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Kenneth Högholm DR.Sc. (Econ.)

Eva Liljeblom Professor

Dividend Policy, Corporate Financing, and Mergers and Acquisitions in Finland; A Survey

This paper surveys empirical research in Finland on central topics within the area of corporate finance, that is, topics related to capital structure (including issues of equity and debt), dividend policy, and mergers and takeovers. For each of these three core topics, a brief overview of the papers surveyed and their connections to each other is provided. Some central results are described in more detail.

The survey is organised according to the three main areas covered. Firstly, work related to dividends are discussed. This section also includes a discussion of stock dividends. Studies of dividends support severe dividend smoothing, but dividend changes do also seem to have informational content in the case of Finnish data. Also the reported ex-dividend ratios are broadly consistent with the tax treatment of major investor categories on the Finnish market. No results supporting short-term trading activity are reported. Stock dividends have been suggested as a major vehicle of dividend increases in data prior to the 1990's. Lately, however, stock dividends have been scarce.

Secondly, work related to capital structure issues are discussed. Agency costs and asymmetric information as well as corporate control considerations seem to affect the capital structure of Finnish firms. The evidence on tax-related variables has been mixed, potentially due to the large possibilities for earnings management previously; many firms have been tax exhausted. The amount of collateral turns up as a significant determinant in many studies, a result in line with the bank-concentrated market for debt capital prior to the 1990's.

The results concerning price reactions to issues of seasoned equity as well as initial public offerings are similar to those from international studies. Rights issues have been the dominant form of equity issues, and associated with slightly positive price reactions. Strong underpricing of IPOs has also been detected, but once one takes into account the fact that good issues are oversubscribed, leading to a winner's curse, the underpricing is reversed for large uninformed investors.

Thirdly, we discuss work related to mergers and takeovers. Most empirical findings concerning mergers and takeovers in Finland are consistent with the hypothesis that takeovers do create additional value, but we cannot exclude the possibility that transfers from other stakeholders make for at least a part of the gains to shareholders. The observed fraction of negative gains to the bidding firm's shareholders is often rather high, indicating some wealth redistribution from shareholders in bidding firms to shareholders in target firms (overestimation or agency problems).

A general impression is that although much basic research has been done in the 1980's and early 1990's, few studies focusing on the radically changed markets (the tax reform of 1990, unregulated market with foreign investors, new capital forms, diminishing bank concentration) in the 1990's have been performed. Empirical research in corporate finance also seems to lag a step behind asset pricing research when it comes to more extensive use of the radically improved data available. Additional insights could be obtained e.g. by applying methods from market micro-structure research to corporate finance issues.