Opportunistic or Trustworthy Owners? Evidence from the Dividend Policy

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Shareholder conflicts arise in firms controlled by a shareholder who owns a stake large enough to allow her to heavily influence the firm’s strategy and the dividend decision. In this situation, controlling shareholders can withhold free cashflow to extract private benefits of control.

The aim of this paper is to study the role of dividend policy as a tool to mitigate conflicts between majority and minority shareholders and build a reputation of fairness, or as an instrument used by majority shareholders to behave opportunistically.

As potential of conflict is higher the lower the controlling stake, a positive relationship between dividend payout and ownership concentration suggests opportunism by the controlling shareholder and minority shareholders expropriation. Conversely, a negative relationship indicates a conflict-reducing behaviour at building a trustworthy relationship with minority shareholders.

The empirical analysis investigates the dividend decisions of non-financial Italian listed firms from 2000 to 2021, accounting for the ownership concentration, share repurchases, and corporate governance. Results show that the controlling share enters with a negative and significant coefficient, in line with the conflict-reducing hypothesis. Evidence holds when payout includes stock repurchase, and does not the hypothesis of substitution between cash dividend and buybacks.