-protection countries. We also conjecture that "more dividends" can take the form of both earlier dividend initiation and a higher payout ratio. Thus, our first hypothesis is:

Hypothesis 1 (Growth and Dividends)
(1a) The relationship between firm growth and dividends (dividend initiation or dividend payout ratio) is less negative in weak-protection countries compared to this relationship in strong-protection countries.

While this hypothesis, by comparing dividends across the two legal regimes, supports reputation building, it could also be consistent with an outcome-based explanation as in La Porta et al. (2000). The argument is as follows. Investors use their power to extract dividends. In strong-protection countries, they extract more dividends when growth prospects are low and thus the agency problem is more severe. Alternately, in weak-protection countries shareholders may try to extract whatever they can, or perhaps they cannot obtain much from either type of firms (high- or low-growth), resulting in a less negative relationship between growth and dividends (La Porta et al. (2000)). Thus, differences *across* legal protection regimes alone cannot differentiate our story from an outcome-based explanation.

A sharper prediction emerges from differences between high- and low-growth firms *within* the same legal protection regime. To establish our context, consider two firms in a country with weak investor protection. One has good growth prospects and the other does not. Although the growth firm has a greater incentive to establish its capital market reputation through dividend payouts than does the low-growth firm, each dollar of internally generated funds also has a better current use for the growth firm if it were kept within the company. Thus, it is unclear whether our growth firm would pay more dividends than the low-growth firm. However, a finding of greater dividends would present strong support for the reputation-building hypothesis, because an outcome-based explanation of dividends would predict fewer (and later) dividend payouts for growth firms since they face fewer agency problems. Hence, we pose the following hypothesis:

Hypothesis (1b)
In weak-protection countries, the relationship between growth and dividends (dividend initiation or dividend payout ratio) is positive.

To test the second part of a commitment mechanism, we hypothesize that the benefit of the costly action is actually attained through more subsequent equity issuance. That is, a good dividend history allows growth firms in weak-protection countries to raise more equity financing than do similar firms in strong-protection countries. Hence:

Hypothesis 2 (Dividend History and Equity Issuance)
(2a) The relationship between a good dividend history and equity financing is less negative in weak-protection countries compared to that in strong-protection countries.

In addition to a comparison across the two legal regimes, we further explore whether within the weak-protection regime, a growth firm with a good dividend history actually raises more capital than firms without. According to the conventional wisdom based on U.S. experience, they should not because dividends are generally paid by firms that are in less need of external financing. However, a finding that these firms raise more capital would not only provide strong support for

our reputation-building story, but also highlight that conventional wisdom from the U.S. should not be taken for granted in an international setting.

Hypothesis (2b)
In weak-protection countries, the relationship between a good dividend history and subsequent equity financing is positive for growth firms in weak-protection countries.

To the extent that firms can use reputation to compensate for weak investor protection, we expect reputation building to be value enhancing, resulting in higher market valuation. We then have the following hypothesis:

Hypothesis 3 (Dividend History and Valuation)
In weak-protection countries, growth firms with good dividend histories have larger valuation premiums.

Finally, we explore the relationship between reputation building and firm stock performance during market downturns, when investors' concerns about expropriation are likely to intensify. Two reasons justify an intensified concern. First, insiders are likely to expropriate more when the expected return on investment falls (Johnson et al, 2000). Second, during bad times investors are more likely to pull out of countries with inadequate institutional protections as they are better aware of the weak governance in these countries (Rajan and Zingales, 1998). Thus, a firm that has established a reputation for better treatment of investors would have an advantage and thus outperform during a crisis. We use the 2008-2009 global financial crisis as an experiment to test this hypothesis.

Hypothesis 4 (Dividend History and Stock Performance in a Crisis)
In weak-protection countries, growth firms with good dividend histories have better stock performance during the 2008-2009 global financial crisis.

1.2 Identification Concerns

A common criticism of cross-country studies of law and finance is that the research only shows correlation, not causality, because country-level institutional factors may simply be proxies

for other causes. Most importantly, in our current setting country characteristics during the 37 years of our sample period may have changed in ways that alter dividend preferences or the availability of external financing, or both. For example, countries may have changed their tax laws, which would affect the relative advantages of dividend versus retained earnings. Or, they may have implemented measures to liberalize their financial markets or introduce new capital market regulations, changes that can incentive the payment of dividends and affect the availability of external financing. To address these concerns, we include country-year fixed effects (i.e., adding 942 country-year dummies) in all specifications to fully capture both time-invariant and time-varying country characteristics. Thus, our study has an important advantage in that our inferences are unlikely to be driven by changes in country characteristics over time.

A second concern may be that we do not examine share repurchases, an alternative means of payout. We first note that the focus of our paper is on dividends as a commitment mechanism, rather than on payout policy *per se*. Unlike repurchases, dividends are more likely to be used as a commitment device, because management are known to maintain a stable dividend policy whereas repurchases tend to be volatile and sensitive to economic conditions (see, e.g., Allen and Michaely, 2003; Floyd et al., 2015). More importantly, repurchases would affect our results only if the two following conditions are both met: (1) repurchases are substitutes for dividends; and in our analysis of differences across the two legal regimes, (2) high-growth firms in strong-protection countries are more likely to substitute repurchases for dividends.

Existing research suggests that neither of these two conditions apply. First, there is evidence that dividends and repurchases are complements, as argued in La Porta et al. (2000). For example, share repurchases are most common in countries with high dividends; the U.S. accounted for 72% of world share of repurchases in 1997-1998 and US, UK, and Australia combined

accounted for 83%. According to a recent report by J. P. Morgan, the U.S. share of world repurchases has climbed even higher to 84% during 2016-2019. In contrast, outside the U.S. buyback activities are "very limited" (J.P. Morgan, 2020). More detailed analysis of U.S. data confirms this observation: "the primary effect of repurchases is to increase the already high cash payouts of dividend payers" (Fama and French, 2001). Second, several studies have shown that in strong-protection countries such as the U.S., low-growth, not high-growth, firms tend to repurchase more (Allen and Michaely, 2003). Therefore, repurchases are not likely to drive our results. On the contrary, to the extent that dividends and repurchases are complements and that low-growth firms are more likely to repurchase, our results tend to underestimate the extent to which firms use payout policy (i.e., both dividends and repurchases) to establish capital market reputation.

A third identification concern is that there might exist systematic differences in firm growth between strong- and weak-protection countries. Specifically, if low-growth firms in strong-protection countries actually grow faster than those in weak-protection countries, then it is no surprise that they pay fewer dividends. The data, however, does not support this argument. We do not find any consistent pattern in the difference in sales growth across the two legal regimes: the average sales growth is 4.0% in civil law countries and 6.1% in common law countries. However, the pattern flips when investor protection is measured based on the anti-self-dealing index. Moreover, decile ranks are highly correlated when we rank firms in the whole sample and within the two legal regimes separately. For example, when investor protection is measured based on common versus civil laws, the correlation is 0.979 and 0.962 (p-value < 0.001 for both) for strong-

and weak-protection countries, respectively.[7] Nevertheless, to further alleviate this concern in our tests we define the sales-growth decile based on the ranking in the whole sample.[8] Finally and more importantly, our strong evidence comes from the comparison *within* the same legal regime (Hypothesis (1b)), not *across* the legal regimes (Hypothesis (1a)).

2. The Data and Empirical Measures

2.1 The Data

Our sample is constructed using Worldscope data. Following the procedure in La Porta et al. (2000), we first eliminate firms in socialist countries and in Luxembourg, firms listed in markets with mandatory dividend policies,[9] financial firms, and firms completely or partially owned by the government (identified by the footnote to the data item Common Shares Outstanding in Worldscope).[10] We then exclude firm-years without consolidated balance sheets, with missing dividend, sales, or market capitalization data as well as with dividends exceeding sales. Finally, we eliminate firms that do not appear to be publicly traded (again based on the footnote to Common Shares Outstanding).

In addition to the Worldscope data, we obtain seasoned equity issuance data from the Securities Data Corporation (SDC). Further, we follow the common practice in the literature to

[7] In more than 97% of the cases, the differences between the two sets of ranks are within one rank difference (e.g., for a decile rank of 3 in the protection-specific sample, we look at the share of cases in between ranks 2 and 4 in the whole sample).

[8] The results are very similar if we follow La Porta et al. (2000) and define growth deciles within legal regimes, which is not surprising given the high correlation between the two definitions.

[9] In our initial sample screening we follow La Porta et al. (2000) and drop five countries (Brazil, Chile, Colombia, Greece, and Venezuela) that had mandatory dividends in 1996. Since we do not have information on mandatory dividends over time, in all our estimation, we include country-year dummies to fully control for country-level changes over time, including changes in rules regarding mandatory dividends.

[10] We identify firms with government ownership and later firms not publicly traded by examining the footnote to the Data Field 05301: Common Shares Outstanding. This footnote, when available, indicates whether the firm is a privately-owned company, a cooperative company / consortium / partnership, a government-owned company or majority-owned by government, or a mutual insurance company.

construct the sample of cross-listings in the US capital market based both on the American Depositary Receipt (ADR) lists of Bank of New York, JP Morgan, Citibank, BNY Mellon, and Deutsche Bank and on direct cross-listing information from NYSE, Nasdaq, and CRSP (e.g., Frésard, and Salva, 2010; Foucault and Frésard, 2012).

Our sample period extends from 1981, the year that Worldscope coverage begins, to 2017. Since we require five years of data to compute sales growth and three years of data to examine subsequent equity issuance, our final sample consists of 29 years of panel data from 1986 to 2014 including 27,507 firms from 38 markets.

2.2 Key Empirical Measures

2.2.1 Investor Protection

We use two proxies for protection of minority shareholders. The first is, as in La Porta et al. (2000), based on whether the company law or commercial code of the market is English common law or originates in Roman civil law. In general, common-law markets have stronger legal protections of minority shareholders than do civil law markets. Our second proxy for investor protection is the anti-self-dealing index based on the contribution of Djankov et al. (2008). This indicator measures the strength of minority shareholder protection against expropriation by the controlling shareholder, and is designed to improve on the anti-director-rights index in La Porta et al. (1998) to address the ways in which the law deals with corporate self-dealing in a more theoretically grounded way. A higher index indicates stronger investor protection. We define weak protection of shareholders rights using values of the anti-self-dealing index lower or equal to the median (0.45) across markets.

Table 1 displays the classification of strong versus weak investor protection for the 38 markets in our sample. The correlation between the two measures of investor protection is 0.55 (p-value < 0.001).

2.2.2 Dividend Payouts

We employ two measures of dividend payout: an accounting-based measure, the dividend-sales ratio, and a market-based measure, the dividend-to-market-capitalization ratio (i.e., the dividend yield). Given that we focus on reputation building in the capital market, a market-based measure is particularly useful to supplement the conventional accounting-based measure.

Following Brockman and Unlu (2009), we do not, however, use dividend-earnings ratio or dividend-cash-flow ratio for three reasons. First, compared to sales, earnings and cash flows are much more dependent on a country's accounting conventions and thus may not be exactly comparable across countries. Second, earnings and cash flows are likely to be affected by earnings manipulation or diversion of corporate resources which are, in turn, influenced by institutional protections and reputation building, our main variables of study. Lastly and at a more technical level, a significant portion of the firms have negative net earnings (29%) or cash flows (19%). Thus, a sales-scaled accounting measure of payout ratio minimizes measurement error and maximizes sample size.

2.2.3 Subsequent Equity Issuances

For each year, subsequent issuances are measured as the average equity issuance proceeds during the following three years, normalized by the market value of equity at the end of the current

year. We use the three-year average of equity issuance proceeds to smooth out noise and to account for possible time lags between the establishment of reputation and equity issuances.

We include equity issuances through seasoned equity offerings (SEOs) and rights offerings. Both are relevant to our story: a good reputation enables a firm to attract more investors in public offerings and to provide existing shareholders more incentives to subscribe to rights offerings.[11] We exclude private placements because, according to our hypothesis, firms pay dividends to ease minority shareholders' concerns about expropriation. Buyers in private placements, however, are typically large institutional investors and thus are likely to possess the power to exert monitoring and discipline (Hertzel and Smith, 1993; Wruck, 1989).

3. Empirical Analysis

In this section, we first examine the costly commitment (Hypothesis 1). We then show the benefit of the commitment mechanism (Hypotheses 2 - 4).

3.1 Costly Commitment: Firm Growth and Dividends

Before we present our regression analyses, we report the summary statistics in Tables 2 and 3. Notably and indicative of our later results, dividend payout in weak-protection countries is higher than that in strong-protection countries with only one exception (see the first four rows of Table 2),[12] a result that is inconsistent with La Porta et al. (2000). Note also that their results are based on a single cross section of firms in 1996, whereas our sample comprises a long panel using data from 1981-2017.

[11] We check the robustness of our results by including public offerings only and obtain very similar results. In the interest of brevity, we do not report these results but they are available upon request.
[12] The only exception is the mean of dividend-to-sales ratio, which is lower in civil law countries than in common law countries.

Table 3 shows that, while the conventional wisdom that high-growth firms generally pay fewer dividends holds in strong-protection countries (Column 6), it is not the case in weak-protection countries (Column 3). Consistent with reputation building, the average dividend payout of high-growth firms in weak-protection countries is actually higher than that of the countries' low-growth firms. These patterns are also illustrated in Figure 1.

3.1.1 Dividend initiation

We estimate a Cox proportional hazard model to examine the effect of growth on dividend initiation, as follows:

$$h(t) = h_0(t) \times exp\,(Y),$$

and

$$Y = a + b \times \textit{Sales Growth Decile} + c \times \textit{Sales Growth Decile} \times \textit{Weak Protection} + dX + \textit{Country-Year Dummies} + \textit{Industry-Year Dummies} + e, \quad (1)$$

where $h(t)$ is the hazard rate that a firm pays dividends in year t given that it has not done so previously, and $h_0(t)$ is the baseline hazard function. In the Cox proportional hazard model, for each firm only the years up to and including the first dividend payment are considered. If a firm never initiates dividends during the sample period, then all years are used.[13] The dependent variable is coded '1' if a firm begins to pay dividends in the year and '0', otherwise. X contains control variables including size (defined as the log of assets), leverage, and profitability (defined as ROA).[14] *Country-Year Dummies* are interactions of country and year dummies to fully capture

[13] If a firm already pays dividends at the beginning of the sample period, then this firm will not be included in the estimation. In our data, there are 11,815 such firms with 138,841 observations, resulting in a much smaller regression sample in Table 4 compared with those in other tables that utilize the whole sample.

[14] Recent literature on U.S. dividend policy has emphasized the importance of firm life cycles, measured as the mix of earned and contributed capital (RE/TE) (DeAngelo, DeAngelo, and Stulz (2006)). We note that this measure may not apply to our setting, because RE/TE depends on firms' decisions in both paying dividends and raising equity capital. Suppose there are two firms at the same stage of life cycle, but one has good growth prospects and one does not. In weak-protection countries, the high-growth firm pays dividends and use the established reputation to raise equity

the dynamic country-level changes that might affect dividend preferences or the availability of external financing, such as tax law changes, financial liberalizations, and changes in security market regulation. Similarly, we include interactions of industry and year dummies to fully capture industry-level changes over time, such as technological progress and industry deregulation that may affect financing needs or dividend preferences. Industry classification is based on 2-digit SIC codes assigned by Worldscope. A positive coefficient suggests an accelerating effect on dividend initiation and a negative coefficient suggests the opposite. The reputation hypothesis predicts that the coefficient *c* is positive (Hypothesis (1a)) and that the sum of *b* and *c,* i.e., the marginal impact of sales growth in weak-protection countries, is positive (Hypothesis (1b)).

The results are presented in Table 4. While sales growth enters with a significantly negative sign (Columns (1) and (2)), the interaction term between weak investor protection and sales growth is significantly positive at 1% and 5% levels, consistent with Hypothesis (1a) and suggesting that the decelerating effect of growth on dividend initiation is weakened in weak-protection countries. Most strikingly and as strong evidence of our reputation hypothesis (Hypothesis (1b)), the marginal impact of growth in weak-protection countries is significantly positive (i.e., $b + c > 0$), at the 1% and 5% levels (reported in the row entitled *"Impact of Sales Growth in Weak-Protection Countries"*). Thus, within countries with weak investor protection, sales growth prompts firms to initiate dividends earlier, a finding in sharp contrast to conventional wisdom. The results are economically significant: for example, the point estimates in Column (1) of Table 4 imply that in

financing. Then its measure of RE/TE would be lower and, given that dividends are "smooth", dividend payouts would be higher. This results in a mechanical relationship that in weak-protection countries firms in early stages pay more dividends, even if the two firms are at the same life-cycle stage. Similarly, firms with recent equity financing would have a lower RE/TE. Since equity financing is lumpy (firms issue equity once every few years), recent issuers may not issue again in the next few years, mechanically resulting in a positive relationship between RE/TE and equity issuance proceeds. Nevertheless, to check the robustness of our results, we include RE/TE in our estimation and the results remain similar.

weak-protection countries, a marginal increase in sales- growth decile makes the firm 14% more likely to initiate dividends.[15]

3.1.2 Dividend Payouts

We now use the following panel regression to examine how dividend payout depends on growth and investor protection:

$$DIV = a + b \times Sales\ Growth\ Decile + c \times Sales\ Growth\ Decile \times Weak\ Protection + dX + Country\text{-}Year\ Dummies + Industry\text{-}Year\ Dummies + e, \quad (2)$$

where *DIV* is our measure of dividend payout. X contains the usual set of controls including size, profitability, and leverage. Hypothesis (1a) predicts that *c* is positive, whereas Hypothesis (1b) predicts that the sum of coefficients *b* and *c* is positive.

Consistent with Hypothesis (1a), the interaction term between *Sales Growth Decile* and *Weak Protection* is significantly positive at the 1% level (Table 5). That is, high-growth firms in countries with weak investor protection pay significantly more dividends than their counterparts in strong investor protection countries.

Consistent with Hypothesis (1b), the marginal impact of growth on dividend payouts in weak-protection countries is significantly positive (i.e., $b + c > 0$), as reported in *Impact of Sales Growth in Weak-Protection Countries* in Table 5. This finding, again, highlights that the conventional wisdom that growth firms pay fewer dividends does not hold in an international setting. Specifically, in weak-protection countries, growth prompts firms to pay *more*, not fewer, dividends. The signs of the control variables are consistent with the findings in the literature.

[15] The coefficient on sales-growth decile for weak-protection country is 0.135 (=*-0.061+0.196*), implying a hazard ratio of 1.14 (=*exp(0.135)*), or 14% higher hazard rate.

Dividend payout is positively related to firm size and profitability and negatively related to leverage.

To summarize, in countries with weak protection of shareholders, firms with good growth prospects initiate dividends earlier and pay more dividends than their counterparts in strong-protection countries. More importantly, in these countries the well-known negative relationship between firm growth and dividends becomes positive. These results provide strong support for the costly commitment part of our reputation hypothesis.

3.2 Benefit of the Commitment Mechanism

In this subsection, we examine the benefits of a commitment mechanism, i.e., better access to equity markets (Hypothesis 2) and enhanced market valuation (Hypotheses 3 and 4).

3.2.1 Dividend History and Access to Equity Financing

We first report the summary statistics of subsequent 3-year equity issuances for growth firms with good dividend histories relative to other firms (Table 6). We use two measures of good dividend history: one is the dividend payout ratio above the industry median for the country over the recent three consecutive years, and the other is the recent increase of dividend payout (from the previous to the current year).

Table 6 presents the difference in equity issuance (normalized by market capitalization) between growth firms with good dividend histories (accounting for about 12-14% of the sample across various measures) and other firms. Indicative of Hypothesis (2a), the difference-in-differences are all significantly positive (Column 7), suggesting that a growth firm with a good dividend history in weak-protection countries tends to issue more equity than counterparts in

strong-protection countries. Column (3) further demonstrates that a growth firm with a good dividend history in weak-protection countries issues significantly more equity compared to other firms in the same legal regime, in line with Hypothesis (2b) that reputation building through dividend payments can give growth firms better access to external capital.

We then formally test Hypotheses (2a) and (2b) using the following regression specification:

$$\begin{aligned} \textit{Equity Issuance} = \; & a + b \times \textit{Growth Firm with Good Dividend History} \\ & + c \times \textit{Growth Firm with Good Dividend History} \times \textit{Weak Protection} \\ & + dX + \textit{Country-Year Dummies} + \textit{Industry-Year Dummies} + e, \end{aligned} \qquad (3)$$

where *Equity Issuance* is measured by the dollar amount of issuance between year t+1 to year t+3, normalized by the market capitalization at the end of year *t*. *Growth Firm with Good Dividend History* is an indicator that takes the value of '1' if the firm has a good dividend history and sales growth over the past five years above the sample median. Firm-level controls include sales-growth decile and current year's dividend payout level as well as the usual controls including size, leverage, and profitability.[16] Our main interest lies in coefficient *b*, which we expect to be positive (Hypothesis (2a)), and the sum of *b* and *c*, the marginal impact of *Growth Firm with Good Dividend History* in weak-protection countries which we also expect to be positive (Hypothesis (2b)).

Our results are presented in Table 7. *Growth Firm with Good Dividend History* enters with a negative sign, but its interaction with *Weak Protection* is positive and statistically significant at the 1% level across all specifications, consistent with Hypothesis (2a). Thus, while firms generally

[16] One concern about measuring dividend history using the dividend yield is that it can be influenced by past stock returns, which may be related to subsequent equity issuance. However, to the extent that equity issuance tends to follow an increase of past price (and thus lower dividend yield), using dividend yield biases against our findings. To mitigate this concern, we control for the past changes of market capitalization of the firm and, not surprisingly, our results remain similar.

pay more dividends when they need less capital, for growth firms in countries with weak investor protection, a good dividend history is associated with more subsequent equity issuance vis-a-vis firms in strong-protection countries.

Consistent with Hypothesis (2b), *Impact of Good Dividend History in Weak-Protection Countries* is significantly positive across all specifications (i.e., $b + c > 0$), implying that a good dividend history is associated with more subsequent equity issuance for growth firms in weak-protection countries. This result is, again, in stark contrast to conventional wisdom that firms pay more dividends when they have less need for capital.

The economic magnitude is substantial. Consider the example of the point estimates in Column (1): in weak-protection countries, the marginal impact of a good dividend history for a high-growth firm is to raise, as a percent of market value, 0.928 percentage points more equity. This increase is about 17% of the average amount of equity raised by a firm in weak-protection countries.

3.2.2 Dividend History and Firm Valuation

To test Hypothesis 3, we use the same regression specification as in Equation (3) but replace the dependent variable by Tobin's Q (see the results in Table 8). As expected, the interaction between *Weak Protection* and *Growth Firm with Good Dividend History* is significantly positive. Furthermore, the *Impact of Good Dividend History in Weak-Protection Countries* is positive and significant at the 1% level across all specifications (*i.e.,* $b + c > 0$). Thus, accounting for the growth effect on valuation, we find that a growth firm with a good dividend history obtains a higher valuation premium. The economic magnitude is significant: based on the estimates in Column (1), the valuation premium increases by 0.25, or 23% of the median Q in

weak-protection countries. Overall, these results support the proposition that the benefit of reputation building in weak investor protection countries is capitalized in higher stock market valuation.

3.2.3 Dividend History and Firm Performance During the 2008-2009 Financial Crisis

Lastly, we ask whether reputation established through dividend payment are appreciated by the market during the 2008-2009 global financial crisis (Hypothesis 4). Follow existing studies, such as Brav et al. (2000) and Lee and Mas (2012), we estimate the cumulative abnormal return (CAR) of each firm as:

$$CAR = \sum_{2008-2009}(r - \beta r_M),$$

where r is the monthly return of the firm, r_M is the monthly return of the market portfolio of the corresponding month in the corresponding country, and β is the market beta of that firm estimated based on the monthly return between 2005 and 2007.

We then run the following cross-sectional regression analysis:

$$\begin{aligned} CAR = \; & a + b \times \textit{Growth Firm with Good Dividend History} \\ & + c \times \textit{Growth Firm with Good Dividend History} \times \textit{Weak Protection} \\ & + dX + \textit{Country Dummies} + \textit{Industry Dummies} + e, \end{aligned} \qquad (4)$$

where *Growth Firm with Good Dividend History* is based on whether dividend payout is above country-industry-year median over 2005-2007, or whether dividend payout increases between 2006 and 2007. Firm controls are the same as in Equation (3) and based on the 2007 values. Hypothesis (4) predicts that the sum of *b* and *c* is positive.

Table 9 reveals that while *Growth Firm with Good Dividend History* itself has no significant effect on stock performance during the crisis, its interaction with the weak-protection dummy enters with a significantly positive sign across all specifications (at the 1% and 5% levels).

Moreover, the *Impact of Good Dividend History in Weak-Protection Countries* is significantly positive (*i.e., b + c > 0*), all at the 1% level. This result suggests that in weak-protection countries, reputation established during good times provides assurance during downturns when investors are more concerned about expropriation. Such an effect is economically significant. A good dividend history raises the cumulative abnormal return of growth firms by about 13.5 percentage points, based on estimates in Column (1) of Table 9.

In sum, reputation building through dividend payouts generates significant benefit to growth firms in the forms of greater access to equity markets and higher valuation, as well as better stock performance during market downturns when concerns about investor protection intensify.

4. Discussions

4.1 The Role of Cross-listings

We now explore how cross-listings may affect reputation building via dividend payouts. According to the bonding hypothesis advanced by Coffee (1999 and 2002) and Stulz (1999), cross-listings in developed markets may serve as an assurance to minority shareholders and thus allow the firms to have better access to the capital market. The difference between cross-listings and dividends as commitments lies in that cross-listings are "importing" of better legal protection from a *foreign* country, whereas dividend payouts represent commitments within the *same* country. It is an interesting empirical question as to whether cross-listings and dividends are substitutes or complements as alternative commitment mechanisms.

In our sample, there are 1859 firms with cross-listings in the US. We shall note that cross-listings are used by firms in both weak- and strong-protection countries. Specifically, there are about half (53%), or 909 firms, that are from weak protection countries, the rest (47%) are from

strong-protection countries. This pattern suggests that "bonding" to good governance is not the only motivation for firms to cross-list. Moreover, as shown in Table A1 of the Appendix, cross-listed firms tend to be larger, with a longer history in the capital market, and more profitable.

We check the robustness of our dividend results by dropping cross-listed firms. The qualitative results in Columns (1)-(4) of Table 10 are similar to those in Table 5, suggesting that our main results are not qualitatively affected by cross-listings. The point estimates of the impact of sales growth for weak protection countries, however, are noticeably larger than those in the whole sample, suggesting a greater need for reputation building via dividends when cross-listing is not present.[17]

We further explore dividend commitment among cross-listed firms, by rerunning the models in Table 5 on the subsample of cross-listed firms. Columns (5)-(8) of Table 10 show that, for cross-listed firms, dividend payouts are very similar to those in strong-protection markets. Specifically, growth firms pay less dividends and investor protection does not have a significant impact on dividend payouts, implying that cross-listed firms in weak protection countries do not use dividend as a commitment for better governance.

Thus cross-listings, if available, act as a substitute for dividend commitment. Cross-listings, however, are typically available to larger and older firms with a longer track record in the capital market. Therefore, for the majority of the firms in weak protection countries, dividend payouts serve as a viable commitment mechanism.

[17] This observation is further confirmed in an alternative specification, in which we add a set of cross-listing related variables to the models in Table 5, including a dummy for cross-listing, its interactions with sales growth, weak protection, as well as weak protection interacted with sales growth. The triple-interaction including cross-listing, weak protection, and sales growth is significantly negative at the 1% or 5% level, while all the earlier results remain qualitatively unchanged. This result suggests a reduced need for dividends commitment among cross-listed firms in weak protection countries. In the interest of brevity, this finding is not reported but is available upon request.

4.2 Persistence of Dividends

So far we have shown both the costly commitment through dividend payouts and the benefit that such a commitment delivers. An implicit assumption underlying this reputation-building mechanism is that dividends are persistent. That is, after a firm establishes a reputation and reaps the benefit of raising more capital, it would not strategically revert to a no- or low-payment mode.

Such an assumption is supported by well-documented empirical evidence on dividend smoothing and negative market reactions to dividend cuts (e.g., Brav et al., 2005; Floyd et al., 2015; and Wu 2018). Moreover, the fact that we find a higher market valuation for a growth firm with a good dividend history is reassuring; that is, if dividends were not persistent, the market would not have rewarded the firm with more favorable valuations. Nevertheless, it is worth examining the persistence of dividends in our data.

Table 11 reports dividend payout patterns one, three, and ten years after a firm established a good dividend history. Column (1) in Panel A of Table 11, for example, shows that given a good dividend history at year t, as measured by dividend/sales above industry median for three consecutive years from t-2 to t, the likelihood that a firm maintains a good dividend history is 93%, 87%, and 80% in one, three, and even ten years, respectively. Persistence is slightly lower in weak-protection countries (Columns (2) and (6)). Quite strikingly, growth firms in weak-protection countries more consistently pay dividends vis-a-vis low-growth firms in weak-protection countries, especially in the relative short term. Moreover, this greater dividend persistence of growth firms is statistically significant at the 1% level in most cases.

We also investigate dividend per share, a more visible indicator to investors that is commonly used in examining dividend persistence (e.g., Baker and Wurgler, 2016; Wu 2018).

Given a good dividend history at year t, the chance of not reducing dividend per share from the year-t level one, three, and ten years later is 71%, 68%, and 71%,[18] respectively. The chance that dividend per share is maintained at no less than 90% of the year-t level is 84%, 77%, and 75%, respectively. Again, persistence is slightly less in weak protection countries, whereas growth firms in these countries tend to be more persistent than low-growth firms. For other measures of good dividend history (Panels B-D of Table 11), the results are highly similar.

4.3 Assessing the Economic Significance of Reputation Building

This section evaluates the economic significance of the commitment mechanism we have uncovered. We consider two hypothetical firms that are otherwise similar. One is a low-growth firm with a sales-growth decile of 2, and the other a high-growth one with a sales growth decile of 9. Thus, the difference in sales growth between these two firms is a magnitude of 7. We compare the two firms *both* across the two (strong and weak) investor protection regimes *and* within a weak-protection regime.

We first assess the cost of the commitment mechanism. The coefficients in Column (1) of Table 4 show that the estimates of *Sales Growth Decile* and its interaction with *Weak Protection* are 0.061 and 0.196, respectively. These estimates imply that if our hypothetical high-growth firm resides in a strong-protection country, the chance that it initiates dividends would be 35% (*=1-exp(-0.061×7)*) lower than a low-growth firm. In contrast, in weak-protection countries the chance is 2.57 times (*=exp((-0.063+0.197)×7)*) as *high* as a low-growth firm.

Estimates in Column (1) of Table 5 further reveal that our hypothetical high-growth firm, if located in a weak-protection country, must pay 0.41 (*=0.059×7*) percentage points more out of

[18] It should be noted that the conditional probability of no decrease in dividend in ten years is higher than in three years, because the estimations of the former is based on the subsample of firms that can last for at least ten years.

its sales as dividends compared with a counterpart in a strong-protection country, an amount that is 73% of the median (0.567 percentage points) dividend-to-sales in weak-protection countries. Moreover, within the weak-protection regime, the overall impact of sales growth on dividend payout is 0.019, implying that the high-growth firm actually pays out 0.13 *(=0.019×7*) percentage points *more* than a low-growth firm in the same country. This is an economically important magnitude that accounts for 23% of the median dividend-to-sales in weak-protection countries.

Next, we interpret the economic magnitude of the benefit of reputation building using the estimates in Tables 7 - 9. In Column (1) of Table 7, for example, the estimate of *Impact of Good Dividend History in Weak-Protection Countries* implies that a growth firm in a weak-protection country with a good dividend history would be able to issue, on average, 0.928 percentage points more equity (as a percent of its market cap) during the three subsequent years. This increase is over 17% of the unconditional mean of equity issuance.

Similarly, we estimate the extent that the benefit of reputation is capitalized in firm value. The estimated *Impact of Good Dividend History in Weak-Protection Countries* in Column (1) of Table 8 suggests that a growth firm with a good dividend history commands a valuation premium of 0.247 if it is in a country with weak investor protection. This is, again, a substantial economic magnitude equivalent to about 23% of the growth firms' median valuation Q in weak-protection countries.

Finally, the estimates in Column (1) of Table 9 indicate that a growth firm with good dividend history in a weak-protection country earns about 13.5 percentage points higher CAR during the 2008-2009 global financial crisis.

5. Conclusions

In this paper, we empirically identify a commitment mechanism, i.e., dividend payouts, that firms employ to compensate for country-level weak protection of shareholders. We show that growth firms in weak-protection countries initiate dividends earlier and pay more dividends than their counterparts in strong-protection countries. More importantly, sales growth within weak-protection countries prompts firms to initiate dividends *earlier*, and high-growth firms pay more dividends than do low-growth firms. Such costly commitment generates the benefits of better access to equity markets, a higher valuation premium, and better stock performance during market downturns.

Our paper makes two contributions. The first is to the law and finance literature. This literature generally presumes that firms are passive recipients of the effect of property rights on their external financing. What has been overlooked is the possibility that firms can mitigate the impact of weak legal protection by credibly committing to better governance, and thus establish a capital market reputation for decent treatment of shareholders. By systematically documenting such a commitment mechanism, our paper fills a gap in our understanding of the interplay between country-level institutions and firm-specific governance. Our research may also explain why, given weak institutions, minority investors are willing to supply capital at all.

Secondly, we contribute to the understanding of dividend policies around the world. We demonstrate that some of the well-known results from the U.S. may not generalize to other countries. Our results reveal the importance of reputation building in determining corporate dividend policy in countries with weak investor protection.

Our finding that firms can establish capital-market reputation to mitigate the impact of weak protection does not refute the importance of investor protection. On the contrary, it is

precisely the external financing environment determined by the legal protection of investors that drives firms to establish reputation. Further, reputation building is costly. In the case of dividends, firms must substitute more expensive external financing for relatively cheaper internal funds.

Although we find that firms use dividend policies to compensate for country-level weak institutions, dividends may not be the only way of signaling a commitment to good governance. Firms may employ other mechanisms, such as appointing reputable auditors and enhancing accounting transparency. Identifying alternative commitment methods and evaluating their costs and benefits are fruitful avenues for future research.

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Figure 1. Firm Growth and Dividends

This figure presents a comparison of dividend payouts between high- and low-growth firms across countries with weak/strong investor protections. High growth is sales growth above the sample median, and low growth is below. Investor protection is measured based on Common/Civil Law in Panel A and the anti-self-dealing index in Panel B. The statistics are estimated controlling for basic firm characteristics. The numbers are reported in Table 3.

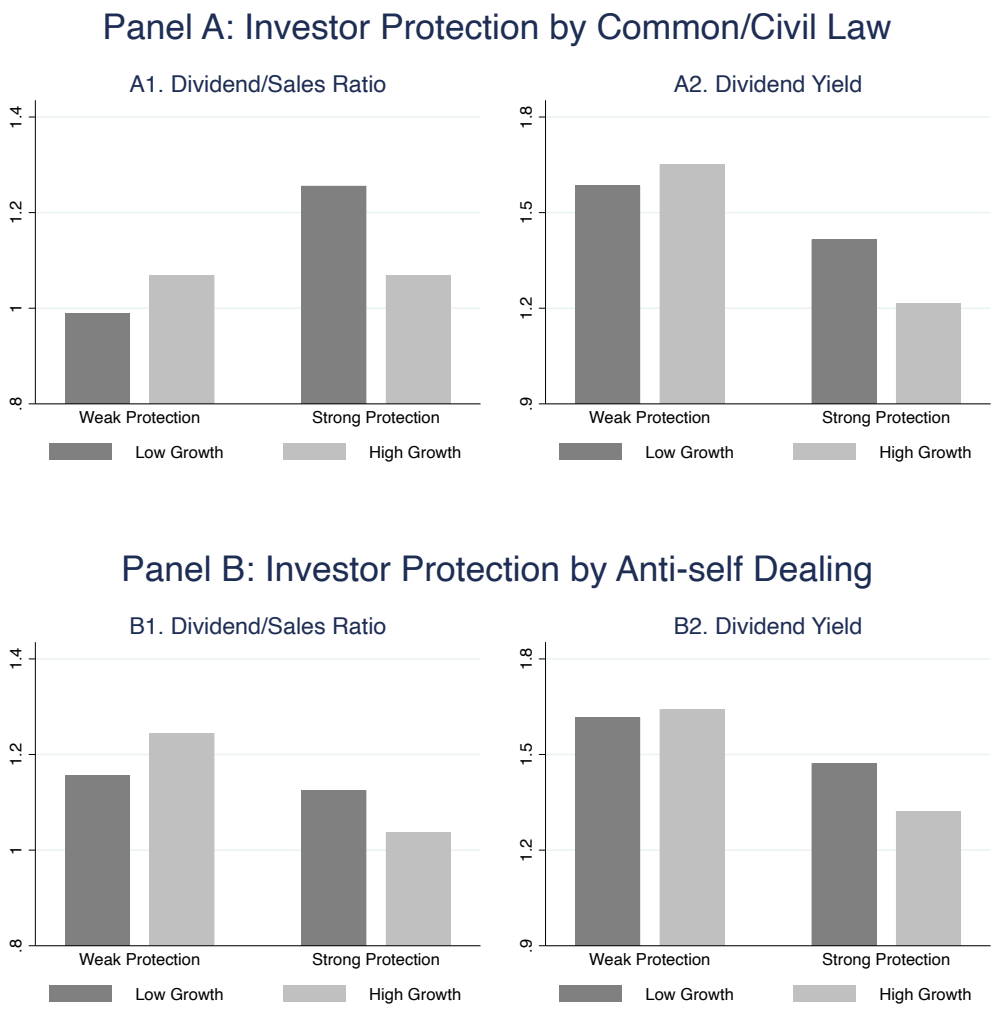

Figure 2. Dividend History and Subsequent Equity Issuance

This figure reports the subsequent equity issuances (measured by the average annual equity issuance proceeds from years t+1 to t+3, normalized by market capitalization at the end of year t) across weak- versus strong-protection countries for growth firms with good dividend histories versus other firms. Investor protection is measured based on Common/Civil Law in Panel A and the anti-self-dealing index in Panel B. High growth is sales growth above the sample median, and a good dividend history is measured either by dividend payout above the median over the past three years (A1 and B1); or by dividend payout increases over the past year (A2 and B2). The statistics are estimated controlling for basic firm characteristics. The numbers are reported in Table 6.

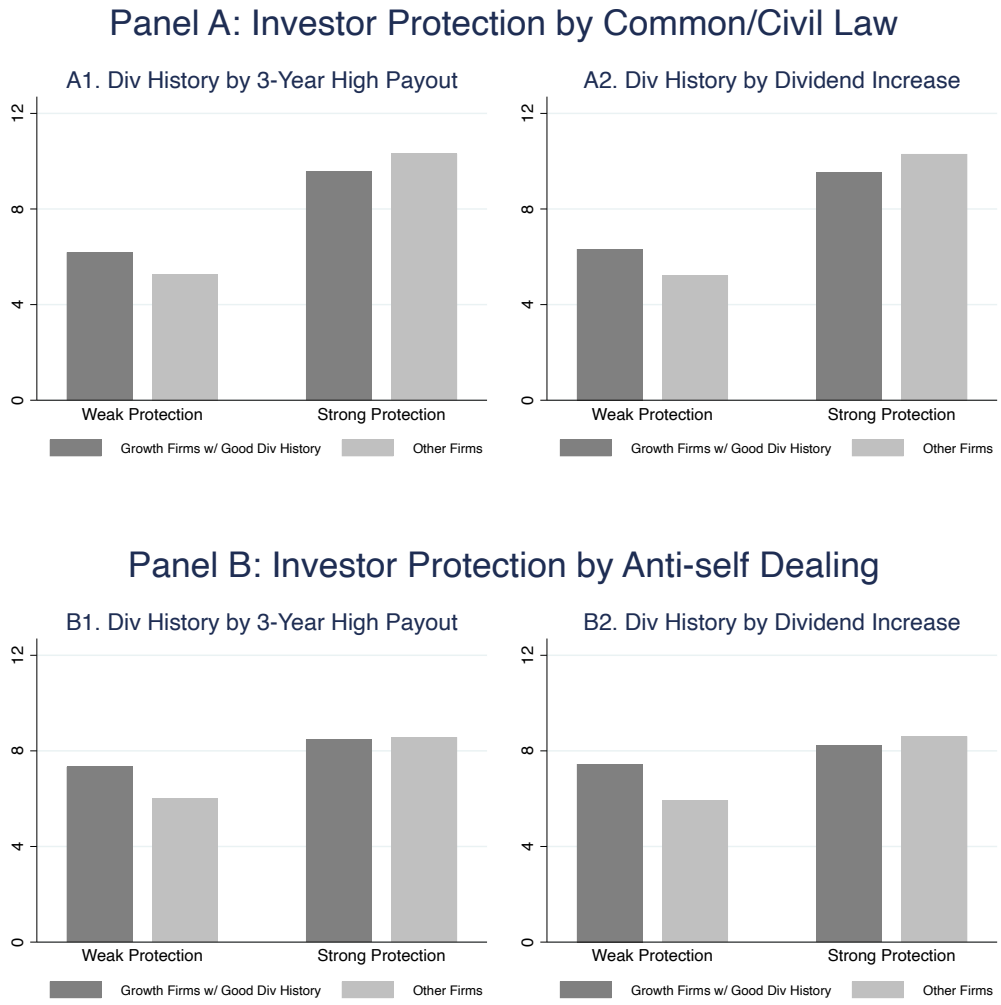

Table 1. Investor Protection and Sample Firm-Year Distribution

This table describes the sample and reports the classification of investor protection for each market.

	Market	No. Firm-Years	No. Firms	Investor Protection by Common/Civil Law	Investor Protection by Anti-self-dealing Index
	(1)	(2)	(3)	(4)	(5)
1	Argentina	505	68	Weak	Weak
2	Australia	6,907	1,427	Strong	Strong
3	Austria	778	90	Weak	Weak
4	Belgium	1,303	139	Weak	Strong
5	Canada	7,648	1,205	Strong	Strong
6	Denmark	1,782	182	Weak	Strong
7	Egypt	229	70	Weak	Weak
8	Finland	1,590	149	Weak	Strong
9	France	8,513	910	Weak	Weak
10	Germany	5,981	633	Weak	Weak
11	Hong Kong SAR	7,305	990	Strong	Strong
12	India	4,405	1,195	Strong	Strong
13	Indonesia	2,192	287	Weak	Strong
14	Ireland	1,020	104	Strong	Strong
15	Israel	1,732	377	Strong	Strong
16	Italy	2,653	327	Weak	Weak
17	Japan	40,578	3,372	Weak	Strong
18	Malaysia	7,762	977	Strong	Strong
19	Mexico	1,434	158	Weak	Weak
20	Netherlands	2,419	232	Weak	Weak
21	New Zealand	634	118	Strong	Strong
22	Norway	1,529	230	Weak	Weak
23	Pakistan	353	77	Strong	Weak
24	Peru	199	49	Weak	Weak
25	Philippines	856	113	Weak	Weak
26	Portugal	608	68	Weak	Weak
27	Singapore	4,263	610	Strong	Strong
28	South Africa	2,770	368	Strong	Strong
29	South Korea	4,575	819	Weak	Strong
30	Spain	1,551	170	Weak	Weak
31	Sweden	3,390	472	Weak	Weak
32	Switzerland	2,957	269	Weak	Weak
33	Taiwan	7,464	1,322	Weak	Strong
34	Thailand	2,615	381	Strong	Strong
35	Turkey	988	165	Weak	Weak
36	UK	17,517	2,175	Strong	Strong
37	US	66,545	7,207	Strong	Strong
38	Zimbabwe	12	2	Strong	Weak
	Total	225,562	27,507		

Table 2. Summary Statistics

This table presents summary statistics of the main variables used in this study. *Dividend / Sales* is total dividends paid to common and preferred shareholders over net sales. *Dividend Yield* is the dividend over market capitalization. *Equity Issuance* is the average annual equity issuance proceeds from years t+1 to t+3 normalized by market capitalization at the end of year t. *Tobin's Q* is market capitalization of equity plus total liability over total assets. *Sales Growth* is average annual percentage growth in real net sales over the past 5 years. *Leverage* is total liability divided by total assets. *ROA* is income before extraordinary items over total assets. *Age* is the number of years since the firm was established. Significance of difference at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

		Whole sample	Investor Protection by Common/Civil Law			Investor Protection by Anti-self-dealing Index		
			Weak Protection	Strong Protection	Difference (2)-(3)	Weak Protection	Strong Protection	Difference (5)-(6)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dividend Payout								
Dividend / Sales (%)	Mean	1.101	1.024	1.156	-0.133***	1.203	1.082	0.121***
	Median	0.410	0.567	0.009	0.558***	0.618	0.379	0.239***
Dividend Yield (%)	Mean	1.436	1.613	1.309	0.304***	1.630	1.400	0.230***
	Median	0.854	1.284	0.015	1.269***	1.214	0.798	0.416***
Equity Issuance and Valuation								
Equity Issuance (%)	Mean	8.194	5.387	10.203	-4.816***	6.206	8.559	-2.353***
	Median	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Tobin's Q	Mean	1.557	1.260	1.769	-0.508***	1.431	1.580	-0.149***
	Median	1.166	1.064	1.275	-0.210***	1.166	1.166	0.000
Firm Characteristics								
Sales Growth (%)	Mean	5.229	4.009	6.101	-2.092***	5.982	5.090	0.891***
	Median	4.181	2.970	5.310	-2.340***	5.052	4.026	1.026***
Log Assets	Mean	12.630	13.033	12.342	0.692***	12.940	12.573	0.367***
	Median	12.578	12.911	12.273	0.638***	12.792	12.538	0.253***
Leverage (%)	Mean	52.747	55.529	50.757	4.772***	58.175	51.752	6.424***
	Median	52.442	56.248	49.449	6.799***	59.083	51.039	8.044***
ROA (%)	Mean	1.011	1.636	0.564	1.073***	1.841	0.859	0.983***
	Median	2.796	2.248	3.439	-1.191***	3.097	2.735	0.362***
Age	Mean	35	49	24	25***	48	32	16***
	Median	22	44	16	28***	28	21	7***

Table 3. Dividend Payout by Growth Decile and Investor Protection

This table presents the average Dividend / Sales ratio and Dividend Yield of firms with high /low growth (measured by whether sales growth over the past five years is above or below the sample median) and across countries with different levels of investor protection. The statistics are estimated controlling for basic firm characteristics. Significance of difference at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Weak protection			Strong Protection			
	Low Growth	High Growth	Difference (2)-(1)	Low Growth	High Growth	Difference (5)-(4)	Diff-in-Diff
	(1)	(2)	(3)	(4)	(5)	(6)	(3)-(6)
Panel A: Investor Protection by Common/Civil Law							
Dividend / Sales	0.989	1.068	0.080***	1.256	1.069	-0.187***	0.267***
Dividend Yield	1.584	1.650	0.066***	1.416	1.215	-0.200***	0.266***
Panel B: Investor Protection by Anti-self-dealing Index							
Dividend/Sales	1.156	1.245	0.089***	1.125	1.037	-0.089***	0.178***
Dividend Yield	1.616	1.641	0.025	1.473	1.323	-0.150***	0.175***

Table 4. Cox Proportional Hazard Model - Dividend Initiation

This table presents the analysis of firms' dividend initiation tendency using the Cox proportional hazard model. The dependent variable is coded as '1' if a firm pays dividends in the given year and '0' otherwise. A positive coefficient indicates an accelerating effect on dividend initiation. Only observations up to the firm's dividend initiation are used in this model; if a firm has not initiated dividends by the end of sample period, all the observations for that firm will be used. *Sales Growth Decile* is the rank decile for sales growth over the past 5 years. *Leverage* is measured as total liability divided by total assets. *ROA* is defined as income before extraordinary items over total assets. *Impact of Sales Growth in Weak-Protection Countries* is the sum of coefficients on *Sales Growth Decile* and its interaction with the weak investor protection dummy. Industry is classified based on two-digit SIC code. Heteroscedasticity-consistent standard errors clustered by industry-year are presented in parentheses. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Investor Protection by Common/Civil Law	Investor Protection by Anti-self-dealing Index
	(1)	(2)
Sales Growth Decile	-0.061***	-0.042***
	(0.016)	(0.016)
Weak Protection * Sales Growth Decile	0.196***	0.171**
	(0.045)	(0.070)
Log Asset	0.139***	0.134***
	(0.028)	(0.028)
Leverage	-0.003**	-0.003*
	(0.002)	(0.002)
ROA	0.034***	0.034***
	(0.004)	(0.004)
Age	0.007**	0.007**
	(0.003)	(0.003)
Impact of Sales Growth in Weak-Protection Countries	0.134***	0.129**
(p-values)	(0.001)	(0.049)
Country-Year Fixed Effects	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes
No. of Observations	34,398	34,398

Table 5. Firm Growth and Dividend Payout

This table presents the effects of firm growth on dividend payout. The dependent variable is *Dividend / Sales* (Columns 1 and 3) and *Dividend Yield* (Columns 2 and 4), both in percentage terms. *Sales Growth Decile* is the rank decile for sales growth over the past 5 years. *Leverage* is measured as total liability divided by total assets. *ROA* is measured as income before extraordinary items over total assets. *Impact of Sales Growth in Weak-Protection Countries* is the sum of coefficients on *Sales Growth Decile* and its interaction with the weak investor protection dummy. Industry is classified based on two-digit SIC code. Heteroscedasticity-consistent standard errors clustered by industry-year are presented in parentheses. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Investor Protection by Common/Civil Law		Investor Protection by Anti-self-dealing Index	
	Dividend / Sales	Dividend Yield	Dividend / Sales	Dividend Yield
	(1)	(2)	(3)	(4)
Sales Growth Decile	-0.040***	-0.036***	-0.028***	-0.020***
	(0.003)	(0.003)	(0.003)	(0.003)
Weak Protection * Sales Growth Decile	0.059***	0.067***	0.044***	0.034***
	(0.004)	(0.004)	(0.004)	(0.004)
Log Asset	0.175***	0.133***	0.175***	0.133***
	(0.004)	(0.004)	(0.005)	(0.004)
Leverage	-0.008***	-0.002***	-0.008***	-0.002***
	(0.0003)	(0.0002)	(0.0003)	(0.0002)
ROA	0.034***	0.026***	0.034***	0.026***
	(0.001)	(0.001)	(0.001)	(0.001)
Age	0.002***	0.003***	0.002***	0.003***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Impact of Sales Growth in Weak-Protection Countries	0.019***	0.031***	0.017***	0.014***
(p-values)	(0.000)	(0.000)	(0.000)	(0.000)
Country-Year Fixed Effects	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes	Yes	Yes
No. of Observations	225,450	225,450	225,450	225,450
R-Squared	0.284	0.269	0.283	0.267

Table 6. Subsequent Equity Issuance of Growth Firms with Good Dividend Histories

This table presents differences in subsequent three-year equity issuance (in percentage) across weak- versus strong-protection countries for growth firms with good dividend histories versus all other firms. *Issuance /market cap (%)* is the average annual equity issuance proceeds from years t+1 to t+3 normalized by market capitalization at the end of year t. The statistics are estimated controlling for basic firm characteristics. A growth firm is one with sales growth over the past five years above the sample median. A good dividend history is defined as 1) with payout ratio above the same country-industry-year's sample median over the past three consecutive years (from t-2 to t); 2) with payout ratio increased over the past year (from t-1 to t). Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

Issuance / Market Cap (%)	Weak protection			Strong Protection			Diff-in-Diff
	Growth Firms w/ Good Dividend History	Other Firms	Difference (1)-(2)	Growth Firms w/ Good Dividend History	Other Firms	Difference (4)-(5)	(3)-(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Investor Protection by Common/Civil Law							
A1: Dividend History Measured by 3-Year High Dividend / Sales Ratio							
	6.185	5.271	0.914***	9.580	10.311	-0.731**	1.645***
A2: Dividend History Measured by Recent Increase of Dividend / Sales Ratio							
	6.325	5.211	1.115***	9.531	10.302	-0.771**	1.886***
A3: Dividend History Measured by 3-Year High Dividend Yield							
	5.868	5.335	0.533*	9.677	10.284	-0.607*	1.140**
A4: Dividend History Measured by Recent Increase of Dividend Yield							
	6.130	5.243	0.887***	9.833	10.259	-0.426	1.314***
Panel B: Investor Protection by Anti-self-dealing Index							
B1: Dividend History Measured by 3-Year High Dividend / Sales Ratio							
	7.333	6.016	1.317***	8.477	8.572	-0.095	1.412**
B2: Dividend History Measured by Recent Increase of Dividend / Sales Ratio							
	7.449	5.922	1.526***	8.236	8.608	-0.372	1.899***
B3: Dividend History Measured by 3-Year High Dividend Yield							
	7.244	6.066	1.178***	8.575	8.557	0.018	1.160*
B4: Dividend History Measured by Recent Increase of Dividend Yield							
	7.519	5.926	1.593***	8.273	8.605	-0.332	1.925***

Table 7. Dividend History and Subsequent Equity Issuances

This table presents the effects of dividend history on subsequent equity issuances. The dependent variable is the relative size of issuance (measured in percentage as the average annual equity issuance proceeds from years t+1 to t+3 normalized by market capitalization at the end of year t). A growth firm is one with sales growth over the past five years above the sample median. A good dividend history is defined by either dividend payout above the same country-industry-year's sample median over the past three consecutive years (in Columns (1), (3), (5), and (7)), or by dividend payout increases over the past year (in Columns (2), (4), (6), and (8)). Dividend payout is measured by dividend/sales ratio (in Columns (1), (2), (5), and (6)) or dividend yield (in Columns (3), (4), (7), and (8)). Firm characteristics include sales-growth decile, the current year's payout (measured by dividend/sales and dividend yield), as well as log asset, leverage, ROA, and age. *Impact of Good Dividend History in Weak-Protection Countries* is the sum of the coefficient on *Growth Firm w/ 3-Year High Dividend* (or *Growth Firm w/ Recent Dividend Increase*) and its interaction with the weak investor protection dummy. Heteroscedasticity-consistent standard errors presented in parentheses are clustered by industry-year. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Investor Protection Measure: Common/Civil Law				Investor Protection Measure: Anti-self-dealing Index			
	Dividend/Sales		Dividend Yield		Dividend/Sales		Dividend Yield	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Growth Firm w/ 3-Year High Dividend	-0.803***		-0.674***		-0.403**		-0.520***	
	(0.224)		(0.234)		(0.185)		(0.194)	
Weak Protection	1.731***		1.202***		1.794***		1.743***	
* Growth Firm w/ 3-Year High Dividend	(0.274)		(0.308)		(0.310)		(0.341)	
Growth Firm w/ Recent Dividend Increase		-0.809***		-0.422*		-0.244		-0.109
		(0.230)		(0.249)		(0.186)		(0.192)
Weak Protection		2.007***		1.428***		1.893***		1.885***
* Growth Firm w/ Recent Dividend Increase		(0.289)		(0.304)		(0.358)		(0.358)
Impact of Good Dividend History in Weak-Protection Countries	0.928***	1.198***	0.528**	1.006***	1.391***	1.649***	1.224***	1.776***
(p-values)	(0.000)	(0.000)	(0.019)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	225,450	225,450	225,450	225,450	225,450	225,450	225,450	225,450
R2	0.113	0.113	0.113	0.113	0.113	0.113	0.113	0.113

Table 8. Dividend History and Firm Valuation

This table presents the effects of dividend history on firm valuation. The dependent variable is Tobin's Q, defined as market capitalization of equity plus total liability over total assets. A growth firm is one with sales growth over the past five years above the sample median. A good dividend history is defined by either dividend payout above the same country-industry-year's sample median over the past three consecutive years (in Columns (1), (3), (5), and (7)), or by dividend payout increases over the past year (in Columns (2), (4), (6), and (8)). Dividend payout is measured by dividend/sales ratio (in Columns (1), (2), (5), and (6)) or dividend yield (in Columns (3), (4), (7), and (8)). Firm characteristics include sales-growth decile, the current year's payout (measured by dividend/sales and dividend yield), as well as log asset, leverage, ROA, and age. *Impact of Growth Firm with Good Dividend History in Weak-Protection Countries* is the sum of the coefficient on *Growth Firm w/ 3-Year High Dividend* (or *Growth Firm w/ Recent Dividend Increase*) and its interaction with the weak investor protection dummy. Heteroscedasticity-consistent standard errors presented in parentheses are clustered by industry-year. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Investor Protection Measure: Common/Civil Law				Investor Protection Measure: Anti-self-dealing Index			
	Dividend/Sales		Dividend Yield		Dividend/Sales		Dividend Yield	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Growth Firm w/ 3-Year High Dividend	0.075***		-0.028**		0.121***		-0.017	
	(0.014)		(0.013)		(0.011)		(0.011)	
Weak Protection	0.172***		0.086***		0.136***		0.131***	
* Growth Firm w/ 3-Year High Dividend	(0.018)		(0.015)		(0.019)		(0.019)	
Growth Firm w/ Recent Dividend Increase		0.061***		-0.064***		0.090***		-0.015
		(0.013)		(0.015)		(0.010)		(0.012)
Weak Protection		0.106***		0.150***		0.108***		0.107***
* Growth Firm w/ Recent Dividend Increase		(0.016)		(0.014)		(0.017)		(0.017)
Impact of Growth Firm with Good Dividend History in Weak-Protection Countries	0.247***	0.168***	0.059***	0.085***	0.258***	0.198***	0.114***	0.092***
(p-values)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	225,450	225,450	225,450	225,450	225,450	225,450	225,450	225,450
R2	0.173	0.172	0.172	0.172	0.172	0.172	0.172	0.172

Table 9. Dividend History and Firm Stock Performance during the 2008-2009 Financial Crisis

This table presents the effects of dividend history on firm stock performance during the 2008-2009 financial crisis. The dependent variable is the percentage of cumulative abnormal return (after adjusting for market beta) over 2008 and 2009. All independent variables are measured by the 2007 value. A growth firm is one with sales growth over the past five years above the sample median. A good dividend history is defined by either dividend payout above the same country-industry-year's sample median over the past three consecutive years (in Columns (1), (3), (5), and (7)), or by dividend payout increases over the past year (in Columns (2), (4), (6), and (8)). Dividend payout is measured by dividend/sales ratio (in Columns (1), (2), (5), and (6)) or dividend yield (In Columns (3), (4), (7), and (8)). Firm characteristics include sales-growth decile, the current year's payout (measured by dividend/sales and dividend yield), as well as log asset, leverage, and ROA. *Impact of Good Dividend History in Weak-Protection Countries* is the sum of the coefficient on *Growth Firm w/ 3-Year High Dividend* (or *Growth Firm w/ Recent Dividend Increase*) and its interaction with the weak investor protection dummy. Heteroscedasticity-consistent standard errors presented in parentheses are clustered by industry-year. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Investor Protection Measure: Common/Civil Law				Investor Protection Measure: Anti-self-dealing Index			
	Dividend/Sales		Dividend Yield		Dividend/Sales		Dividend Yield	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Growth Firm w/ 3-Year High Dividend	2.175		-1.556		3.542*		-1.562	
	(2.181)		(2.150)		(1.891)		(2.005)	
Weak Protection	11.318***		10.980***		18.055***		19.512***	
* Growth Firm w/ 3-Year High Dividend	(3.661)		(3.415)		(4.734)		(4.070)	
Growth Firm w/ Recent Dividend Increase		1.214		0.309		3.198		3.610
		(2.868)		(2.900)		(2.180)		(2.435)
Weak Protection		8.295**		10.537***		11.829**		12.948***
* Growth Firm w/ Recent Dividend Increase		(3.772)		(3.412)		(4.771)		(4.083)
Impact of Good Dividend History in Weak-Protection Countries	13.493***	9.509***	9.424***	10.846***	21.597***	15.027***	17.949***	16.558***
(p-values)	(0.000)	(0.000)	(0.006)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	10,359	10,359	10,359	10,359	10,359	10,359	10,359	10,359
R2	0.079	0.079	0.079	0.079	0.080	0.079	0.079	0.079

Table 10. Firm Growth and Dividend Payout, the Role of Cross-listing

This table reruns the models in Table 5 on subsamples of non-cross-listed firms and cross-listed firms. The dependent variable is *Dividend / Sales* (Columns 1, 3, 5, and 7) and *Dividend Yield* (Columns 2, 4, 6, and 8), both in percentage terms. *Sales Growth Decile* is the rank decile for sales growth over the past 5 years. *Leverage* is measured as total liability divided by total assets. *ROA* is measured as income before extraordinary items over total assets. *Impact of Sales Growth in Weak-Protection Countries* is the sum of coefficients on *Sales Growth Decile* and its interaction with the weak investor protection dummy. Columns 1-4 focus on the sample of firms that are not cross-listed in US, while Columns 5-8 focus on the sample of cross-listed firms. Industry is classified based on two-digit SIC code. Heteroscedasticity-consistent standard errors clustered by industry-year are presented in parentheses. Significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

	Non-cross-listed Firms				Cross-listed Firms			
	Investor Protection by Common/Civil Law		Investor Protection by Anti-self-dealing Index		Investor Protection by Common/Civil Law		Investor Protection by Anti-self-dealing Index	
	Dividend / Sales	Dividend Yield	Dividend / Sales	Dividend Yield	Dividend / Sales	Dividend Yield	Dividend / Sales	Dividend Yield
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sales Growth Decile	-0.042***	-0.037***	-0.028***	-0.018***	-0.016*	-0.039***	-0.017**	-0.037***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.009)	(0.008)	(0.007)	(0.007)
Weak Protection * Sales Growth Decile	0.065***	0.080***	0.042***	0.043***	-0.003	0.003	-0.002	-0.001
	(0.004)	(0.004)	(0.004)	(0.005)	(0.010)	(0.010)	(0.011)	(0.010)
Impact of Sales Growth in Weak-Protection Countries	0.023***	0.043***	0.014***	0.024***	-0.019***	-0.036***	-0.019**	-0.038***
(p-values)	(0.000)	(0.000)	(0.000)	(0.000)	(0.005)	(0.000)	(0.049)	(0.000)
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of Observations	201,951	201,951	201,951	201,951	23,173	23,173	23,173	23,173
R-Squared	0.270	0.271	0.269	0.268	0.4142	0.3477	0.4142	0.3477

Table 11. Persistence of Dividend

This table describes the persistence of dividend for the whole sample, in countries with weak investor protection, and for growth firms in weak-protection countries. *Good Div Hist in t+3* reports the probability that the firm has a good dividend history (with 3-year high dividend / sales ratio in Panel A and 3-year high dividend yield in Panel B) in year t+3. Δ*DPS > -10% in t+3* reports the probability that the percentage change of dividend per share is no lower than -10% between years t+2 and t+3. Other rows are defined similarly. Columns (3) and (7) compare the difference between firms in weak-protection countries with the whole sample. Columns (5) and (9) compare the difference between growth firms in weak-protection countries with all firms in weak-protection countries. Significance of difference at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

		Investor Protection by Common/Civil Law				Investor Protection by Anti-self-dealing Index			
		In All Countries		In Weak-Protection Countries		In All Countries		In Weak-Protection Countries	
	Whole Sample	Weak Protection	Weak Protection versus Whole Sample (2) - (1)	High Growth	High Growth versus All Firms (4) - (2)	Weak Protection	Weak Protection versus Whole Sample (6) - (1)	High Growth	High Growth versus All Firms (8) - (6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A. Conditional on 3-Year High Dividend / Sales Ratio in Year t									
Good Div Hist in t+1	92.6%	90.7%	-1.9%***	91.7%	1.0%***	89.0%	-3.6%***	90.5%	1.4%***
Good Div Hist in t+3	86.5%	83.6%	-2.9%***	83.8%	0.2%	81.0%	-5.5%***	81.8%	0.8%**
Good Div Hist in t+10	79.5%	74.2%	-5.3%***	73.5%	-0.7%	73.0%	-6.5%***	71.9%	-1.1%
ΔDPS >= 0 in t+1	70.6%	63.8%	-6.7%***	71.8%	8.0%***	74.0%	3.4%***	78.1%	4.1%***
ΔDPS >= 0 in t+3	67.7%	60.3%	-7.4%***	67.6%	7.3%***	69.6%	1.9%***	72.5%	3.0%***
ΔDPS >= 0 in t+10	70.8%	67.7%	-3.0%***	68.9%	1.2%*	73.5%	2.7%***	74.8%	1.2%
ΔDPS > -10% in t+1	84.3%	82.0%	-2.3%***	84.3%	2.3%***	81.7%	-2.6%***	84.9%	3.2%***
ΔDPS > -10% in t+3	76.9%	73.5%	-3.4%***	74.8%	1.3%***	73.8%	-3.1%***	76.0%	2.2%***
ΔDPS > -10% in t+10	75.2%	75.4%	0.1%	74.3%	-1.1%*	75.9%	0.7%	76.8%	0.9%
Panel B. Conditional on 3-Year High Dividend Yield in Year t									
Good Div Hist in t+1	89.7%	84.7%	-5.0%***	86.7%	2.0%***	85.9%	-3.8%***	87.5%	1.6%***
Good Div Hist in t+3	82.7%	75.3%	-7.5%***	76.4%	1.2%***	77.3%	-5.5%***	78.2%	1.0%**
Good Div Hist in t+10	74.5%	61.4%	-13.1%***	60.7%	-0.7%	69.4%	-5.1%***	68.8%	-0.6%
ΔDPS >= 0 in t+1	69.2%	61.1%	-8.1%***	69.0%	7.8%***	71.5%	2.3%***	75.7%	4.2%***
ΔDPS >= 0 in t+3	66.1%	56.7%	-9.5%***	65.4%	8.7%***	67.3%	1.1%*	71.1%	3.8%***
ΔDPS >= 0 in t+10	68.5%	63.0%	-5.4%***	63.1%	0.1%	69.4%	0.9%	71.1%	1.8%*
ΔDPS > -10% in t+1	83.1%	79.4%	-3.7%***	81.7%	2.3%***	79.8%	-3.3%***	83.0%	3.2%***
ΔDPS > -10% in t+3	75.4%	70.1%	-5.3%***	72.4%	2.3%***	71.6%	-3.8%***	74.6%	3.0%***
ΔDPS > -10% in t+10	72.6%	70.4%	-2.2%***	68.1%	-2.3%***	72.0%	-0.6%	73.2%	1.2%

Table 11. Persistence of Dividend (Continued)

		Investor Protection by Common/Civil Law				Investor Protection by Anti-self-dealing Index			
		In All Countries		In Weak-Protection Countries		In All Countries		In Weak-Protection Countries	
	Whole Sample	Weak Protection	Weak Protection versus Whole Sample (2) - (1)	High Growth	High Growth versus All Firms (4) - (2)	Weak Protection	Weak Protection versus Whole Sample (6) - (1)	High Growth	High Growth versus All Firms (8) - (6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel C. Conditional on Recent Increase in Dividend / Sales Ratio in Year t									
ΔDPS >= 0 in t+1	67.5%	61.2%	-6.4%***	68.0%	6.8%***	70.2%	2.7%***	73.4%	3.3%***
ΔDPS >= 0 in t+3	64.5%	58.0%	-6.5%***	64.0%	6.0%***	65.9%	1.4%***	68.7%	2.8%***
ΔDPS >= 0 in t+10	70.0%	67.1%	-2.9%***	69.0%	2.0%***	70.4%	0.4%	73.0%	2.6%***
ΔDPS > -10% in t+1	79.3%	76.1%	-3.2%***	78.7%	2.6%***	77.8%	-1.4%***	80.2%	2.4%***
ΔDPS > -10% in t+3	72.2%	68.3%	-3.9%***	70.2%	1.9%***	69.8%	-2.4%***	72.4%	2.6%***
ΔDPS > -10% in t+10	74.0%	72.9%	-1.1%***	73.0%	0.1%	72.7%	-1.4%*	74.8%	2.2%***
Panel D. Conditional on Recent Increase in Dividend Yield in Year t									
ΔDPS >= 0 in t+1	63.2%	58.0%	-5.3%***	64.0%	6.0%***	65.6%	2.4%***	68.9%	3.3%***
ΔDPS >= 0 in t+3	59.9%	53.7%	-6.2%***	59.9%	6.2%***	61.1%	1.2%**	63.8%	2.7%***
ΔDPS >= 0 in t+10	67.8%	65.5%	-2.3%***	66.7%	1.2%**	68.3%	0.5%	71.4%	3.1%***
ΔDPS > -10% in t+1	76.7%	74.3%	-2.4%***	76.7%	2.4%***	74.0%	-2.7%***	76.3%	2.3%***
ΔDPS > -10% in t+3	69.0%	65.4%	-3.6%***	67.6%	2.2%***	65.4%	-3.6%***	67.8%	2.4%***
ΔDPS > -10% in t+10	72.2%	71.7%	-0.5%	71.3%	-0.5%	70.5%	-1.7%**	73.1%	2.6%***

Appendix

Table A1. Comparing Firm Characteristics by Cross-listing Status

This table compares the characteristics between firms that are cross-listed in the US stock market (via ADR or direct listing) versus firms that do not. *Leverage* is total liability divided by total assets. *ROA* is income before extraordinary items over total assets. *Age* is the number of years since the firm was established.

Panel A. Summary Statistics by cross-listing status		All Firms		Firms in Weak-Protection Countries (by Common/Civil Law)		Firms in Weak-Protection Countries (by Anti-Self-Dealing)	
		Not cross-listed	Cross-listed	Not cross-listed	Cross-listed	Not cross-listed	Cross-listed
		(1)	(2)	(3)	(4)	(5)	(6)
Log Assets	Mean	12.378	14.798	12.652	15.279	12.409	15.026
	Median	12.371	14.883	12.635	15.294	12.364	14.997
Leverage (%)	Mean	52.386	55.854	55.030	58.468	58.027	58.758
	Median	51.848	56.719	55.552	59.649	58.854	59.919
ROA (%)	Mean	0.711	3.586	1.382	3.134	1.399	3.581
	Median	2.654	3.861	2.107	3.128	2.833	4.009
Age	Mean	33	50	48	59	46	55
	Median	21	36	42	55	25	39
No. Firm-Years		202,070	23,492	80,425	13,649	27,866	7,089
No. Firms		25.648	1,859	9,385	909	3,559	544