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I. Berezinets, Y. Ilina, L. Alekseeva

**OWNERSHIP STRUCTURE AND DIVIDEND
POLICY: A STUDY OF RUSSIAN PUBLIC
COMPANIES WITH DUAL CLASS SHARES**

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Abstract: In this paper we investigate the impact of ownership structure on dividend policy. The study is based on a sample of Russian companies with dual-class shares structure over the period of 2003-2009. We explore a broad range of factors related to ownership identity. Conclusions are drawn as to the nature of the impact various owners types have on dividends paid on ordinary and preferred stock. There is an evidence that this impact differs for dividends on ordinary and preferred shares. The dividend policy pertaining to preferred shares is considerably different from the dividend policy pertaining to ordinary shares; it essentially depends on the company's performance.

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Irina Berezinets — Associate Professor, Graduate School of Management, St. Petersburg State University
e-mail: berezinets@gsom.pu.ru

Yulia Ilina — Associate Professor, Graduate School of Management, St. Petersburg State University
e-mail: jilina@gsom.pu.ru

Ludmila Alekseeva — Senior Audit Consultant,
ZAO PricewaterhouseCoopers Audit
e-mail: lyudmila.alekseeva@ru.pwc.com

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1. Agency problem and dividend policy

Correlated with the agency problem in companies, dividend policy has been the focus of finance and corporate governance studies for decades. Agency conflicts can develop in many ways, with various related parties and stakeholder groups involved – shareholders and managers, shareholders and creditors, managers and employees. Dividend decisions are an essential part of a company's financial policy and include decisions on sharing profits and free cash flow with shareholders. It is therefore evident that where a choice exists – to pay dividends or retain funds for investing in capital budgeting projects – a balanced approach to the problem must be taken in an attempt to keep the interests of various stakeholders. As one of the corporate governance mechanisms used to alleviate the principal–agent problem and reduce agency costs, ownership structure and concentration have an impact on dividend decision-making. Dividends are a perfect tool to mitigate the expropriation of minority shareholders, La Porta et al. in [La Porta et al., 2000] note, since they guarantee that payments are made to shareholders in proportion to the number of shares they hold, thus avoiding the concentration of wealth in the hands of controlling shareholders. Rozeff [Rozeff, 1982] notes that dividend payout increases external financing costs but reduces managerial opportunism costs.

Ongoing research and business practice show that a company's dividend policy does not depend solely on corporate ownership being concentrated in the hands of its major shareholders, but also that shareholder identity has an essential impact on the dividend decisions made by companies [La Porta et al. 2000; Faccio and Lang, 2001; Kouki and Guizani, 2009; Bebczuk, 2005].

On the one hand, a dividend policy that provides generous payments to shareholders reduces the free cash flow available to management that could otherwise be channeled into inefficient projects with a negative net present value (NPV) [Black, 1976]. In cases where the company is in a steady financial position, a considerable portion of the profits that could be paid as dividends is held back by management as reserves to be used in case of losses [Fudenberg, Tirole, 1995].

On the other hand, as the agency theory puts it, managers can be presumed to use dividend policy among other tools to alleviate conflicts with shareholders. Managers might not be prone to cutting dividends, but would rather keep them at a certain stable level. They would even resort to external borrowings in order to support dividend payout. Managers find the costs of such borrowings lower than the potential costs that could arise from dividend cuts [Brav et al., 2005]. Dividend payout disciplines managers who are driven by a capital market response that largely depends on the dividends paid on a company's stock. Thus, it could be argued that

dividends force managers to act for the benefit of shareholders, or the consequences could turn out to be most unfavorable for those in control of the company.¹ The works [Lang, Litzenberger, 1989; Agrawal, Jayaraman, 1994] offer evidence that dividends serve to restrain managers from inefficiently using free cash flows so that shareholder interests are guarded.

Management's commitment to minimizing agency conflicts is also implied by the findings of studies investigating the relationship between ownership structure and capital structure. Thus, the works [Leland, Pyle, 1977; Berger, Ofek, Yermack, 1997] point out that management shareholding is directly related to leverage level, hence, managers tend to increase debt and decrease equity.

A number of studies provide empirical confirmation of the hypothesis concerning the impact of insider owners on dividend policy. Researchers [Truong and Heaney, 2007; Short et al., 2002] demonstrated an inverse relationship between the share owned by a company's management, particularly by its CEO, and dividend payout rate.

In general, however, insider ownership is regarded as a way of minimizing agency conflicts [Theis, Dutta, 2009]. The entrenchment theory implies a non-linear relationship between insider share in a company and dividend payout (U-shaped relationship) [Schooley and Barney, 1994]. According to the theory, the relationship between the insider share of ownership and the amount of dividends is direct at first but turns into an inverse relationship as soon as a certain insider ownership level is achieved. Farinha [Farinha, 2005] has figured out empirically that the dependency direction changes at the point where the manager's share is equal to 30%. This evidence is justified enough. In the case of a minor insider share of ownership, high agency costs can arise from unpaid or low dividends. If insiders own a high share, however, the principal-agent problem does not manifest itself greatly, and there is much less benefit from dividend payout in terms of reducing agency costs [Rozeff, 1982]. Owners can therefore channel a good deal of funds into company growth, which represents their main interest.

At the same time, another viewpoint is also justified – if insider top managers happen to be major owners, they tend to channel profits into dividends since it helps increase their current income. This was confirmed by Dutta et al. [Dutta et al., 2004] whose studies demonstrated, using the example of bank dividend policy, that while dividends are low where insiders have a lower ownership level, dividend payout increases where the portion of shares is high.

¹ A telling example was that of Chrysler: the company faced shareholder discontent over dividend policy, which boiled over into a serious conflict in 1994–1995. Following unsuccessful attempts to persuade management to pay USD 6.6 bln in dividends, shareholder Kirk Kerkorian launched a proxy fight and attempted a takeover. Although the takeover failed, as did management deposition, the company ultimately increased its quarterly dividend rate [Lease et al., 2000].

If the impact an owner manager has on dividend payout is a well-studied area, academic literature offers much fewer studies looking at the impact of owner identity on dividend policy.

Empirical studies of the markets of Western Europe, Asia, Africa and Latin America, with their high ownership concentration [La Porta et al. 2000; Faccio and Lang, 2001; Kouki and Guizani; Bebczuk, 2005], point out that the agency problem between major and minority shareholders is no less acute than between owners and managers, and that major shareholder type can also impact dividend policy.

Maury and Pajuste [Maury and Pajuste, 2002] come to the conclusion that ownership concentrated in the hands of private investors and families leads to higher dividends in Finland. Similar conclusions are drawn by Setia-Atmaja, who studied dividend policy at Australian family-controlled companies – such firms demonstrate a higher financial leverage and dividend payout ratio than similar companies with a different ownership structure. Furthermore, studies show that the positive effect family ownership has on dividend policy derives from the higher share of independent directors found at such companies [Setia-Atmaja, 2010].² In Sweden, however, firms with private investors as the largest owners pay lower dividends, as Angeldorff and Novikov [Angeldorff, Novikov, 1999] note.

The impact of the state as major owner is ambiguous. Bradford et al. [Bradford and Zhu, 2005] found that in China, dividend-per-share value is higher where the state does not own a large share in the company, and vice versa, much lower at state-controlled companies. This is due to the fact that non-state controlled companies have much greater difficulty securing borrowed funds since banks are generally controlled by the state. As a result, such companies pay more dividends to gain a positive image and raise foreign capital. A number of authors also demonstrate that dividend payout tends to rise gradually in the case of state-controlled firms.

Studies investigating the relationship between dividend policy and institutional investors as owners have also produced controversial findings. On the one hand, with major institutional investors, who are an extra monitoring tool, dividends contribute little to reducing agency costs [Easterbrook, 1984]. On the other hand, this shareholder group can be interested in having higher dividend payout in order to enhance management monitoring by capital markets – more so if owners deem their own monitoring efforts insufficient or costly [Farinha, 2003]. Gul [Gul, 1999] believes that since state ownership is similar in nature to institutional ownership, these arguments can also be true for companies where the state is the major owner. The work by [Khan, 2006], focused on the British market, demonstrated a direct relationship between

² This observation is evidence of the crucial role played by independent directors in dividend decision-making, which, however, is beyond the scope of this study.

institutional investors' share and dividend payout. This may be due to the fact that financial institutions come under strict regulation by controlling agencies, so the parties in control of a firm are less inclined to derive private benefits of control. The dividend policy in place at bank-controlled companies is not usually intended to pay high dividends that could call the debt issue into question or pose a bankruptcy threat to the company [Gugler, 2001].

One of important trends of the last decade is that scholars became more focused on the institutional context while studying dividend policy in emerging markets [Fairchild et al., 2014]. With this respect it is worth noting that Russia institutionally could be considered as an emerging market with specific corporate governance practices. It is among countries with a low shareholders rights protection and an important role that the state plays both in economy and company's ownership structure. Therefore, dividend policy in Russia is relevant to study from the angle of various stakeholders relations: managers, minority and major shareholders.

Besides general considerations on the ownership impact on dividend payments, it should be taken into account that the very phenomena of dual-class shares structure could explain differences in dividend policies on voting and non-voting shares and specifics of the ownership effects. This is mainly due to the difference of control rights and cash flow rights that takes place in these companies, as dual class shares structure is one of the mechanisms of separation of ownership and control.

It is found, that when control rights exceed cash flow rights substantially there is an opportunity for minority shareholders rights expropriation [Bozec and Laurin, 2008; Claessens et al., 1999; Shleifer and Vishny, 1997]. Wang [Wang, 2014] explored a controlling shareholders entrenchment in Taiwan, concluding that in companies with high degree of deviation in control and cash flow rights much higher proportion of earnings is paid out as employee bonuses than as dividends. It is an indicator of expropriation of minority holders as controlling shareholders in many cases are employees of Taiwanese companies, that it they use this type of earnings distribution for their own benefit. .

High private benefits of control in Russian companies could be an indicator of control rights exceeding cash flow rights. These benefits, measured by voting premium, are derived by controlling parties to the detriment of minority shareholders [Muravyev et al., 2014]. Preferred (non-voting) shareholders are minority owners, and dividend policy may be one of mechanisms of expropriation minority holders of non-voting stocks by ordinary shareholders.

Given the controversial findings of the studies, the speculative nature of the issue, i.e. the impact of ownership structure on a company's dividend policy, and the virtual absence of such

research in Russia, the study of the impact owner types have on dividend payout could make a contribution to existing research in this field. .

2. Literature review and hypotheses

A close look should be taken at the types of major owners having an impact on dividend policy. Based on various classification criteria, studies use the following owner types: families and individual private investors, managers, boards of directors, non-financial companies, financial institutions, state, foreign investors, and offshore companies. Since families and individuals are not usually among major investors in Russia, the authors have not given separate consideration to the impact of these investor categories on dividend payout.

Foreign investors. Maury and Pajuste [Maury and Pajuste, 2002] point out a direct relationship between the percentage of ordinary shares of foreign investors and dividend payout ratio. Bokpin [Bokpin, 2011] also revealed a direct relationship between foreign investors' share of ownership and dividend payout based on a sample of Ghanaian companies where this owner type share in public companies averages approximately 32%. Baba [Baba, 2009] investigated the effects of increasing foreign ownership in Japanese companies on dividend policy. Among his findings is that higher level of foreign ownership is related to higher probability of dividend payments. Kumar [Kumar, 2003], however, found no evidence of such a relationship for Indian companies where the share of foreigners is also high.

On the Russian market, foreign investors can also prefer dividends to capital gains because of specific tax treatment. This assumption relies on the difference between taxation on dividends and capital gains for non-resident investors. The Russian dividend income tax rate is 15% for non-resident legal entities and individuals. The income tax rate is 20% for non-resident legal entities and 30% for non-resident individuals³. Since there are no non-resident individuals listed among major company owners in the sample, the percentage of ordinary shares of foreign investors is assumed to have direct relationship with dividend payout ratio due to the lower taxation of dividends.

Hypothesis 1. An increase in the percentage of ordinary shares held by foreign investors will increase dividend payout ratio.

Offshore companies. As of recent years, a considerable share in Russian firms has been owned by companies incorporated in offshore zones: the Republic of Cyprus, British Virgin Islands, Republic of Malta, Principality of Monaco, etc. According to the Russian Statistics Committee, investments in the economies of Cyprus, the Netherlands, Switzerland, and the

³ The Tax Code of the Russian Federation, Part 1, 1998, Articles 214, 224, and 284. Available at: <http://www.consultant.ru/online/base/?req=doc;base=LAW;n=108642>.

Virgin Islands accounted for about a half of all of Russia's investments accumulated abroad in the first six months of 2010 [How much funds..., 2010].

Offshore companies, offshore holding companies in particular, are known to be widely used for the purposes of tax sheltering. Where dividends and interest are paid or other payments made by a Russian company in favor of persons incorporated in a region that has no double taxation convention with Russia, or if payments are made by such firms to a Russian company, the income is subject to two taxes: a corporate tax and, for example, a dividend income tax. There are, however, a number of countries with which Russia has concluded a double taxation convention, such as Cyprus, the United Kingdom, Switzerland, the Netherlands; and offshore zones typically have either no taxes or preferential tax rates. In the British Virgin Islands, for example, there is but one registration fee instead of all taxes, which is about one thousand US dollars [Offshore tax amounts, 2011]. Therefore, a company has virtually no tax burden.

Since Russian companies can use dividends in order to transfer funds abroad, it can be assumed that higher dividends are paid where ownership structure includes offshore companies.

Thus, when transferring dividends to an offshore company, incorporated e.g. in the British Virgin Islands where no taxation is used, a Russian company must withhold only 15% of the amount in accordance with the Tax Code of the Russian Federation, Article 284, Section 3, Subsection 2. It can therefore be more advantageous for a Russian company to transfer funds to an offshore owner for its services, allowing it to decrease its income tax base in Russia, manage assets more efficiently, and lower loan interest and royalty taxation. Most transactions can be carried out confidentially. Thus, Russian firms with offshore companies among their shareholders can pay lower dividends in order to transfer funds to offshore zones and pursue tax sheltering.

There are therefore various positions as to dividend policy at companies owned by offshore firms, making it challenging to test the hypothesis that this owner type has an impact on dividend policy.

Hypothesis 2. If a company has an offshore shareholder holding at least 15% of ordinary shares, the company will have lower dividends.

Under this and subsequent hypotheses, the minimum share owned by one of the largest shareholders of a certain type is assumed to be 15%. A number of foreign studies, e.g. [Maury and Pajuste, 2002; Farinha, 2005], refer to a major holding as a holding of at least 20% of ordinary shares. For the Russian market, however, we believe it is possible to define a major holding as a share of at least 15% since with this portion of shares, a shareholder gains significant rights when forming a board of directors. According to Russian corporate legislation,

a holding of 15% of shares can virtually guarantee that its owner will have a representative of its own on the board of directors. The board of directors must have at least 7 members in an open joint-stock company with more than 1,000 shareholders and at least 9 members with more than 10,000 shareholders⁴. Consequently, a shareholder needs to have about 14.21% of the votes to get its representative on the board of directors in the first case and about 11.1% in the second case. Thus, a 15% shareholding allows its owner to influence the decisions taken by the board of directors – including those concerning dividend policy.

Non-financial companies and financial institutions. A long and ongoing dividend payout history is a reliable indicator of a company's capacity to earn a steady income and create value for shareholders; hence, these figures are used when deciding where to invest. It should be noted, however, that financial institutions are more interested in stability and steady growth of dividends, bringing in a higher stock value, than in high dividends amid volatile share-price fluctuations [Brealey, Myers, 2003]. The hypothesis that institutional investors' share is directly related to dividend amount was confirmed on the British market [Khan, 2006]. The work by [Abdelsalam, El-Masry, Elsegini, 2008] also concluded that companies with institutional investors among their largest shareholders are more prone to pay dividends. At the same time in [Dahlquist et al., 2014] the authors tested the dividend tax clientele hypothesis on Swedish public companies and concluded that investment funds who have higher effective tax rate on dividend income than on capital gains, are reluctant to invest in dividend-paying stocks. Other institutional investors, e.g. life insurance companies and pension funds, are tax neutral between dividends and capital gains. For Russian companies the tax rate on dividend income is lower (9%) than the tax on capital gains (20%). Therefore we assume the direct relationship between institutional shareholding and dividend payout.

Hypothesis 3. If a financial institution holds at least 15% of the ordinary shares, the company will have a higher dividend payout.

Based on taxation considerations about the difference in taxation of dividends and capital gains mentioned above, it can be proposed that Russian non-financial companies will also prefer higher dividends. However, according to some studies [Khan, 2006; Maury and Pajuste, 2002], corporate investors vote for lower dividends on average, i.e. the percentage of ordinary shares in the hands of a Russian non-financial company is inversely related to dividend payout ratio. This could be explained by the fact that companies can derive more benefits from retaining earnings and reinvesting in company's growth, than from receiving current dividend income. For

⁴ Federal Law On Joint-Stock Companies dated 26 December 1995 No. 208-FZ, Article 66, Section 3. Available at: <http://www.consultant.ru/online/base/?req=doc;base=LAW;n=105420>.

example, according to results obtained in [Dahlquist et al., 2014], Swedish private corporations prefer growth stocks to dividend-paying stocks. Alternative explanation for this preference of non-financial corporations is that earnings reinvestment can bring more value to them, as investors in the future, creating opportunities to generate more free flows.

Hypothesis 4. If a Russian non-financial company holds at least 15% of the ordinary shares, the company will have a lower dividend payout.

State. International studies offer evidence of the ambiguous impact that a state has on dividend decision-making as a shareholder. Gugler [Gugler, 2001], for example, points out that the principal–agent conflict of interest is much greater at state-controlled companies. According to Russian studies there is a direct relationship between ownership concentration in state hands and dividend payout ratio in Russia, since dividends are a significant source of government income. The state managed to considerably increase budget revenues from dividends since 1990-s. It is also noted that dividend revenues were mainly contributed to by companies operating in the fuel-and-energy sector and by joint-stock companies with more than a 25% share owned by the state. Wei et al. [Wei et al., 2004] reveal their findings after studying Chinese public companies and also arrive at the conclusion that companies with a large share of state ownership have higher dividends, adding however that it concerns cash dividends only (while privately-owned companies typically pay stock dividends). Bradford et al. [Bradford et al., 2013] came to similar conclusion that state-controlled public firms in China pay higher dividends, than privately-controlled firms mainly because of capital constraints of the latter. Non-state owned enterprises in China have less opportunities of attracting capital, both debt and equity, than state-owned companies. And government plays extremely important role in company’s dividend decisions.

The role of the state as a major owner and its participation in a dividend policy development can differ substantially from those of other shareholders.⁵The state established a minimum percentage of net earnings to be paid as dividends at state-owned companies,

⁵ The state essentially participates in the management of a joint-stock company by: 1) exercising its rights as a shareholder in an open joint-stock company, which is the main pattern of exercising its rights; 2) representing the state on the board of directors of a joint-stock company; 3) participating in company management by exercising its special “golden share” right. This study’s sample does not include any companies where the state has a “golden share” right, so this phenomenon is not considered in detail.

Another way for the state to participate in a joint-stock company is to participate indirectly through parent companies in which the Russian Federation or government bodies are the majority shareholders. Such a participation pattern is very common. It is, however, difficult in such cases to ensure that the state participates in the management of subsidiaries through its representatives in the parent company’s governing bodies. This is due to the fact that only critical issues related to the activities of subsidiaries are submitted for consideration to the parent company’s board of directors or shareholders’ general meeting. As a result, most decisions at subsidiaries and affiliates cannot be directly controlled by the state. Similar consequences arise when the state’s share holdings are transferred to state corporations [Vinnitsky, 2009].

accounting for 25% as a dividend payout ratio. As dividend income is an important part of the state budget, it can therefore be assumed that the state will demand higher dividend payout as a major owner.

Hypothesis 5. If a state holds at least 15% of a company's chartered capital, the amount of dividends paid will increase.

Insiders. Following the authors [Jensen, Solberg, Zorn, 1992], for the purposes of this study, insiders are members of a company's board of directors, board chairman, and chief executive officer (CEO) as its executive body.

Mauri and Pajuste [Maury, Pajuste, 2002] found that companies with CEOs who hold a large portion of company's share have a much lower dividend payout ratio than those with a low percentage of ordinary shares in the hands of the CEO. This argument proves that top managers can use the entrenchment strategy and derive benefits for themselves instead of paying dividends to shareholders, which is also stated by other researchers [Truong and Heaney, 2007; Short et al., 2002].

As such, a company's dividend policy is based on its financial performance results and decisions made by corporate executive and governance bodies: shareholders' general meeting, board of directors, and CEO. It should be noted that, according to the agency theory, the interests of the board of directors and CEO can contradict those of the company's outside shareholders. The CEO controls daily operations together with management and enjoys tremendous opportunities to derive her own benefit from making decisions unless such actions contravene the law and/or the company's charter. Moreover, it is the CEO who presents the proposal on profits distribution to the board of directors. The board of directors, in turn, maintains overall control of the company and makes decisions on all of its activities except those issues within the competence of the shareholders' general meeting. The board of directors is in charge of forming the company's executive bodies and makes recommendations regarding the amount of dividends on shares and the terms and conditions of dividend payments, i.e. it also has a significant impact on dividend policy as the main body meant to protect shareholders' rights. Although the final decision regarding dividend payments is made by the shareholders' general meeting, the board of directors and CEO play an essential role in generating financial performance results that influence dividend payments, and producing recommendations as to the optimum amount of dividends. In accordance with the Federal Law On Joint-Stock Companies, dividends payments must not exceed the amount recommended by the board of directors.

Taxation of dividends is more beneficial for board members and top-managers holding company's shares than other forms of payments: while the dividend tax rate is 9%, the income tax rate for individuals is 13%.

Hypothesis 6. An increase in the insiders' share in chartered capital will lead to an increase in the amount of dividend payments.

3. Methodology

Following the research [Alexeeva, Berezinets, Ilina, 2014], the econometric study, conducted to investigate the impact of ownership structure on the dividend policy of Russian companies with dual class shares structure, was based on the regression model (1):

$$Div_Payout_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Y_{it} + \beta_3 Z_{it} + \beta_4 \chi_{it} + u_{it}, \quad i=1, \dots, n; t=1, \dots, T. \quad (1)$$

The dependent variable Div_Payout_{it} is a variable of the dividend payout ratio at company i at time t . In equation (1), X_{it} is a vector of variables representing the concentration of ordinary shares in the hands of the company's shareholders; Y_{it} is a vector of variables representing the type of the company's largest shareholders; Z_{it} is a variable standing for the largest shareholder's holding structure; χ_{it} is a vector of variables standing for the company's financial and operating performance; u_{it} is a random variable. All vectors and variables have the subscript it indicating that this information is measured for each company i at time t . The regression model also includes: β_0 as an unknown scalar value, $\beta_1, \beta_2, \dots, \beta_4$ as vectors of unknown coefficients. Note that this model is linear based in terms of its parameters, though the vectors of its variables include linear and non-linear components.

4. Data and sample

This study's sample includes companies with dual class shares structure listed on Russia's RTS stock exchange for the period 2003-2009. The final panel included 598 observations. Companies had to meet the following criteria to be included in the sample: both share types were simultaneously traded on RTS and dividends were paid in cash. Required data on the company's ownership structure and dividend payout were obtained from the quarterly reports of the issuing companies. SKRIN and SPARK databases were used to acquire information on financial and operating performance, ownership concentration, type of largest owners, amount of dividends, and other data on issuing companies.

Table 1 describes the variables used in regression analysis.

Table 1. Basic variables used in the regression analysis

Variable	Definition
Dependent variables	
<i>Div_Payout</i>	The aggregate dividend payout ratio, the variable characterizing the company's dividend policy. <i>Div_Payout</i> value is calculated as the ratio of the sum of dividends actually paid on both classes of shares during the year to the firm's net profit following the results of the year when the dividends were paid
<i>Ord_Payout</i>	Dividend payout on ordinary shares; calculated as the ratio of the amount of dividends actually paid on ordinary shares during the year to the firm's net profit following the results of the year when the dividends were paid
<i>Pref_Payout</i>	Dividend payout on preferred shares; calculated as the ratio of the amount of dividends actually paid on preferred shares during the year to the firm's net profit following the results of the year when the dividends were paid
Independent variables	
Variables included in vector Y	
<i>Foreign</i>	The percentage of ordinary shares owned by non-residents of Russia except shares owned by shareholders incorporated in offshore zones.
<i>Offshore</i>	The percentage of ordinary shares owned by companies incorporated in offshore zones.
<i>State_share</i>	State's share in an issuing company's chartered capital.
<i>Offshore(d)</i>	Binary variable whose value is equal to 1 if the company has an offshore company with at least 15% of ordinary shares among its shareholders and is equal to 0 if it does not.
<i>State(d)</i>	Binary variable whose value is equal to 1 if the state holds at least 15% of ordinary shares and is equal to 0 if it does not.
<i>Fin_inst(d)</i>	Binary variable whose value is equal to 1 if a company has a financial institution with at least 15% of ordinary shares among its shareholders and is equal to 0 if it does not.
<i>Corp(d)</i>	Binary variable whose value is equal to 1 if a company has a non-financial Russian company with at least 15% of ordinary shares among its shareholders and is equal to 0 if it does not.
<i>Nominal(d)</i>	Binary variable of the concentration of ordinary shares in the hands of a nominee shareholder who represents an ultimate beneficiary, whose name (title) is not disclosed. The variable's value is equal to 1 if a company has a nominee holder with at least 15% of ordinary shares reported among its shareholders (but there is no information on ultimate shareholders) and is equal to 0, if it does not.
Variables included in vector W	
<i>CEO_share</i>	CEO's share in the issuing company's chartered capital.
<i>PSD_share</i>	Share of the Board chairman in the issuing company's chartered capital.
<i>BD_share</i>	Share of all board members in the issuing company's chartered capital (except the chairman's share).
Variables included in vector χ	
<i>Size</i>	Company size, measured as the natural logarithm of sales
<i>ROA</i>	Return on assets.
<i>Leverage</i>	Debt to equity ratio.

Table 2 provides descriptive statistics of the variables used in the econometric analysis.

Table 2. Descriptive statistics

Variable	Average	Standard deviation	Minimum	Maximum
Div_Payout	0.311	0.681	0	1.934
Ord_Payout	0.236	0.606	0	2.901
Pref_Payout	0.078	0.099	0	0.982
Foreign	0.029	0.110	0	0.957
Offshore	0.116	0.632	0	15.072
State_share	0.027	0.092	0	0.306
CEO_share	0.001	0.008	0	0.027
PSD_share	0.001	0.008	0	0.025
BD_share	0.002	0.014	0	0.044
Size	22.736	1.627	16	27.63
Leverage	201.167	711.693	0	2336.27
ROA	5.944	11.181	0	39.487

The obtained results showed the following average percentages of ordinary shares for each type of owners whose impact on dividend policy is covered by the study: for offshore companies – 11.6%, foreign investors – 2.9%, direct state participation – 2.7%; share in chartered capital held by the CEO – 0.1%, the board of directors – 0.2%, the chairman of the board – 0.1%.

Table 3. Percentage of companies in which certain owner types hold at least 15% of ordinary shares

Variable	Percentage
Corp(d)	0.84
Offshore(d)	0.17
Fin_inst(d)	0.18
State(d)	0.07
Nominal(d)	0.11

As evident from Table 3, there is a corporation with at least 15% of ordinary shares among a company's owners in 84 observations out of 100. Financial institutions hold at least 15% of ordinary shares in 18 percent of observations; the state owns at least 15% of ordinary shares in 7 percent of observations; and offshore companies in 17 percent of observations. In 11 percent of observations, the type of the largest owners with over 15% of ordinary shares could not be identified due to the nominee holders reported.

The charts below illustrate how the ownership structure of companies changed over the specified period. Yearly changes in the average shareholding of the owners covered by the study are presented in Fig.1 and Fig. 2.

Fig.1. Dynamics of average shareholding by the type of owner for the period 2003-2009

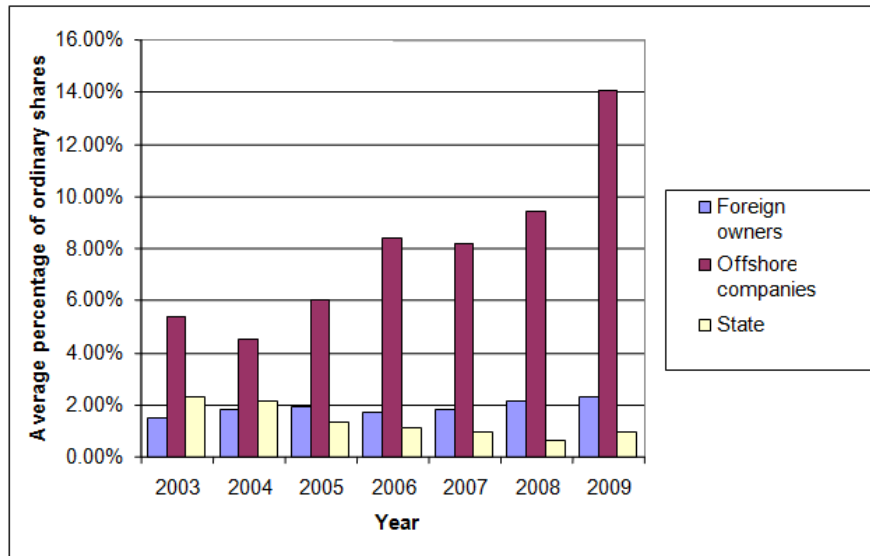
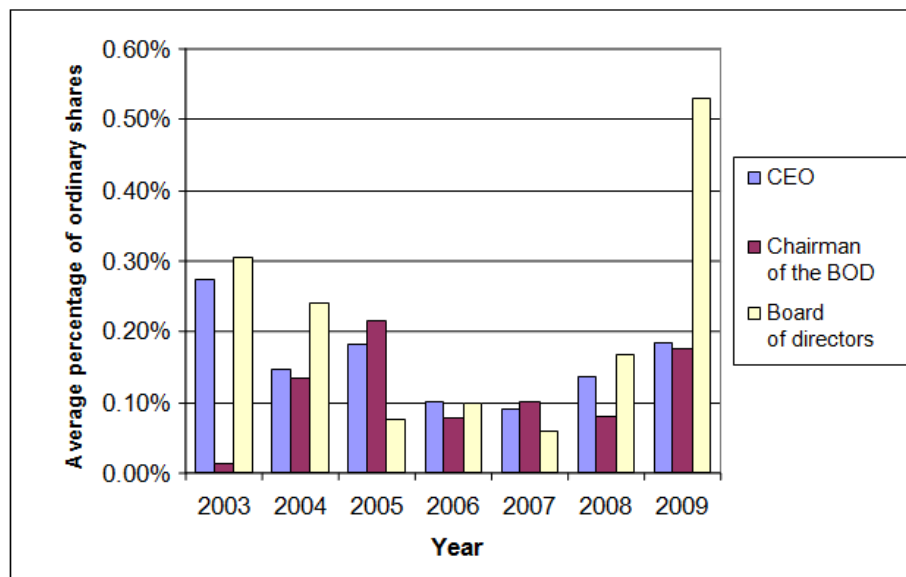


Fig.2. Dynamics of insiders' shareholding for the period 2003-2009



As one can see, companies' ownership structure changed significantly over the period studied. Note that such an owner as offshore company is rarely considered in foreign studies and that offshore companies having a large portion of ordinary shares is specific to the Russian market. All of the above led to the suggestion that, referring to the impact of owner identity on dividend decisions, the state, offshore companies, and non-state companies would have the greatest impact on decision-making process in Russian firms.

5. Regression analysis results

Table 4 below shows the results of the regression analysis, aimed at testing the hypotheses of major owners' identity impact on dividend policy. The table includes estimated ratios of model equations with various specifications of the variables indicating the share owned by foreign owners, offshore companies, Russian non-financial companies, financial institutions, and the state, or whether they are among the major owners.

As already noted in the description of variables above, three dividend payout ratios were used as dependent variables: total dividend payout ratio for both share types (*Div_Payout*), for ordinary shares (*Ord_Payout*), and for preferred shares (*Pref_Payout*).

Since the model evaluation was based on panel data, pooled OLS, fixed effects, and random effects models were tested. Testing revealed that the fixed effects model is the most appropriate to describe the empirical data.

Table 4 suggests the conclusion that all of the models, except those in columns (3), (8), (12), (13) and (15), are statistically significant.

Note that none of the variables indicating the percentage of ordinary shares held by various owner types proved significant in the *Pref_Payout* model.

We believe that this finding is justified. Dividend payments on preferred shares could be considered as obligatory payments for a company, despite the absence of the legal requirement. Shareholders gain a voting right in case of the non-payment of dividends. Moreover, the non-payment or incomplete payment of dividends can decrease the value of shares and become an obstacle to attracting financing through this source in the future. These considerations, which are a priori for all owners, place preferred shares in a special position in relation to dividend policy. And shareholders owning ordinary shares can hardly have a significant impact on dividend payout decisions as far as preferred shares are concerned.

Further discussion of significant variables will therefore be held for the models with the total dividend payout ratio *Div_Payout* and ordinary share dividend payout ratio *Ord_Payout* used as dependent variables. The variable *Offshore*, indicating the percentage of ordinary shares of offshore companies, is significant in both the models, with the estimated coefficient for the variable *Offshore* expectedly negative. The variable *Fin_inst(d)*, indicating whether a company has a financial institution with at least 15% of ordinary shares among its shareholders, is also significant in both of the models. The variable's estimated coefficient, however, is opposite in sign to what we expected. The binary variable *Offshore(d)*, indicating whether a company has an offshore company with at least 15% of ordinary shares among its owners, is significant in the

model with *Ord_Payout* as a dependent variable. The estimated coefficient for the variable is negative, as expected.

Contrary to the assumption that dividend payout ratio is related to the percentage of ordinary shares of foreign owners *Foreign* and the percentage of ordinary shares of the state *State_share*, no statistically-significant relationship between these variables was revealed. The variable models, indicating whether a company's shareholders include Russian non-financial companies *Corp(d)*, the state *State(d)*, offshore companies *Offshore(d)*, and nominee holders *Nominal(d)* with at least 15% of ordinary shares, also proved insignificant. Significant variables, representing the impact of shareholding of various owner types on dividend payout ratio, are to be considered further (Table 4).

The inverse relationship between the percentage of ordinary shares of offshore companies *Offshore* and the dividend payout ratios for both the share types was supposed. *Div_Payout* and ordinary shares *Ord_Payout* was revealed to be statistically significant (columns (1), (2), (6), (7)). This result confirms the hypothesis that Russian corporations can use offshore companies to transfer funds to tax havens, use offshore loans and make other transactions related to tax sheltering and asset management, resulting in lower dividend payout on ordinary shares. Furthermore, the significant relationship between the binary variable *Offshore(d)* and the ordinary share dividend payout ratio *Ord_Payout* (columns (9), (10)) indicates that the ordinary share dividend payout ratio is 8.8 to 9.1% lower at companies that have an offshore owner with at least 15% of ordinary shares as a shareholder than at companies without such a shareholder.

Since the inverse relationship between the amount of dividends on both share types (as well as on ordinary shares) and a company's having a financial institution with at least 15% of ordinary shares among its owners *Fin_inst(d)* was revealed to be significant (columns (4), (5), (9), (10)), it can be stated that companies having a financial institution as one of the major owners pay, on average, 8 to 11% less net income as dividends on both share types and 7 to 8% less dividends on ordinary shares than companies without such a shareholder.

Table 4. Econometric analysis results

Dividend payout ratio															
Ratio type	Div_Payout					Ord_Payout					Pref_Payout				
Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Foreign	-0.159	-0.171	-0.577			-0.154	-0.161	-0.555			-0.035	-0.043	-0.032		
Offshore	-0.618***	-0.599**	-0.166			-0.361**	-0.369**	-0.137			-0.062	-0.055	0.016		
State_share	-0.020	0.009	-0.561			0.027	-0.043	-0.623			0.025	0.017	0.036		
Foreign^2			1.024					1.039					-0.037		
Offshore^2			-1.100					-0.589					-0.173		
State_share^2			1.740					2.012					-0.109		
Offshore(d)				-0.065	-0.072				-0.088*	-0.091*				-0.013	-0.012
Corp(d)				0.068	0.050				0.056	0.049				0.007	0.004
Fin_inst(d)				-0.077*	-0.107**				-0.072**	-0.081**				-0.010	-0.011
State(d)				-0.017	-0.049				-0.025	-0.051				0.011	0.010
Nominal(d)				0.073	0.062				0.050	0.038				0.011	0.010
CEO_share		-1.748	24.345		24.387		11.263	28.191		30.541		1.538	2.473		1.443
PSD_share		1.299	21.889		28.810		0.921	18.584		25.144		-0.373	2.195		2.334
BD_share		-1.984	-1.566		-4.393		-2.647	-1.311		-3.667		-0.822	-0.681		-0.571
CEO_share^2			-2726.0		-2673.6			-1815.660		-1994.594			-102.921		-15.902
PSD_share^2			-1417.1		-1508.2			-1213.621		-1340.872			-165.080		-147.572
BD_share^2			-56.131		0.560			-68.001		-33.760			-10.610		-12.273
Size	0.073**	0.075*	0.069	0.076**	0.077*	0.082**	0.085**	0.079**	0.082***	0.083**	0.021***	0.023	0.023	0.022***	0.023
Leverage	-0.0002**	-0.000	-0.000	-0.0002***	-0.0002**	-0.0001	-0.0001	-0.0001	-0.0001*	-0.0001*	-0.00002*	0.000	0.000	-0.00002*	0.000
ROA	-0.006	-0.005**	-0.005	-0.006**	-0.005**	-0.004*	-0.004*	-0.003*	-0.004**	-0.003*	0.000	0.000	0.000	-0.001	0.000
Cons	-1.242	-1.285	-1.176	-1.415	-1.399	-1.575**	-1.651**	-1.525*	-1.631**	-1.663**	-0.401**	-0.436	-0.446	-0.418***	-0.449
R ²	0.0002	0.0005	0.001	0.0084	0.0052	0.0004	0.0008	0.0015	0.005	0.005	0.0001	0.001	0.0003	0.0002	0.0001
p-value	0.0049	0.0618	0.1676	0.0043	0.0482	0.0247	0.0686	0.1761	0.0019	0.015	0.0289	0.1176	0.4472	0.0252	0.2146
N	536	523	523	560	547	528	492	492	506	492	522	488	488	499	488

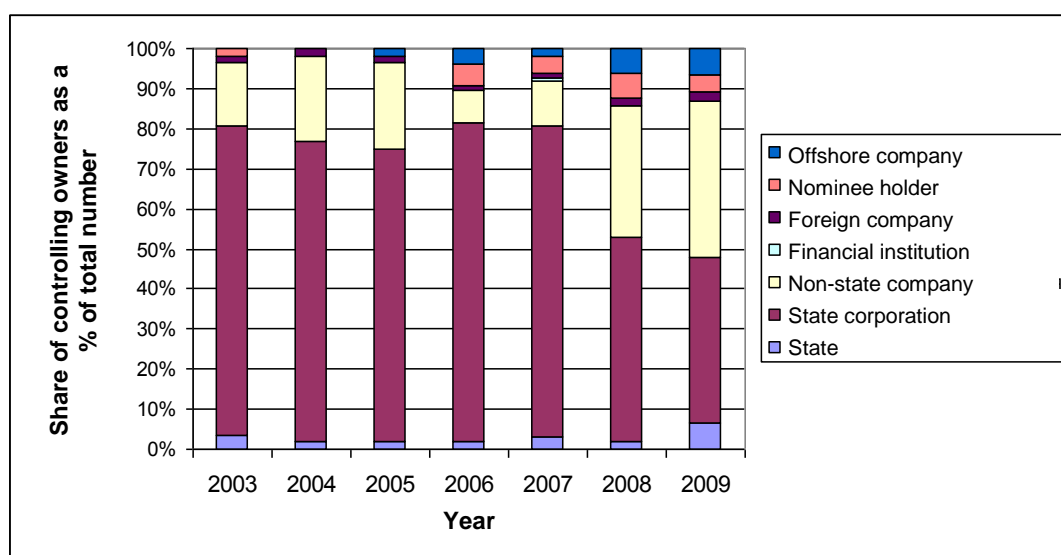
Note: characters *, ** and *** denote variables significant at the 10%, 5% and 1% level respectively.

We cannot fail to discuss why the variable *State_Share*, representing the state's share in a company, turned out to be insignificant to dividend payout ratio. For the purposes of the study, we used data on the state's *direct* participation in a company when calculating the values of the variable *State_Share*. However, additional analysis of the identity of controlling shareholders revealed the considerable share of the state's indirect participation in a company. Based on the analysis, about 74% of controlling owners in the sample on average represent the state directly (in 3% of observations) or state corporations (in 71% of observations) that prefer a higher dividend payout level as one of the most important income sources for the budget. Table 5 and Fig. 3 illustrate the distribution of controlling shareholders by type.

Table 5. Controlling shareholder types in sample companies

Year	Controlling shareholder type							TO TAL
	State	State corporation	Non-state company	Financial institution	Foreign company	Nominee holder	Offshore company	
2003	2	44	9	0	1	1	0	57
2004	1	42	12	0	1	0	0	56
2005	1	41	12	0	1	0	1	56
2006	2	85	9	0	1	6	4	107
2007	3	76	11	1	1	4	2	98
2008	1	25	16	0	1	3	3	49
2009	3	19	18	0	1	2	3	46
Total	13	332	87	1	7	16	13	469
Share	2.77%	70.79%	18.55%	0.21%	1.49%	3.41%	2.77%	100%

Fig.3 Distribution of controlling owners' share by type



As it was already noticed Russian companies tend to register holdings of shares under a nominee holder, i.e. institutional investors and other authorized institutions. This fact is specific to Russia and such a form of ownership is permitted by Russian law. Besides, shares are often held through subsidiaries. All of that makes it difficult to analyze ownership structure because it can hardly be determined who is an ultimate beneficiary of a company's shares.

As is evident from Table 5 and Fig.3, the state holds the largest share, mainly through state corporations.

As our analysis showed, the state's share in companies' capital was decreasing amid the crisis of 2008–2009. This may be due to the fact that the state was gradually divesting some assets, which was most probably triggered by the financial crisis, for the state was in need of extra funds. With the state's share decreasing over said period, the share of non-state companies from the non-financial sector, which were ostensibly to become efficient owners of major holdings of shares, began growing. The share of offshore companies also grew, which is generally due to the increasing role of offshore companies in Russian corporations. Unlike in countries with the German-Japanese model of corporate governance, where banks and financial industrial groups hold the major share in a company's capital, and unlike in the USA, where institutional investors play a major role on the capital market and have major holdings of shares, financial institutions in Russia do not own a major share in a company's capital.

Speaking of the variables standing for a company's financial and operating performance, they are significant in most of the models where either the dividend payout ratio on both the share types *Div_Payout* or the dividend payout ratio on ordinary shares *Ord_Payout* is used. As expected, the dividend payout ratio is directly related to a company's size and inversely related to financial leverage. The coefficient of the ROA variable is opposite in sign to what we expected – based on the regression analysis, the ROA is inversely related to dividend payout ratio. The estimated coefficients preceding said variables retain their sign in all of the models.

Unlike the results for *Div_Payout* and *Ord_Payout*, out of financial and operating indicators, a company's size and financial leverage have a significant impact on the preferred share dividend payout *Pref_Payout*, whereas the variable *ROI* is insignificant in the models. Hence, it can be concluded that the higher a company's revenue, the more dividends on preferred shares will be paid on average; and the higher the financial leverage, the fewer dividends on preferred shares will be paid on average. No statistically-significant relationship was revealed between *Pref_Payout* and return on assets.

The obtained results lead to the suggestion that the nature of the relationship between ownership structure factors and ordinary share dividend payout ratio is similar to that of the relationship between these factors and total dividend payout ratio.

The dividend policy pertaining to preferred shares is considerably different from the dividend policy pertaining to ordinary shares or both share types; it essentially depends on the company's performance.

6. Conclusions

The findings of studies, as conducted by many authors, point to the fact that not only do major shareholders have an impact on dividend policy, but also that the nature of the impact varies with shareholder type [La Porta et al. 2000; Faccio and Lang, 2001; Kouki and Guizani, 2008; Bebczuk, 2005]. Following the authors, who studied the impact of ownership structure on dividend policy, we, in this work, tested the assumptions that foreign owners, offshore companies, the state, Russian non-financial companies, financial institutions, and insiders with a share in a company's capital will have different impacts on dividend payout due to the agent conflict or differences in taxation between dividend income and capital gains.

One of the important conclusions that can be drawn from the study is that dividends on ordinary shares dominate dividend payout behavior. By reviewing companies with two share types, the authors expected to reveal some specific impact of ownership structure on dividend policy for ordinary and preferred shares. The situation, however, is such that the discussion of dividend policy itself, with its possible variations and preferences of various stakeholders, comes down to payments on ordinary shares, which is probably due to the considerable difference in shareholder rights with ordinary shareholders enjoying rights that allow them to gain control of a company, whereas dividends on preferred shares are essentially regarded as a company's debt. As far as payments on preferred shares are concerned, no impact of key stakeholders is observed and the conclusion can be made that all decisions on preferred shares had already been made as these shares were issued. The only thing a company must do in its current operations is to maintain the status of these shares and satisfy the interests of its shareholders, whose only possible right is a cash flow right.

Furthermore, the conclusions drawn from the analysis demonstrate a situation uncharacteristic of many foreign countries: while, on many markets, statistically-significant relationships were revealed between ownership concentration in the hands of various major owners, corporate governance factors and the dividend payout ratio on various markets, many such relationships have not been confirmed for the Russian market. These findings can notably be due to the fact that many Russian companies still do not have a clear-cut dividend policy. Their decisions in

this field can be conditioned on the intention to derive private benefits of control, dividend payout levels as required by law, commitment to maintain a company's image in order to attract financing, adaptation to varying market conditions, etc. This influences dividend policy development and the amount of dividends in different ways. It should be noted, however, that the conducted analysis allowed us to reveal important regularities in the dividend policy of Russian companies.

For example, there is a statistically-significant relationship between key financial and operating performance indicators and dividend payout ratio, as is the case on the foreign markets. The percentage of ordinary shares of major shareholders also has a significant impact on dividend policy related to ordinary shares. Out of the major shareholder types considered in the study, an inverse relationship has only been revealed between the percentage of ordinary shares of offshore companies, as well as a financial institution's having at least 15% of ordinary shares, and dividend payout ratio.

Consequently, an increase in the percentage of ordinary shares held by offshore companies will lead to a decrease in dividend payout ratio. The impact of offshore companies on the amount of dividend payments has not been considered in the foreign studies of the impact of ownership structure on dividend policy, since offshore companies have an insignificant share in foreign businesses and offshore companies do not play such a critical role in the economy of foreign countries, especially on developed markets. This contributing factor was included in the study of the dividend policy of Russian companies with the intention of reflecting the specific nature of Russian business where the share of offshore companies is still very high. The results of the study support the conclusion that it can be more beneficial for a Russian company to transfer funds to offshore zones, thereby decreasing its income tax base in Russia, manage assets more efficiently, and lower loan interest and royalty taxation.

Besides, an inverse relationship has been revealed between the dividend payout ratios for both share types and ordinary shares and a company's having a financial institution with at least 15% of ordinary shares. Consequently, companies having a financial institution among its large owners, pay, on average, 8 to 11% less net income as dividends on both share types and 7 to 8% less dividends on ordinary shares as compared to companies without such a shareholder. This finding allows rejecting the hypothesis made earlier regarding the direction of the relationship between these variables. According to the theory, however, financial institutions are more interested in stability and the gradual growth of dividends, bringing in a higher stock value, than in high dividends amid volatile share price fluctuations [Brealey, Myers, 2003]. High share liquidity also contributes to financial institutions' decision-making.

It can therefore be assumed that companies in which financial institutions invest have more stable dividend payments and a lower dividend payout ratio

Based on the obtained results, it can be concluded that the nature of the impact ownership structure factors have on dividend policy pertaining to ordinary shares is generally the same as that of the impact these factors have on dividends paid on both share types. Unlike the policy pertaining to both share types and ordinary shares, dividend policy pertaining to preferred shares essentially depends on a company's performance. The obtained results therefore confirm that preferred shares are very close to a company's debt in this respect.

The article [Alekseeva, Berezinets, Ilina, 2014] and this paper show the results of the study that covered Russian companies with two classes of shares in Russia, for which ownership concentration and structure influencing a company's dividend policy were revealed and analyzed. The conclusions presented in the study are consistent, to a certain extent, with the findings of foreign studies, yet there are also a number of specific characteristics owing to the special status of the two share types in Russia, the specific rights conferred thereby, specific ownership structure in Russia, the roles of various owner types at companies, and finally owners' preferences as to using dividend policy as a mechanism of mitigating the agency problem.

One of the most important conclusions yielded by the study, which is new to the field, is that the ownership concentration and structure, being one of the major corporate governance mechanisms, have virtually no impact on dividend policy pertaining to non-voting (preferred) shares, which is another proof of the special role played by dividend policy in corporate governance as a way of alleviating agency conflicts. It would be important in further studies of this issue to consider other factors of corporate governance that could impact a dividend policy in companies issuing voting and non-voting shares.

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