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Controlling Shareholders, Agency Problems, and Dividend Policy in Finland

Dividends can play a useful role when there are agency problems between corporate insiders and outside shareholders. Recent empirical research has shown that listed firms in most parts of the world – e.g. in the Nordic countries and Continental Europe – have large shareholders in control. This suggests that the most relevant agency problem may be the one between firms' controlling shareholders and minority shareholders. A key issue in the agency approach to dividends is that unless a firms cash is paid out to shareholders on a pro-rata basis, corporate insiders – such as managers and controlling shareholders – may divert it in ways that benefit themselves only to the detriment of minority shareholders. We find that the ownership and control structure significantly affects dividend payouts in Finnish listed firms. More specifically, our results suggest that dividend payouts are lower in firms with potentially high agency problems between corporate insiders and outside investors.

According to the so-called outcome agency model of dividends, a firm's dividend payouts are an outcome of the agency problems in a firm. This view suggests that dividends are lower in firms with high agency problems. In another set of agency models, dividends can be seen as a substitute for agency problems where insiders can voluntarily commit not to expropriate outside shareholders by paying out dividends.

In this paper, we study the impact of different ownership and control structures in Finnish listed firms. Our sample consists of 133 companies. Our primary measure for dividend payouts is the dividend-to-earning ratio for fiscal year 1999. We find that a shareholder holding 20% of the votes is present in about 70% of the sample firms. The average control stake is 38% by the largest shareholder and 11% by the second largest shareholder. In addition, the largest shareholders often have votes in excess of their voting rights.

We find that control concentration is significantly negatively related to the firm's dividend payout ratio. We also find that the voting stake of the second largest shareholder – if it holds 20% or more – is negatively related to dividend payout levels. Our results also suggest that the type of the controlling shareholder affect the dividend policy differently. When the CEO is among the three largest shareholders the firm has lower dividend payouts. However, ultimate private controlling shareholders in general tend to be associated with higher dividend levels. We conclude that a firm's ownership and control structure affects the dividend payout policy in Finnish listed firms and that lower dividend payout levels that are associated with high control concentration suggest that there are private benefits of control that are not shared with minority shareholders.