DIVIDEND POLICY AND OWNERSHIP STRUCTURE: A STUDY OF RUSSIAN DUAL-CLASS STOCK COMPANIES

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Abstract

This paper explores the relationship between ownership structure and dividend policy in Russian public companies with dual-class shares. The sample includes all companies issuing both ordinary (voting) and preferred (non-voting) shares traded on the Russian Trading System (RTS) in the period of 2003-2009. Using panel data and employing both linear and nonlinear regression modeling approach, we tested the relationship between ownership structure and dividend payout. One of the major conclusions is the existence of a negative relationship between the dividend payout on ordinary shares and institutional ownership, as well as between dividend payout on ordinary shares and offshore ownership. Unlike for ordinary shares, ownership structure is not related to dividend payments on preferred shares. Dividend policy on preferred shares is, instead, essentially related to a company's performance.

Keywords: Ownership, Agency Problem, Dividend Policy, Dual-Class Shares

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1. INTRODUCTION

This paper investigates the relationship between ownership structure and dividend policy in Russian public companies with dual-class shares. This research is motivated by the following considerations. One of the most important trends of the last decade is that scholars' studies became more focused on the institutional context of the dividend policy in emerging markets (Fairchild et al., 2014). It is worth noting that Russia, institutionally, could be considered as an emerging market with specific corporate governance practices. It is among the countries characterized by a low level of shareholder rights protection and the important role played by the state in both the economy and the ownership structure of corporations. Russian companies have highly concentrated ownership that, similar to other countries with insider corporate governance model and combined with weak shareholder protection aggravates the agency problem. Dividends can be used by the controlling owners as an instrument to expropriate minority shareholders. Despite the growing body of literature recognizing the decreasing role of dividends as a total return for investors (Baker and Weigand, 2015) and the reducing importance of dividend payments in mitigation of the agency problem (Benjamin et al., 2016), the authors believe that for Russia, a country with highly volatile corporate governance practices, the role of dividends in the agency problem remains high. This is demonstrated, in particular, by the increasing number of corporate conflicts in Russian companies due to the abuse of minority shareholders' rights. This study investigates dividend payments in relation to the company ownership structure, mainly from the agency problem perspective.

The specifics of Russian companies' ownership structures include the fact that offshore companies play an important role in their capital. In recent years, a considerable share in Russian firms has come to be owned by companies incorporated in offshore zones. Among other purposes, offshore companies are known to be widely used for tax sheltering.

A specific feature of the Russian stock market, in turn, is the limited number of public companies: of several thousand listed firms, only about 300 firms' shares are actually traded on the market, having high liquidity and regular transactions. This study only considers public companies, whose shares were regularly traded on the market during the sample period.

Institutionally, Russia provides a unique setting for the study of public companies with dual-class shares, offering an exogenously created sample of companies with both voting (ordinary)

and non-voting (preferred) shares as a result of the privatization processes of 1992-1994 (Muravyev, 2009; Muravyev et al., 2014). One of the privatization methods prescribed the transformation of state-owned enterprises into companies with charter capital, wherein preferred (non-voting) shares were freely distributed among employees and retirees of the company, and their combined shareholding could comprise as much as 25 % of the company's charter capital.

The legal status of the two classes of shares was defined in the charters of all privatized companies. Notably, the status of ordinary shares was similar to that of ordinary shares in most developed countries (granting the right to vote at a general meeting of shareholders and the right to dividends, which are not guaranteed and the amount of which is not defined), while preferred shares had a certain specificity (Berezinets et al., 2014).

Since the "Federal Law On Joint-Stock Companies" came into force in Russia in 1996, the rights granted by preferred shares have become variable, depending on changes in companies' charters. Thus, holders of preferred shares ceased to enjoy the veto right given to them upon the creation of preferred shares but were granted the occasional right to vote at a general meeting of shareholders. However, because the portion of preferred shares in the charter capital could not exceed 25 %, their holders could not block any decision. Additionally, the law removed the preferred shares holder's right to dividends amounting to 10 % of net profit, which was also set originally in the privatization processes. Instead, the law required companies to define in their charters the amount of dividends on preferred shares in the form of a fixed percentage of the company's net profit or in any other clearly defined form. With a view to enhancing the level of minority shareholders' rights protection, several important amendments were introduced to the law in 2001, including reinstating the veto right of holders of preferred shares.

Preferred shares have certain advantages over ordinary ones. However, the absence of the right to vote and the company being entitled to partly define the rights of preferred shareholders at its own discretion demonstrate an essential inequality between the two classes of shares. Where control rights substantially exceed cash flow rights, there is an opportunity for minority shareholders' rights expropriation (Bozec and Laurin, 2008; Claessens *et al.*, 1999; Shleifer and Vishny, 1997). A dividend policy could be expected to serve as an instrument of such expropriation.

The goal of this research is to identify any difference in the relationship between a firm's dividend policy and its ownership structure in terms of the distribution of the two classes of shares – voting (common) and non-voting (preferred) – among the largest shareholders. The study tests hypotheses on the relationship between the dividend payout ratio and the largest shareholder's identity.

The remainder of the paper is organized as follows. Section 2 provides a literature review on the link between ownership structure and dividend policy, and hypotheses development. Section 3 describes the methodology and data. Empirical results are presented in Section 4. Section 5 provides the discussion of findings. Finally, Section 6 concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESES

2.1. Background

The financial theory provides various arguments for the importance of a wise dividend policy, such as that which takes into account the signaling dividend theory and differences in the taxation of dividend income and capital gains. An argument in favor of dividend payments that has attracted attention since the 1980s (La Porta *et al.*, 2000) is that dividend policy helps to mitigate the agency conflict between managers and shareholders. Related to the agency problem in companies, dividend policy has been the focus of finance and corporate governance studies for decades. Dividend decisions are an essential part of a company's financial policy and affect various groups of stakeholders whose interests should be considered when distributing free cash flows.

As one of the corporate governance mechanisms used to alleviate the principal-agent problem and reduce agency costs, ownership structure and concentration impact on dividend decision-making. Dividends are a perfect tool to mitigate the expropriation of minority shareholders, as La Porta *et al.* (2000) noted, since they guarantee that payments are made to shareholders in proportion to the number of shares they hold, thus avoiding the concentration of wealth among the controlling shareholders. Easterbrook (1984) noted that dividends are an instrument of reducing the cash flow available to managers and, therefore, play an important role in mitigating the agency problem. According to Rozeff (1982), dividend payout increases external financing costs but reduces managerial opportunism costs.

Shleifer and Vishny (1997) asserted that, in a situation where major shareholders obtain almost complete control over the firm, they begin to derive private benefits of control in which minority shareholders' participation is denied. There are multiple ways in which minority shareholders' rights can be abused, with Faccio *et al.* (2001) placing particular emphasis on low dividend payments.

For a long time, empirical studies in corporate governance mostly considered companies with a dispersed ownership structure (Grossman and Hart, 1980). Empirical studies of the markets of Western Europe, Asia, Africa, and Latin America, with their high ownership concentration (Bebczuk, 2005; Faccio *et al.*, 2001; Kouki and Guizani, 2009; La Porta *et al.*, 2000), demonstrate that the agency problem between major and minority shareholders is no less acute than between owners and managers.

Besides the ownership concentration, the presence of multiple large shareholders and the distribution of ownership and control among them are also important (Maury and Pajuste, 2005), as the presence of other large shareholders could lead to better monitoring of the controlling owner. Conversely, large owners may collude with each other and/or the controlling owner to the detriment of minority shareholders. These considerations may be important in analyzing dividend decisions in companies with such a shareholder structure. Furthermore, the largest shareholder's identity impacts on the dividend decisions made by companies (Bebczuk, 2005;

Faccio *et al.*, 2001; Kouki and Guizani, 2009; Kumar, 2006; La Porta *et al.*, 2000).

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 (Black, 1976). In cases where the company is in a stable 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 future losses (Fudenberg and Tirole, 1995). Conversely, as agency theory posits, 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 could even resort to external borrowing to support the dividend payout: managers may find the costs of such borrowings to be lower than the potential costs that could arise from dividend cuts (Brav *et al.*, 2005). Dividend payout disciplines managers 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, failing which the consequences could be most unfavorable for those in control of the company. Prior studies (Agrawal and Jayaraman, 1994; Lang and Litzenberger, 1989) offer evidence that dividends serve to restrain managers from inefficiently using free cash flows, thereby guarding shareholders' interests.

A special case for analysis of the agency problem and the role of dividends is provided in companies issuing more than one class of shares. The main reasons for multiple shares issues are avoidance of ownership dilution, i.e. raising funds through the stock market without having to reduce the voting power of existing shareholders, and protection against a hostile takeover. The issue of multiple share classes, as well as pyramidal ownership structures, cross-holdings, and other mechanisms used to change the proportion and distribution of risk and control in a company, represent a source of agency costs (La Porta *et al.*, 2000; Shleifer and Vishny, 1997). These mechanisms could increase the private benefits of control and the conflict of interests between major and minority shareholders; accordingly, they may affect the company's dividend policy as a part of its distribution policy. La Porta *et al.* (2000) describe the issue of two classes of shares as one of the mechanisms leading to managers and shareholders' "entrenchment". Where multiple share classes are issued, there is an unequal distribution of cash flow and control rights; therefore, the conflict between shareholders could, potentially, be more acute.

The very phenomenon of the dual-class share structure as a mechanism of separating ownership and control could explain differences in dividend policies on voting and non-voting shares and the specifics of ownership structure effects. This is mainly due to the distinction between control rights and cash flow rights in these companies that could cause expropriation of preferred shareholders by ordinary shareholders through a dividend policy. Chen *et al.* (2012) found the differences in the impact of the ownership stake and voting power of main groups of shareholders on dividend policy. Moreover, these effects are different when comparing dividend payments versus stock repurchases. The voting power of major shareholders as an important determinant of the dividend policy is also examined by Guizani *et al.* (2008) who argue that dividend policy could be considered as a response to the large shareholders' preferences.

High private benefits of control in Russian companies could be explained by 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 the dividend policy may be one of the mechanisms for ordinary shareholders to expropriate minority holders of non-voting stocks. The studies of Jarrell and Poulsen (1988) and Villalonga and Amit (2008) confirmed the existence of negative effects from issuing two classes of shares due to managerial entrenchment and the opportunity to derive private benefits of control: these effects include, for example, a drop in the firm's performance and market value, and the abuse of minority shareholders' rights. Moreover, papers exploring the unification of the two share classes have empirically confirmed resultant growth in firm value and sales, increased opportunities for raising both equity and borrowed capital, and improvement in corporate governance quality after the shares are unified (Maury and Pajuste, 2007).

La Porta *et al.* (2000) in the study of dividend policies of firms from 33 countries presented empirical proof of the assumption that dividend payments in the countries they studied are in conformance with the outcome model. The researchers discovered that, in countries where minority shareholders' rights are poorly protected, companies pay lower dividends due to agency problems between the controlling and the minority shareholders being more severe than in countries where investors are more strongly protected (such as the US and UK). Russia is characterized by a low degree of investor protection and a limited implementation of legal norms and best practices of corporate governance. Therefore, one could expect a more severe conflict between major and minority shareholders with regard to dividend payments as a mechanism of minorities' expropriation.

Given the controversial findings of previous studies, the speculative nature of the issue, the specifics of Russian corporate governance, and the virtual absence of such studies in Russia, this paper makes an important contribution to this area of research.

2.2. Hypotheses

According to prior studies, the relationship between dividend payout policy and ownership structure is different for various classes of shareholders (Kumar, 2006). Based on classification criteria, studies use the following major ownership identities: families and individual private investors, non-financial companies, institutional investors, the state, foreign investors, and offshore companies. Since families and individuals are not usually among major investors in Russia, the authors have not separately considered the impact of these investor types on dividend payout.

Foreign investors. The participation of foreign investors in emerging markets firms could

be considered a mechanism for mitigating agency conflicts and improving corporate governance. The majority of this group of shareholders is institutional investors from developed markets, interested in better corporate governance practice, higher level of investor protection, and more effective management monitoring (Jeon and Ryoo, 2013). In the Russian market, foreign participation in corporate ownership is not well represented. In any event, it is expected, from this perspective, that the presence of foreign investors should be positively related to the dividend payout as an instrument of minority investor protection. From another perspective, foreign investors are expected to prefer dividends to capital gains income due to specific tax treatment. This assumption relies on the difference between taxation on dividends and capital gains for non-resident investors. The Russian income tax rate on dividends is 15 per cent for non-resident legal entities and individuals, whereas the capital gains income tax rate is 20 per cent for non-resident legal entities and 30 per cent for non-resident individuals. Therefore, the percentage of ordinary shares of foreign investors is assumed to have a direct relationship with the dividend payout ratio due to the lower taxation of dividends.

Maury and Pajuste (2002) found a direct relationship between the percentage of ordinary shares held by foreign investors and the dividend payout ratio. Jeon and Ryoo (2013) concluded, for Korean firms, that an increase in foreign ownership leads to a higher proportion of outside directors on the board; the absence of a relationship between the directors and the controlling shareholders leads in turn to higher dividend payments. Bokpin (2011) also revealed a direct relationship between foreign investors' ownership share and dividend payout based on a sample of Ghanaian public companies averaging approximately 32 % foreign investor ownership. Baba (2009) investigated the effects of increasing foreign ownership in Japanese companies on their dividend policy: he found, *inter alia*, that a higher level of foreign ownership is related to a higher probability of dividend payments. Setiawan *et al.* (2016) documented a positive effect of foreign ownership on Indonesian companies' dividend payouts. Conversely, Benjamin *et al.* (2016) concluded that, in Turkish firms, foreign ownership is related to a lower probability of paying dividends, as foreign investors in Turkish companies mostly seek long-run growth rather than short-run dividend income. Kumar (2006), however, found no evidence of such a relationship for Indian companies with a high institutional ownership.

Hypothesis 1. The size of the foreign investors' ownership is positively related to the dividend payout ratio.

Offshore companies. As defined by Kheyfets (2013), offshore countries are those that create: a) a significant decrease in the tax burden on corporations; b) a simplified administrative and financial supervision; and c) the possibility of anonymity of financial operations and the real beneficiaries of offshore companies**.** Offshore companies – offshore holding companies, in particular – are known to be widely used for the purposes of tax optimization. According to the Russian Statistics Committee, about 60% of all foreign direct investments accumulated in the Russian economy came from Cyprus, the Netherlands, Switzerland, and the British Virgin Islands, as at the end of 2010.[11] According to the latest available figure provided by the Bank of Russia, as at the beginning of 2016, the proportion of direct investments accumulated in the Russian economy from the above-named offshore countries accounts for nearly 50% of all foreign direct investments in the country, proving the continuing importance of the role played by offshore investors in the Russian economy.[12]

Where dividends and interest are paid or other payments are made by a Russian company in favor of persons incorporated in a region with no double taxation convention with Russia, or if payments are made by such firms to a Russian company, the income is subject to double taxation: a corporate income 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 UK, Switzerland, and the Netherlands; moreover, offshore zones typically have either no taxes or preferential tax rates. Thus, when transferring dividends to an offshore company incorporated where there is no taxation, e.g., in the British Virgin Islands, a Russian company must withhold only 20 per cent of the corporate income tax in accordance with the Tax Code of the Russian Federation, Article 284. Therefore, since payment of dividends to shareholders registered in offshore zones creates significant tax savings, it can be assumed that higher dividends are paid where the ownership structure includes offshore companies.

At the same time, Desai and Dharmapala (2007) observed that offshore zones' specific regulation also allows companies to reduce tax obligations through the payment of royalties or loan interest to offshore affiliates. As Kheyfets (2013) noted, in the beginning of 2013 more than 60 % of the foreign corporate debt in Russia constituted obligations to companies registered in offshore zones.

The "dark" side of tax optimization is the comfortable environment for capital outflow from the country created by the use of offshore structures. The outflow of capital occurs when the export of capital is not followed by its return to the country and is different from the regular business activity. Shareholders can try to increase their income not through the receipt of dividends but rather through the transfer of corporate funds to their offshore accounts. Controlling shareholders can use transfer pricing in transactions with the company's affiliates registered in offshore zones, from which it is easier for those shareholders to appropriate corporate funds due to the anonymity of operations.

Thus, Russian firms with offshore companies among their shareholders are expected to pay lower dividends in order to transfer earnings to offshore zones and pursue tax sheltering instead. Therefore, it is interesting to test the hypothesis that this owner type has an impact on dividend policy.

Hypothesis 2. If a company has an offshore company among its large shareholders, the dividend payout will be lower compared to companies without an offshore firm among large shareholders.

[11] http://www.gks.ru/bgd/regl/B11_04/IssWWW.exe/Stg/d04/2-p07.htm
[12] https://www.cbr.ru/statistics/?PrtId=svs

Under this and the following hypotheses, the criterion for categorization as a large shareholder is ownership of not less than 15 % of the company's shares. A number of foreign studies (e.g., Maury and Pajuste, 2002; Farinha, 2005) refer to a major holding as a stake of at least 20 % of ordinary shares. In their later paper, Maury and Pajuste (2005) used, for analysis of Finnish companies with multiple large shareholders, those firms that had at least one large owner with 10 % or more of the voting shares. For the Russian market and for the purpose of this study, the authors believe it is possible to define a major shareholding as at least 15 % of the total shares since this is sufficient for a shareholder to exercise significant rights when establishing a board of directors. Under Russian corporate legislation, a holding of 15 % of shares virtually guarantees that the owner will have its own representative on the board of directors. The board must have at least seven directors in an open joint-stock company with more than 1,000 shareholders; with more than 10,000 shareholders, at least nine directors are required. Consequently, a shareholder needs to have approximately 14.3 % of the votes to secure its own 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. The role of financial institutions in Russian companies' dividend policy has never previously been emphasized in studies. This could be because institutional shareholding is not as important in Russian non-financial companies as it is, for example, in the US and the UK, where it is well studied (e.g., Short *et al.*, 2002). Unlike in countries with the block-holder model of corporate governance (e.g., Germany and Japan), where banks and financial industrial groups hold the major share in a company's capital, and unlike in the US, where institutional investors play a major role in the capital market and possess major shareholdings, financial institutions in Russia do not own major shares in companies' capital.

Studies investigating the relationship between dividend policy and institutional investors as owners have also produced controversial findings. Kumar (2006) found an inverse relationship between institutional ownership and dividend payout for Indian companies. However, many studies suggest a positive association. With major institutional investors, who represent an extra monitoring tool, dividends contribute to reducing agency costs (Easterbrook, 1984). This shareholders group may prefer a higher dividend payout to enhance management monitoring by capital markets, more so if the owners deem their own monitoring efforts insufficient or costly (Farinha, 2003). Focusing on the British market, Khan (2006) demonstrated a direct relationship between institutional investors' shareholding and dividend payout. This may be because financial institutions come under strict regulation by controlling agencies, so when such parties are in control of a firm, they 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: the lack of retained income could lead to the additional debt financing or pose a bankruptcy threat to the company (Gugler and Yurtoglu, 2001).

It could be expected that financial institutions are more interested in stability and steady growth of dividends, leading to a higher stock value than in an unstable stream of high dividends amid volatile share-price fluctuations. Abdelsalam *et al.* (2008) concluded that companies with institutional investors among their largest shareholders are more prone to pay dividends. Moh'd *et al.* (1995) also found a positive relationship between institutional shareholding and dividend payout. Hamill and Al-Shattarat (2012) in their study on Jordanian industrial firms, found that the level of institutional shareholding increases the dividend payout ratio. A similar conclusion is made by Guizani et al. (2008) for Tunisian firms. Benjamin *et al.* (2016) found a positive association between institutional ownership and the amount of dividends paid by Malaysian firms with strong corporate political connections. The authors (Benjamin *et al.*, 2016) conclude that institutional investors tend to mitigate the agency problem in such companies, thus preventing the expropriation of outside shareholders. Esteban and Lopez-de-Foronda (2008) in their study of the institutional investors' activism and dividend policy found that in Anglo-Saxon countries there is a positive relationship between the dividend payments, measured with various performance metrics, and institutional investors' ownership stake. At the same time, there is a negative relation between dividends and ownership of banks and insurance companies in Civil law countries where these groups of shareholders may have their private interest in a firm. A negative relationship between dividend payments and Turkish institutional investors was found in (Al-Najjar and Kilincarslan, 2016), which was explained as indicative that institutional investors probably provide efficient monitoring of management, obviating the need for dividends to tackle the agency problem. Considering this issue from a different perspective, Dahlquist *et al.* (2014) tested the dividend tax clientele hypothesis on Swedish public companies, concluding that investment funds with a 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 % or 0 % in a special case provided for by the tax legislation) than the tax on capital gains (20 %). Based on this consideration and the results of previous studies, the direct relationship between institutional shareholding and dividend payout is assumed.

Hypothesis 3. If a company has a financial institution among its large shareholders, the dividend payout will be higher compared to companies without a financial institution among large shareholders.

Based on the aforementioned considerations of the different taxation of dividends and capital gains, it can be assumed that Russian non-financial companies will also prefer higher dividends. An additional reason for large private shareholders to prefer higher dividends is that, normally, this type of owner is not well diversified and is more interested in stable regular dividend payments, rather than capital gains from reselling stocks in the short run (Brunzell *et al.*, 2014).

However, according to some studies (e.g., 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 the dividend payout ratio. This could be explained by corporate shareholders being able to derive more benefits from earnings being retained and reinvested in the company's growth, rather than from receiving current dividend income. For example, according to results obtained in Dahlquist *et al.* (2014), Swedish private corporations prefer growth stocks to dividend-paying stocks. An alternative explanation for this preference of non-financial corporations is that earnings reinvestment can bring more value to them by creating opportunities to generate more free cash flows in future.

Hypothesis 4. If a company has a non-financial firm among its large shareholders, the dividend payout will be lower compared to companies without a non-financial firm among large shareholders.

State. International studies offer evidence of the ambiguous impact on dividend decision-making of the state as a large shareholder. Gugler and Yurtoglu (2001) observed that the principal-agent conflict of interest is much greater in state-controlled companies. In Russia, dividends are a significant source of government income; the state has managed to considerably increase budget revenues from dividends since the 1990s. Normally, dividend revenues were mainly contributed by the companies operating in the fuel-and-energy sector and by the joint-stock companies with more than 25 % of shares owned by the state. The Russian situation is very similar to the case of China, with a highly concentrated ownership. The Chinese government controls a large number of listed companies and gives limited opportunities for minority shareholders to force management to implement dividend policies in their interests (Bradford *et al.*, 2013). Based on a study of Chinese public companies, Wei *et al.* (2004) concluded that companies with a high level of state ownership pay higher dividends, though this only applies to cash dividends (while privately owned companies typically pay stock dividends). Lam *et al.* (2012) later reached the same finding for Chinese public companies. Bradford *et al.* (2013) drew a similar conclusion that state-controlled public firms in China pay higher dividends than privately controlled firms, mainly because of the capital constraints of the latter. Non-state-owned enterprises in China have fewer opportunities to attract capital, both in the form of debt and equity, than state-owned companies. A positive effect of state ownership on the dividend payout ratio was found by Setiawan *et al.* (2016) for Indonesian firms.

In their classification of state-owned enterprises (SOEs) in China by the criteria of the largest shareholder's identity, Su *et al.* (2014) categorized these firms as either local SOEs, with the local governments and their various organs being the largest shareholders, or central SOEs, held by the central government or its entities. In

Russia, SOEs could be classified as owned either directly by the state and its entities or by state corporations, held by the government. The state often participates in joint-stock companies indirectly through parent companies in which the Russian Federation or government bodies are the major 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 the subsidiaries through its representatives in the parent company's governing bodies. This is because only critical issues related to subsidiaries' activities are submitted for consideration to the parent company's board of directors or the shareholders' general meeting. Consequently, most decisions of subsidiaries and their affiliates cannot be directly controlled by the state. Similar consequences arise when the state's shareholdings are transferred to state corporations.

As dividend income is an important part of the state budget, it can, thus, be assumed that the state will demand a higher dividend payout as a major owner. Therefore, a direct relationship between state ownership and the dividend payout ratio could be hypothesized.

Hypothesis 5. If a company has a state among its large shareholders, the dividend payout will be higher compared to companies without a state among large shareholders.

3. DATA AND METHODOLOGY

3.1. Data and Sample

The required data on each company's ownership structure, dividend payout, and performance results were obtained from their quarterly reports submitted to the Federal Financial Market Service (FFMS) – previously the Federal Commission of Securities Market (FCSM) – available from the SKRIN and SPARK databases (www.skrin.ru; http://spark.interfax.ru). These databases collect and process original reports submitted by joint-stock companies to official authorities.

The sample includes companies with a dual-class share structure listed on the RTS stock exchange for the period 2003-2009. The final panel included 598 observations. The criteria for inclusion in the sample comprised both a company's share types being simultaneously traded on the RTS and the payment of cash dividends. The RTS was chosen as this stock exchange had the broadest coverage of listed companies and included all dual-class stock companies whose shares were traded, for the period studied. The RTS and the Russian Trading Stock Index (RTSI) are widely recognized and used in international studies (e.g., Anatolyev, 2005; Goriaev and Zabotkin, 2008; Muravyev *et al.*, 2014). The study did not include companies from the financial sector within its sample.

3.2. Methodology

The empirical analysis is based on the regression model (1):

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

]The dependent variable Div_Payout_{it} is a variable of the dividend payout ratio at company i at time t. X_{it} is a vector of the variables representing the largest shareholder's identity; Y_{it} is a vector of the variables representing insider ownership; Z_{it} is a vector of the variables standing for the company's performance; u_{it} is a random variable. All the 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 and, β_1, β_2 and β_3 as vectors of unknown coefficients. Note that this model is linear in terms of its parameters, though the vectors of its variables include both linear and non-linear components.

Table 1 describes the variables used in regression analysis.

Table 1. Description of variables

Variable	*Definition*
	Dependent variables
Div_Payout	The aggregate dividend payout ratio is calculated as the ratio of the amount of dividends actually paid on both classes of shares to the net profit.
Ord_Payout	Dividend payout on ordinary shares is calculated as the ratio of the amount of dividends actually paid on ordinary shares to the net profit.
Pref_Payout	Dividend payout on preferred shares is calculated as the ratio of the amount of dividends actually paid on preferred shares to the net profit.
	Independent variables
	Variables included in vector X
Foreign	The percentage of ordinary shares owned by non-residents of Russia except shares owned by shareholders incorporated in offshore zones.
Offshore	The percentage of ordinary shares owned by companies incorporated in offshore zones.
State_share	State ownership stake.
Foreign(d)	Binary variable that equals 1 if the company has a non-resident of Russia (except registered in offshore zones) with at least 15% of ordinary shares among its shareholders and 0 otherwise.
Offshore(d)	Binary variable that equals 1 if the company has an offshore company with at least 15% of ordinary shares among its shareholders and 0 otherwise.
State(d)	Binary variable that equals 1 if the state holds at least 15% of ordinary shares and 0 otherwise.
Fin_inst(d)	Binary variable that equals 1 if a company has a financial institution with at least 15% of ordinary shares among its shareholders and 0 otherwise.
Corp(d)	Binary variable that equals 1 if a company has a non-financial Russian company with at least 15% of ordinary shares among its shareholders and 0 otherwise.
Nominal(d)	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. Equals 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 0 otherwise.
	Variables included in vector Y
CEO_share	The CEO's ownership stake.
PSD_share	Board chairman's ownership stake.
BD_share	Ownership share of all board members (except the chairman's share).
	Variables included in vector Z
Size	Company's size measured as the natural logarithm of sales.
ROA	Return on assets.
Leverage	Debt to equity ratio.

Table 2. Descriptive statistics

Variable	*Mean*	*Standard deviation*	*Minimum*	*Maximum*
1	**2**	**3**	**4**	**5**
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	0.091	0.153	0	0.908
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	2.012	7.117	0	23.363
ROA	0.059	0.112	0	0.395

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

From Table 2, it follows that companies paid out as dividends, on average, approximately 31 percent of their net profit. Preliminary statistical analysis showed that the minimum value of the dividend payout ratio was -0.401 since nine of the companies under observation paid dividends even though they had a loss, while the maximum dividend payout ratio value was 2.393. Situations in which the dividend payout ratio value is negative or exceeds 1 are possible where the company pays out dividends from reserves. In the course of further statistical and econometric analysis, the outliers were excluded.

The obtained results demonstrate the following average percentages of ordinary shares for each type of owner found: offshore companies – 9.10 %; foreign investors – 2.90 %; direct state participation – 2.70 %; CEO ownership stake – 0.10 %; board of directors' ownership – 0.20 %; and chairman of the board ownership – 0.10 %.

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

Variable	Percentage
Corp(d)	84%
Foreign(d)	6%
Offshore(d)	17%
Fin_inst(d)	18%
State(d)	7%
Nominal(d)	11%

As is evident from Table 3, a non-financial corporation with at least 15% of ordinary shares was found among a company's owners in 84 % of the observations. Financial institutions hold at least 15 % of ordinary shares in 18% of the observations, while the state owns at least 15% of ordinary shares in 7% of the observations and offshore companies hold the required share in 17% of the observations. In 11% of the observations, the type of the largest owner with over 15% of ordinary shares could not be identified due to nominee holders being reported.

Annual changes in the average shareholding of several owner categories covered by the study are presented in Table 4.

Table 4. Dynamics of average shareholding by the type of owner for the period 2003-2009

Average percentage of ordinary shares by shareholder type			
Year	***State***	***Foreign owners***	***Offshore companies***
2003	2.30%	1.50%	5.40%
2004	2.10%	1.80%	4.50%
2005	1.30%	1.90%	6.00%
2006	1.10%	1.70%	8.40%
2007	0.90%	1.80%	8.20%
2008	0.60%	2.10%	9.40%
2009	0.90%	2.30%	14.10%

Thus, Russian companies ownership structures changed significantly over the period studied. As mentioned above, offshore companies holding a large portion of ordinary shares is specific to the Russian market, with its shareholding growing during the period under investigation.

4. REGRESSION ANALYSIS RESULTS

Table 5 presents the results of the regression analysis, aimed at testing the hypothesized relationships between the major owner's identity and the dividend payout ratio. The table includes estimated ratios of the model equations with various specifications of the variables indicating ownership by foreign owners, offshore companies, Russian non-financial companies, financial institutions, and the state.

As noted in Table 1, three dividend payout ratios were used as dependent variables: total dividend payout ratio for both share types *(Div_Payout)*, that for ordinary shares (*Ord_Payout)*, and that for preferred shares (*Pref_Payout)*.

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

Table 5 suggests 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 major owner's identity proved significant in the *Pref_Payout* model. Further discussion of significant variables will, therefore, focus on the models using the total dividend payout ratio *Div_Payout* and ordinary share dividend payout ratio *Ord_Payout* as dependent variables. The variable *Offshore*, indicating the percentage of ordinary shares held by offshore companies, is significant in both models, with the estimated coefficient for the variable *Offshore* expectedly negative. The variable *Fin_inst(d),* indicating whether a company's shareholders include a financial institution with at least 15% of ordinary shares, is also significant in both models. The variable's estimated coefficient, however, is opposite in sign to what was 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 held by foreign owners (*Foreign)* and the percentage of ordinary shares of the state (*State_share)*, no statistically significant relationship between these variables was revealed. The variables 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 relationship between the shareholding of various owner types and the dividend payout ratio, are considered further below (Table 5).

The inverse relationship between the percentage of ordinary shares held by offshore companies (*Offshore)* and the dividend payout ratios for both share types was expected. *Div_Payout* and *Ord_Payout* were revealed to be statistically significant (columns (1), (2), (6), and (7). This result confirms Hypothesis 2 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) and (10)) indicates that the ordinary share dividend payout ratio is 8.80 to 9.10% lower in companies with an offshore owner holding at least 15% of ordinary shares than in companies without this type of large shareholder.

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

It is worth noting that the variable State_Share, representing the state ownership stake, proved to have no statistically significant relationship with the dividend payout ratio.

Table 5. 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.*

A number of studies provide empirical verification of the relationship between insider ownership and dividend policy. Following Jensen *et al.* (1992), for the purposes of this study, insiders include members of the board of directors, the board chairman, and the chief executive officer (CEO). Mauri and Pajuste (2002) found that companies with CEOs who hold a large portion of the company's ordinary shares have a much lower dividend payout ratio than those whose CEO holds a low percentage of ordinary shares. Truong and Heaney (2007) and Short *et al.* (2002) demonstrated an inverse relationship between the ownership stake of the company's management, particularly its CEO, and the dividend payout ratio. This argument demonstrates that top managers can use the entrenchment strategy and derive benefits for themselves, instead of paying dividends to shareholders.

However, insider ownership could be regarded as a way to minimize agency conflicts (Theis and Dutta, 2009). The entrenchment theory implies a non-linear relationship between the insiders' share in a company and the dividend payout (a U-shaped relationship) (Schooley and Barney, 1994). According to this theory, the relationship between the insider ownership and the amount of dividends is direct at first but becomes an inverse relationship as soon as a certain level of insider ownership share is achieved. Farinha (2005) calculated empirically that the direction of the relationship changes at the point where the manager's ownership equals 30%. This evidence can be explained as follows: in the case of minor insider ownership share, high agency costs can arise from unpaid or low dividends; if insiders own a high stake, 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 high proportion of funds into company growth, which represents their main interest.

An alternative viewpoint is also justified: if top managers-insiders happen to be major owners, they tend to channel profits into dividends since it helps to increase their current income. This was confirmed by 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, the dividend payout increases where their portion of shares is high. In Russia, taxation incentives are also influential: dividend income is more beneficial for board members and top-managers holding company's shares than other forms of payments, since the dividend tax rate is 9%, whereas the income tax rate for individuals is 13%.

This study used insider ownership stakes as control variables, rather than hypothesizing any relationships. Insider shareholding in the capital of the sample companies is relatively low (Table 6), although the level of board ownership grew from the beginning of the global financial crisis. All the insider ownership variables proved to be insignificant in the models, most probably due to the relatively low level of ownership held by insiders in the sample companies.

Table 6. Dynamics of insiders' shareholding for the period 2003-2009

Average percentage of ordinary shares by shareholder type			
Year	***CEO***	***Chairman of the BDs***	***Board of directors***
2003	0.28%	0.01%	0.30%
2004	0.14%	0.13%	0.24%
2005	0.18%	0.22%	0.07%
2006	0.10%	0.08%	0.10%
2007	0.09%	0.11%	0.06%
2008	0.13%	0.08%	0.17%
2009	0.18%	0.17%	0.52%

Variables standing for a company's performance are significant in most of the models using either the dividend payout ratio on both share types (*Div_Payout)* or the dividend payout ratio on ordinary shares (*Ord_Payout*). 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 was expected based on the regression analysis: the *ROA* is inversely related to the dividend payout ratio. The estimated coefficients of these variables retain their sign in all the models.

Unlike the results for *Div_Payout* and *Ord_Payout*, of the control financial indicators, a company's size and financial leverage are significantly related to the preferred share dividend payout (*Pref_Payout*), whereas the variable *ROA* is insignificant in the models. It can be concluded that there is a positive relationship between a company's revenue and the dividends on its preferred shares, and a negative association between a company's financial leverage and the dividends on its preferred shares. No statistically significant relationship was revealed between *Pref_Payout* and *ROA*.

The obtained results suggest that the nature of the relationship between ownership structure and the ordinary shares dividend payout ratio is similar to that of the relationship between ownership structure and total dividend payout ratio. The dividend policy on preferred shares is considerably different from the dividend policy on ordinary shares or on both share types: it is essentially related to a company's performance and the presence of a controlling shareholder.

5. DISCUSSION OF THE RESULTS

None of the variables indicating the major owner's identity proved significant in the model for preferred shares dividend payout ratio. The authors believe that this finding is rational. Dividend payments on preferred shares could be considered as obligatory payments for a company, despite the absence of a strict legal requirement. Shareholders gain a voting right in the case of non-payment of dividends. Moreover, the non-payment or incomplete payment of dividends can decrease the market value of shares and become an obstacle to attracting external financing in future. These considerations, which are *a priori* for all owners, place preferred shares in a special position regarding the dividend policy. In addition, the owners of ordinary shares cannot realistically have a significant impact on dividend payout decisions regarding preferred shares.

For the models with dividend payouts on ordinary shares and both share types, an inverse relationship with the dividend payout ratio has only been revealed for the percentage of ordinary shares held by offshore companies and a financial institution holding at least 15 % of ordinary shares.

Consequently, a portion of ordinary shares being held by offshore companies is associated with a decrease in the dividend payout ratio. The impact of offshore companies on the amount of dividend payments has not been considered in the prior studies of foreign markets, since offshore companies' shareholdings in foreign firms are insignificant and offshore companies do not play such a critical role in the economy of foreign countries, especially in developed markets. This contributing factor was included in this study because of the specific nature of Russian businesses, in which offshore companies' shareholdings remain very high. The results suggest it may be more beneficial for a Russian company to transfer funds to offshore zones, thereby decreasing its income tax base in Russia, managing assets more efficiently, and lowering loan interest and royalty taxation.

Furthermore, an inverse relationship has been revealed between the dividend payout ratio for both share types and just ordinary shares and the presence of a financial institution among the large shareholders. A company with a financial institution among its large owners pays, on average, 8 to 11 % less net income as dividends on both share types and 7 to 8 % less on ordinary shares compared to companies without such a shareholder. This finding is contrary to what was suggested in Hypothesis 3. The results of previous studies regarding this issue are controversial. In this study, it could be assumed that the companies in which financial institutions play an important role are interested in more stable dividend payments and a lower dividend payout ratio.

We did not find any evidence of the existing relationship between the state ownership stake and dividend payments. It is worth noting that for the purpose of this study, data on the state's direct participation in a company was used when calculating the values of the state ownership share. However, additional analysis of the identity of controlling shareholders revealed the considerable extent of the state's indirect participation in companies (Table 7).

Based on this analysis of the sample, approximately 74 % (on average) of controlling owners represent the state directly (in 3 % of observations) or indirectly through state corporations (in 71 % of observations) and, therefore, could prefer a higher dividend payout level, being one of the most important income sources for the state budget. Table 7 and Table 8 illustrate the distribution of controlling shareholders by type.

Table 7. Controlling shareholder identity in the sample companies

Controlling shareholder type								
Year	***State***	***State corporation***	***Private non-financial company***	***Financial institution***	***Foreign company***	***Nominee holder***	***Offshore company***	***Total***
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%

Table 8. Distribution of controlling shareholders ownership by type

Share of controlling owners by type as a percent of total number								
Year	***State***	***State corporation***	***Private non-financial company***	***Financial institution***	***Foreign company***	***Nominee holder***	***Offshore company***	***Total***
2003	3.51%	77.19%	15.79%	0.00%	1.75%	1.75%	0.00%	100%
2004	1.79%	75,00%	21.43%	0.00%	1.79%	0.00%	0.00%	100%
2005	1.79%	73.21%	21.43%	0.00%	1.79%	0.00%	1.79%	100%
2006	1.87%	79.44%	8.41%	0.00%	0.93%	5.61%	3.74%	100%
2007	3.06%	77.55%	11.22%	1.02%	1.02%	4.08%	2.04%	100%
2008	2.04%	51.02%	32.65%	0.00%	2.04%	6.12%	6.12%	100%
2009	6.52%	41.3%	39.13%	0.00%	2.17%	4.35%	6.52%	100%

As already was noted, Russian companies tend to register holdings of shares under a nominee holder, i.e., institutional investors and other authorized institutions. This is specific to Russia and such a form of ownership is permitted by Russian law. Moreover, shares are often held through subsidiaries. These factors make it difficult to analyze a company's ownership structure, obstructing identification of the ultimate beneficiaries of a company's shares. Nevertheless, in the vast majority of cases, it is possible to identify whether the owner is a nominee holder or the ultimate owner since it is indicated by the company's records whether a nominee holder is registered instead of the ultimate owner.

It is evident from Table 7 and Table 8 that the state holds the largest share in Russian companies, mainly through state corporations. As this paper's analysis also shows, the state's share in companies' capital was decreasing amid the crisis of 2008–2009. This may be because the state was gradually divesting some assets, most probably triggered by the global financial crisis as the state came to need extra funds. With the state's share decreasing over the said period, the share in companies' capital of non-state companies from the non-financial sector, which were ostensible to become efficient owners of

major shareholdings, started to grow. The share of offshore companies also grew, which is generally due to the increasing role of offshore companies in Russian corporations. As noted above, financial institutions in Russia do not normally possess large ownership stakes in companies.

According to previous studies, a company's financial performance measures determine the size of its dividend payments. Gugler and Yurtoglu (2001), Bebczuk (2005) and Kowalewski (2007) noted – with respect to Germany, Argentina, and Poland respectively – the existence of a direct relationship between the dividend payout ratio and the company size. The results obtained in this paper are, thus, in accord with previous research findings.

Many prior studies have noted an inverse relationship between financial leverage and the dividend payout ratio, which is confirmed in this research. It could be explained by lower free cash flow caused by the necessity to pay interest on loans, as well as limitations on dividend payment opportunities imposed by loan contracts. Notably, the coefficient sign on the *ROA* variable for Russian companies with two classes of shares is opposite to that expected. *ROA* is inversely related to the dividend payout ratio, in contrast to the results obtained by researchers in foreign markets (e.g., DeAngelo and Stulz, 2004). This relationship may be explained by Russian companies with the highest ROA preferring to reinvest and paying, on average, a smaller portion of net earnings as dividends.

Based on the obtained results, it can be concluded that the dividend policy on ordinary shares has the relationship with both the ownership structure and the performance of a company, while a dividend policy on preferred shares is essentially related to a company's performance.

6. CONCLUSIONS

Based on their reviewing of more than 400 research articles on dividends, Dewasiri and Weerakoon (2016) conclude, that dividend policy remains a research phenomenon that is still not resolved. It is due to the lack of consensus among scholars who fail to agree on the explanations of the dividend puzzle. Why companies pay dividends is still one of the issues with a high potential for further research in corporate finance and corporate governance. This paper investigates one of the directions of the research on dividend policy – the relationship between ownership structure as a corporate governance mechanism and dividend policy in companies with dual-class shares structure.

The findings of many prior studies suggest that the major owner's identity is related to dividend payouts (Bebczuk, 2005; Faccio *et al.*, 2001; Kouki and Guizani, 2008; La Porta *et al.*, 2000). This study tested assumed relationships between foreign owners, offshore companies, the state, Russian non-financial companies, financial institutions, and insiders holding a significant share in a company's capital and the dividend payout ratio, based on the agency conflict and/or differences in the taxation of dividend income and capital gains.

One of the important conclusions to be drawn from the study is that dividends on ordinary shares dominate dividend payout behavior. By examining companies with dual-class shares, the authors expected to reveal some specifics of the relationship between the ownership structure and the dividend policy for ordinary and preferred shares. While ordinary shareholders enjoy rights that allow them to gain control of a company, owners of preferred shares essentially hold their investments for a cash flow right. Regarding payments on preferred shares, no influence of key stakeholders is observed and the conclusion can be drawn that all decisions on a policy towards preferred shares had already been made when these shares were issued. In this regard, all that a company must do, - is maintain the status of these shares and satisfy the interests of these shareholders, whose only possible right is to dividends, except when the voting right is granted in cases of the omitted dividend payment.

The conclusions presented in the study are consistent, to a certain extent, with the findings of studies in other countries; however, there are also a number of specific characteristics attributable to the special status of the two share types in Russia, the specific ownership structure in Russian companies, the roles of various company owners, and, finally, owners' preferences on using dividend policy as a mechanism to mitigate the agency problem or extract private benefits. Ownership in Russia is highly concentrated, and investor protection is low. Large shareholders could substantially affect a company's decision-making, including its dividend policy. They could both benefit minority shareholders by better monitoring management (Shleifer and Vishny, 1997) and act to the detriment of minorities by extracting private benefits. Therefore, it could be concluded that there is a difference in the relationship between ownership and the dividend policy for ordinary and preferred shares.

One of the most important conclusions yielded by the study, which is a novel finding in this field, is that the ownership structure, despite being one of the major corporate governance mechanisms, has virtually no relationship with the dividend policy on non-voting (preferred) shares. Further studies are needed to investigate other factors of corporate governance that could impact on the dividend policy in companies issuing both voting and non-voting shares.

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