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## THE IMPACT OF FOREIGN STOCKHOLDERS ON THE DIVIDEND POLICY OF RUSSIAN COMPANIES



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### Abstract

**Importance** In this article, we consider the dependence of dividend payments of Russian companies on foreign shareholders, and the dividend policy of Russian companies.

**Objectives** The research determines the correlation of the presence of foreign investors among shareholders and the dividend policy in Russia.

**Methods** The correlation was studied through the logit model for binary variables and the least squares method. The empirical underpinning consists of data on 122 largest Russian listed companies.

**Results** The main hypothesis of a direct correlation of dividends and the presence of foreign stockholders has not been confirmed. The study verifies an inverse correlation of dividend payments and the presence of foreign shareholders.

**Conclusions and Relevance** Nowadays Russia is not an attractive country for foreign investments due to the unstable economic situation and political relations with other countries. The findings can be useful for managers of the Russian companies to study benefits of foreign shareholding, and investors who are interested in Russia to be an actor of the world economy.

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Globalization and business focus on transparency for foreign investors has become a noticeable trend in the contemporary market for the recent decades. Therefore, foreign investment thrives worldwide.

However, while corporations grow and position new investment opportunities, foreign investors come across geographical issues, lingual and cultural barriers, thus suffering from limited access to respective information unlike local investors.

Furthermore, many emerging economies, including Russia, generally provide little protection to minority

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investors. It influences foreign investors' behavior as they stand for their interests.

How much, indeed, do foreign investors influence the dividend policy of a company?

Being shattered by the national and global crisis, Russia has been subsiding as a potential target for investors for the recent years. Furthermore, the Western sanctions obstruct foreign investments in the Russian companies. Few foreign residents hold shares in the Russian companies due to political and diplomatic tensions and distinctive development since Russia has been undiscovered land for the Western businessmen for a long time.

Foreign shareholding has become a talking point in different countries. The issue is of special interest for the Chinese market [1, 2]. As studies reveal, foreign investors play an increasing role in the dividend policy, thus strengthening the dependence on investors.

In addition to researches into the Chinese market from perspectives of local businesses' response to foreign investors as shareholders, there are other studies proceeding from other countries [3–5]. Each of the above articles verifies hypothesis stating that dividend payouts directly depend on the presence of foreign investors in the company.

This research dwells on one of the most popular doctrines of the corporate dividend policies, i.e. the agency theory.

M. Jensen and W.H. Meckling formulated the concept of an ongoing conflict between investors and managers as they have different pursuits and priorities. Many studies highlight [6, 7, etc.] flamboyant evidence of the theory in companies from emerging economies, including Russia.

The conflict of interests between top executives and shareholders arises from free cash distribution. While top executives earmark most of free cash for corporate development and so on, shareholders prefer to use funds for their own benefit, i.e. making dividend payouts.

As mentioned above, minority shareholders do not enjoy sufficient protection of their interests in Russia since foreign investment is rather scarce there. Most foreign investors pertain to minority shareholders.

Foreign investors prudently control whether their rights are respected in companies. The existing situation in Russia makes top executives be more active in searching for foreign investors, thus increasing dividend payouts.

Based on the above statements, such scholars as Naohiko Baba [3] from Japan (2008), S. Kim, W. Sul, S.A. Kang et al. [2] (2010) and J.Q. Jeon, L. Cheolwoo, C.M. Moffett [4] (2011) from South Korea published relevant findings of their researches. Studying the literature on the subject given, we assume that foreign investors in the Russian companies may well have a positive impact on dividend payouts.

**Hypothesis 1.** *Foreign residents as shareholders contribute to dividend payouts.*

In this research, we analyze preferences of the Russian top executives concerning the foreign investors' country of origin. Currently, there are a lot of debates about the increasing role of developing countries in the world economy as compared with developed ones. However, some people believe that the economic classification of countries into developed and developing ones displays that the former is economically superior to the latter. It may bias top management in analyzing would-be foreign investors. It engenders the following hypothesis.

**Hypothesis 2.** *Foreign shareholders from developed countries have a more positive impact on dividends than it might be in case of shareholders from developing countries.*

Besides, as part of this research, we examine some other hypotheses which our foreign colleagues previously suggested.

**Hypothesis 3.** *Bigger companies has a stronger tendency for dividend payouts [8].*

The company size is defined as a natural logarithm of total assets similarly to the research we refer to. This characteristic means that the company has the ability to evolve and pay dividends. We also analyze a relative indicator of cash flow, that is a percentage of cash in total assets so as to assess the company's ability to pay dividends.

**Hypothesis 4.** *The higher profitability, the more probable dividends.*

The corporate health is usually measured with profitability. If the company passes through a favorable phase of its life cycle, all resources are effectively used, the company can be considered able to pay dividends to its shareholders.

**Hypothesis 5.** *Companies with the State-owned shares demonstrate a stronger tendency to dividend payouts.*

State shareholding is quite a disputable and important issue. F. Adjound, W. Ben-Amar [8], M. Firth, C. Lin, H. Zou [9], H. Ben-Nasr [10] and other researchers<sup>1</sup> delved into this issue, thereby generating a great deal of opinions confirming both direct and inverse relationship.

**Hypothesis 6.** *Operational distinctions of companies influence dividend payouts.*

It is generally accepted that it is difficult to determine the single theory of dividend policy making. It is mostly true because companies' operations have their own distinctions and preferences, which can but influence their dividend policy. In this research, we study whether there is any relationship between the dividend policy and type of the company's activity [11].

This research is based on 122 observations of 300 top listed Russian companies during 2015. Data were collected through information and analytical computer-assisted systems and datasets, such as Ruslana-Bureau van Dijk and Bloomberg Professional.

The sample comprises relative ratios obtained from financial statements and publicly available data of Bloomberg Professional database. Afterwards we process and examine the information in terms of factors, which are mentioned in scientific literature.

Refer to *Table 1* for indicators we used to verify the hypotheses using econometric models.

We initially analyzed the amount of dividends paid, i.e.  $Y_1$  – dividend. Results are given in *Table 2*.

According to estimates, the total model looks as follows:

<sup>1</sup> Fedorova E.A., Fedorov F.Yu., Nikolaev A.E., Afanas'ev D.O. [Evaluating the efficiency of foreign direct investment: A cross sectoral comparison]. *Finansovaya analitika: problemy i resheniya = Financial Analytics: Science and Experience*, 2016, no. 41, pp. 11–23. (In Russ.); Fedorova E.A., Voronkevich A.B. [The influence of external factors on the dividend policy of Russian companies]. *Finansy i kredit = Finance and Credit*, 2016, no. 38, pp. 27–36. (In Russ.)

$$Y = L(1.22X_5 - 8.05X_6 - 2.76X_7 - 0.46X_9 - 0.01X_{10} + 4.87X_{15} + 17.56X_{16} + 12.44),$$

where  $L$  is the function of the logistic distribution

Having evaluated the model through the Akaike and Schwartz criteria, it may not be considered the best one since these criteria exceed 4.

If we consider the F-test, it indicates a 95.33 percent-likelihood of the relationship between the variables.

We include the most significant indicators into the table displaying the results of the model assessment using the least square method. The remaining indicators were dismissed.

Signs of the resultant assessment are interpreted as follows. If the ratio is positive, the variables are in direct relationship, while the negative sign mean the inverse relationship.

The second analyzable indicators  $Y_2$  is a dummy variable. It characterizes the fact of dividend payout. The results of the analysis are presented in *Table 2*.

According to our computations, the final model is expressed as follows:

$$Y = L(-7.2X_4 + 3.09X_9 - 0.01X_{10} - 3.51X_{14} - 26.79X_{16} - 74.25).$$

As shown in *Table 3*, the resultant model reflects the statistically important correlation of the variables. It is proved with the LR test of 0.000012. It means that there is a 99-percent likelihood of the significant relationship between the variable.

The model is also considered as adequate by the  $t$ -test. The coefficient of determination approximates 1 (it equals 0.8), thus indicating a good quality of approximation of the model's indicators we observe.

Having assessed the logit-model by the Akaike (0.59) and Schwartz criteria (0.83), we concluded that the model failed since the coefficients are low.

The final model also included only significant variables, i.e. those ones with the lowest likelihood test. According to the way the likelihood indicator is interpreted, we infer that the lower the likelihood, the stronger the effect this variable has on the dependent variable [12–15].

As per assessments given in *Tables 2* and *3*, some of the above hypotheses proved to be true. Please find the results in *Table 4*.

The research makes us conclude that the situation in the Russian market does not support the assumption that foreign investors in a company necessarily have a positive impact. On the contrary, it reduces or halts dividend payments. Therefore, companies, where over 15 percent of shares are held by foreign residents, pay less dividends than the ones without foreign shareholders.

It diverges with findings of researches who conducted a similar analysis of companies in other countries [1–5]. It may conceivably stem from the fact that Russia is not an attractive country for foreign investment due to its economic unsustainability and political affairs with other countries.

As for the Russian companies' preferences concerning foreign investors from developed or developing countries, the analysis reveals that shareholders from developing countries have a demonstrably negative impact on the amount of dividend payments.

This conclusions debunks the first and second hypotheses underlining the inverse dependence of dividend payouts on foreign shareholders.

Considering other factors influencing the dividend policy, we should note that almost all the analyzable indicators (size of the company, profitability, operational specifics) proved to be significant for dividend policy making. The factors were analyzed

before by foreign colleagues [16–18]. Their conclusions agree with our own ones based on the assessment as part of this research.

We also validated the hypothesis that large companies have a stronger tendency to dividend payouts. The reason is that the size of a company signifies the possibility of paying dividends to its shareholders.

Moreover, the assumption that dividend payments are more typical of companies with higher profitability appears to be true only to some extent (Return on Assets). It may be evidence of that Return on Equity does not reflect the company's ability to pay dividends.

It is worth mentioning that operational specifics turns out to be a significant indicator. Such dependence signifies that the industry of a company shall be taken into account when the dividend policy is formed. Every company is too specific to be explained with a single uniform model.

As noted above, State shareholding in the Russian companies does not boost dividend payouts like it happened in many other countries. This is due to special conditions for State-owned companies operating in Russia. The theory of agency does not apply completely to them since priorities of top executives and shareholders are often hard to distinguish.

The findings may be of use for the Russian managers to study advantages of foreign shareholders, and for those who promotes Russia as an actor of the world economy and investee.

**Table 1****Indicators used to verify the hypotheses**

Indicator	Denotation	Calculation formula
Dividend	$Y_1$	<i>Dividends paid / Total assets</i>
Payer of dividends	$Y_2$	Takes on a value of 1, if payments have been made in the current period, and it is 0, if they are not
Foreign shareholder	$X_3$	Takes on a value of 1, if a foreigner is present among shareholders, and it is 0, if there are no foreigners
Interest of the key foreign shareholders	$X_4$	Interest of the key foreign shareholder
Key foreign shareholder	$X_5$	Takes on a value of 1, if the key foreign shareholder has more than a 15-percent interest, and it is 0, if his/her share is less than 15 percent
Interest of the foreign shareholder from a developing country	$X_6$	If the key foreign shareholder proceeds from a developing country, his/her interest in the company shall be specified, but if he/she is not, then 0 is indicated
Interest of the foreign shareholder from a developed country	$X_7$	If the key foreign shareholder proceeds from a developed country, his/her interest in the company shall be specified, but if he/she is not, then 0 is indicated
The ratio of the market value of shares to par value	$X_8$	<i>Market value of shares / Par value of shares</i>
Size of the company	$X_9$	Natural logarithm of total assets
Cash flow	$X_{10}$	<i>Cash and cash equivalents / Total assets</i>
Return on Equity	$X_{11}$	Characteristic of the efficiency of the equity use
Leverage	$X_{12}$	Characteristic of the capital structure indicating the ratio of debt to equity
Percentage of intangible assets	$X_{13}$	<i>Intangible assets / Total assets</i>
State shareholding	$X_{14}$	Share held by the State
Return on Assets	$X_{15}$	The efficiency of assets used
Sectoral specifics	$X_{16}$	Company's performance viewing it as a part of a specific industry. It takes on a value of 0.01...0.16 depending on the factor

Source: The Bank of Russia data

**Table 2****The results of the model evaluation using the least squares method\***

Variable	Coefficient	Standard error	T-test	Likelihood
$X_{10}$	-0.009845	0.006112	-1.61088	0.1157
$X_{15}$	4.868358	1.997354	2.437404	0.0197
$X_{16}$	17.56364	8.088184	2.171518	0.0364
$X_5$	1.221548	0.886434	1.378047	0.1765
$X_7$	-2.76055	1.725963	-1.599425	0.1182
$X_6$	-8.046348	7.293296	-1.103253	0.277
$X_9$	-0.459267	0.24042	-1.910272	0.0639
$C$	12.43629	6.493609	1.915158	0.0632
$R$ -squared	0.306024	Mean of dependent variable		1.362575
Adjusted $R$ -squared	0.174731	Standard deviation of dependent variable		1.994378
Standards error of regression	1.81178	Akaike information criterion		4.186307
Residual sum of squares	121.4542	Schwartz criterion		4.507492
Logarithm of the likelihood function	-86.19191	F-test		2.330847
Durbin-Watson statistics	2.333574	Likelihood (F-test)		0.044744

\* Dependent variable:  $Y_1$ , linear regression.

Source : Authoring

**Table 3****The results of logit model evaluation\***

Variable	Coefficient	Standard error	z-test	Likelihood
$X_{10}$	-0.014505	0.012166	-1.192256	0.2332
$X_{16}$	-26.78873	21.73463	-1.232536	0.2177
$X_{14}$	-3.506207	3.926253	-0.893016	0.3718
$X_4$	-7.202182	3.934129	-1.830693	0.0671
$X_9$	3.090394	1.296156	2.384276	0.0171
$C$	-74.25071	32.57643	-2.279277	0.0227
The mean of dependent variable	0.8	Standard deviation of dependent variable		0.40452
Standard error of regression	0.226171	Akaike information criterion		0.590709
Residual sum of squares	1.994974	Schwartz criterion		0.831597
Logarithm of the likelihood function	-7.290956	Hannan-Quinn information criterion		0.68051
Logarithm of the likelihood function with restrictions	-22.51811	Logarithmic mean of the likelihood function		-0.162021
LR-test	30.45431	McFadden $R^2$		0.676218
Likelihood (LR-test)	1.2E-05			

\* Dependent variable:  $Y_2$ . Evaluation method: Logit-model for binary variable. Total observations: 145.

Source: Authoring

**Table 4****The test results of the hypotheses made in the work**

Hypothesis	Analyzable indicators	Hypothesis verification result
Hypothesis 1. Foreign residents as shareholders contribute to dividend payouts	Interest of the key foreign shareholder $X_4$	Not verified. Inverse dependence
Hypothesis 2. Foreign shareholders from developed countries have a more positive impact on dividends than it might be in case of shareholders from developing countries	Interest of the foreign shareholder from a developing country $X_6$	Not verified. There is an inverse correlation of interests held by foreign shareholders from the two types of countries and the amount of dividends paid
Hypothesis 2. Foreign shareholders from developed countries have a more positive impact on dividends than it might be in case of shareholders from developing countries	Interest of the foreign shareholder from a developed country $X_7$	
Hypothesis 3. Bigger companies has a stronger tendency for dividend payouts	Size of the company $X_9$	Verified
Hypothesis 4. The higher profitability, the more probable dividends	Return on Assets $X_{15}$ Return on Equity $X_{11}$	The hypothesis proved to be true in case of the ROA, with the ROE being insignificant
Hypothesis 5. Companies with the State-owned shares demonstrate a stronger tendency to dividend payouts	Share of the State $X_{14}$	Not verified. Inverse correlation
Hypothesis 6. Operational distinctions of companies influence dividend payouts	Sectoral specifics $X_{16}$	Verified. The correlation is in place

Source: Authoring

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