**On the Interaction between Dividends and Private Benefits of Control**

**Amel Belanes[[1]](#footnote-1) and Raoudha Djebali**

**High Institute of Management of Tunis, Lab GEF2A,**

**University of Tunis - Tunisia**

**ABSTRACT.** Based on the free cash flow and tunneling hypotheses, this paper explains the mutual role of dividends and rent expropriation on each other in French listed firms. We demonstrate that dividends and private benefits of control are interdependent in highly-concentrated firms. Empirical results reveal that higher benefits of control are associated with higher dividends while the latter negatively affects the former. On one hand, dividends play a significant role in reducing the rent expropriation scope; which is in line with the free cash flow hypothesis. On the other hand, an increase in private benefits contributes to increasing dividends, as aware investors concerned with expropriation require higher dividends and dominant investors would rather accept to signal their unwillingness to harm minority shareholders. Such a finding is consistent with rent protection hypothesis. The study also reveals that blockholders prefer more cash through either shared dividends or private benefits whereas the presence of multiple dominant investors would curtail both benefits for the sake of the firm. Block holding is then a double-edged sword in civil law countries, such as France, and adjusting the ownership structure or enacting new rules for ownership control may be a key step for policy makers to attract more investors but above all to enhance the protection of their interests.

**Keywords:** Corporate governance; Ownership control; Dividend policy; Asset Tunneling; Rent Protection.

**JEL Classification:** G32; G34; G35

1. **Introduction**

A large stream of corporate governance research has focused on agency conflicts firstly addressed by Berle and Means (1932) and later by Jensen and Meckling (1976). The agency models can be divided into at least two distinct groups. The first set of studies analyzes agency conflicts that might arise between managers and shareholders mainly because of objectives divergence (Morck, Shleifer and Vishny, 1988; McConnell and Servaes, 1990). Managers are tempted to follow opportunistic behavior so as to entrench themselves at the expense of shareholders. For instance, they can invest in unprofitable projects whose costs are assumed by shareholders to accrue private benefits. The second range of research investigates agency conflicts between debtholders and shareholders (Kalay, 1982; Jensen, 1986; Fama and Miller, 1972). The latter may urge the manager to take excessive risk to maximize revenues even though the risk downside is borne by the former or not to invest in positive NPV projects simply because value would benefit lenders. Both categories of agency costs are mostly addressed in widely dispersed-ownership firms where all shareholders fairly receive their revenues through dividends. Dividends are indeed considered as a corporate governance mechanism that contributes to curtailing agency conflicts (Rozeff, 1982; Eaterbrook, 1984; Jensen, 1986). Furthermore, empirical evidence report higher dividends for such a context thanks to the law enforcement (La Porta et al., 2000).

However, these findings are not always consistent especially for firms located outside the US and the UK. There is an increasing evidence of a concentrated ownership held by one or a few blockholders (Zingales, 1994; La Porta et al., 1999; Becht and Mayer, 2000; Classens et al., 2000; Johnson et al., 2000). In such a context, concentrated share ownership is no longer a key mechanism of corporate governance. Large shareholding is believed to motivate shareholders to undertake monitoring (Shleifer and Vishny, 1986). In their path breaking work, Grossman and Hart (1980) argue that large shareholders have the discretion and the incentives to siphon off private benefits that are not shared by all shareholders proportionally to their stake. Indeed, the controlling holder enjoys the full benefits although he only bears a fraction of the costs of these benefits; that is the forgone dividend in proportion of his cash flow rights.

There are several ways of expropriation and rent protection such as the tunneling of assets and profits, like the use of the firm’s assets to favor other firms owned by the first blockholder, or to offer the latter extra perks or high wages, or the use of unfair transfer pricing between controlled parties or the firm resources abuse (Bebchuk et al., 1999; La Porta et al., 1999; Claessens and Djankov, 1999; Claessens et al., 2000; Johnson et al., 2000; Faccio et al., 2001; Faccio and Lang, 2002; Nenova, 2003; Le maux, 2004; Roosenboom and Schramade, 2006; Boubaker and Labégorre, 2008). Accordingly, severe agency conflicts between controlling blockholders and small investors can rise in those countries where legal protection is not strong enough to protect minority shareholders (Harris and Raviv, 1988; Holderness and Sheehan, 1988; Barclay and Holderness, 1989). This is mainly due to the discrepancy between voting and cash flow rights caused by pyramiding, cross-holdings and large shareholdings. In such a context, dividends are reported to be low (La Porta et al., 2000). Likewise, it is an open question whether dividends still have their assigned corporate governance role.

Despite the extensive research on dividend policy and the substantial ownership literature, there are some gaps and the role that might have dividends, in countries where private benefits are expected to be high, is not well developed. The controversy about why firms distribute dividends has not been yet agreeably resolved in disperse-ownership firms (Renneboog and Trojanowski, 2005); let alone in concentrated-ownership firms. There is also little empirical evidence that analyzes the relationship between ownership concentration and dividend policy but related results are mixed and confusing. There is also a growing research that is focusing on the relationship between private benefits and block ownership with no consensus on both sign and magnitude of the relationship. The role of blockholders is itself not yet well addressed (Holderness, 2003). But above all, it is important to analyze the relationship between dividends and private benefits of control in an effort to gain a better understanding of what role the largest shareholder might play in setting dividend policy.

To the best of our knowledge, there is no previous study that investigates the interaction that might exist between private benefits of control and dividends. On one hand, majority shareholders can enforce a dividend policy that likely reduces private consumption by firm management but ultimately maximizes their own private benefits at the expense of minority investors. Dividend payout may then have either a positive or a negative influence on private benefits. On the other hand, a firm with an acute problem of rent protection is expected to distribute lower dividends but can also offer higher dividends to signal the firm value and to hide expropriation problems. Therefore, private benefits are argued to have either a positive or a negative impact on dividend payout. In this paper, we focus on both kinds of benefits that can receive shareholders, namely private and shared benefits, and analyze the potential effect that may have on each other within a large sample of French firms during 2009-2013. The ownership of French firms is often concentrated due to cross and pyramidal holdings as well as dual class shares; with large stakes mostly held by a few blockholders, namely a family or a State (Johnson and al., 2000; Faccio and Lang, 2002). Agency conflicts particularly arise between controlling owners and minority shareholders, what explain the significant levels of private benefits within French firms (Johnson and al., 2000; Nenova, 2003; Le Maux, 2004; Roosenboom and Schramade, 2006; Boubaker and Labégorre, 2008). Such features make French firms a worth-studying sample for the relationship between dividends and private benefits.

The remainder of the paper is structured as follows. Section 2 reviews the related literature and formulates testable hypotheses. Section 3 presents the sample as well as the methodology. Empirical results are discussed in Section 4. Section 5 concludes with implications of the findings and suggestions for future scope.

1. **BACKGROUND Literature**

The salient agency problem in civil countries is the expropriation of outside small investors by controlling shareholders and the conflict between them is one of the main issues in corporate governance. An explanation for why dividend payments, as a pro-rata pay out for both large and small shareholders, and private benefits, which are only extracted by controlling owners, should interrelate is put forward in this paper. To shed some light in such a relationship, both directions are hereafter debated.

* 1. **On the impact of rent protection on dividends**

Effects of control structure and inherently related private benefits on the shared benefits, for instance dividends, are ambiguous. Higher levels of rent protection are associated with either higher or lower dividends. That is, a severe rent extraction and expropriation of small outside shareholders either contributes to increase the distribution of profits or can further decrease payout ratio.

Dividends are obviously referred as reward for providing finances to a firm. Therefore, firms are expected to pay dividends whatever is the level of private benefits so as to appeal to investors and to reassure them; and to consequently guarantee that they continue providing the firm with necessary funds. According to the signaling hypothesis, firms should select the suitable dividend policy that best communicates the firm growth and future prospects; especially that conventional accounting reports are inadequate guides to do that (Ross, 1977; Bhattacharya, 1979; Gordon and Malkiel, 1979). In this vein, private benefits are argued to not affect dividends.

Alternatively, high dividends are assessed to be granted to small shareholders in systems where the expropriation level is potential and significant. Indeed, rational investors who expect expropriation tend to require higher dividends (Faccio et al., 2001). Indeed, it is not ensured that they can get a fair return. Thus, they would persuade insiders to distribute higher dividends in order to reduce at least the expropriation scope. In the same vein, dominant blockholders would rather distribute higher dividends so as to signal their unwillingness to expropriate minority investors. Such an alternative explanation takes into account the rent extraction property of dividends (Gugler and Yurtoglu, 2003). The positive effect of rent protection on dividends is particularly relevant in countries where shareholder rights are not well protected and developed (La Porta et al., 2000).

However, the rent extraction hypothesis suggests that a severe conflict can rise between the large controlling shareholders and outside minority investors, especially in firms which are highly-concentrated and that operate in poor legal environment (La Porta et al., 2000). Accordingly, blockholders abuse their power to extract rents from minority shareholders and are willing to increase the size of the pie. Their preference likely tilts towards lower dividends (Shleifer and Vishny, 1997; Faccio et al., 2001; Gugler and Yurtoglu, 2003; Renneboog and Trojanowski, 2005; Khan, 2006). Highly-concentrated ownership firms are also less likely to raise dividends despite an increase in earnings or a decrease in leverage (Harada and Nguyen, 2011). Furthermore, decision makers may prefer value-decreasing outcomes that are only justified because of wealth transfer from other stakeholders (Jensen and Meckling, 1976). Likewise, majority shareholders are tempted to accrue higher private benefits, leaving too little benefits to be shared with other small investors; what results in lower payout ratios.

Moreover, the presence of another large shareholder may contribute to curtail the expropriation problem as the presence of multiple dominant shareholders likely lead to a mutual monitoring; what might enhance corporate governance. The presence of another large shareholder is therefore assessed to result in higher dividends (Faccio et al., 2001). Similarly, regulation is likely to influence agency costs and to either facilitate or impede reaping out private benefits at the expense of minority shareholders (La Porta et al., 1997, 1999, 2000; Pagano and Rôell, 1998; Franks and Mayer, 2001). When the judicial system is effective in preventing exploitation of a control position and that legal protection of minority shareholders is strong enough, firms likely pay higher dividends (Zingales, 1994; Claessens et al., 1999; Faccio et al., 2001). Moreover, both financial constraints and pecking order effects may affect the dividend policy, and consequently the above inferences about the relationship between private benefits and dividends. For instance, firms tend to payout lower dividends when they are financially constrained or their cost of external capital is greatly rising due to high asymmetry of information. Firms can even omit dividends to meet the improvement of their growth opportunities and, hence, to lessen the need for future external funding that may decrease the firm value (Myers and Majluf, 1984).

* 1. **On the influence of dividends on rent expropriation**

Shared benefits, namely dividends, are argued to mitigate the expropriation problem of controlling shareholders at the expense of small investors. But the very opposite argument also holds true. Distributing higher dividends may lead to either more or less relevant private benefits of control.

On one hand, the free cash flow hypothesis advocates that dividends represent an ideal device to reduce free cash flow available to managers; what ultimately contributes to enhance financial discipline and corporate governance (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986). There is a large bulk of empirical evidence based on the seminal work of Jensen and Meckling (1976) that reports agency cost explanations for changes in dividends. Accordingly, an increase in dividends may reduce the discretionary funds on the hands of the controlling owner that he can potentially expropriate. By contrast, distributing fewer dividends would likely leave more money at the discretionary use of the dominant blockholders, and hence a more serious issue of rent expropriation. Dividends are in fact believed to remove the corporate wealth from insider control (La Porta et al., 2000). Therefore, dividends are argued to play a significant role in limiting rent extraction and expropriation of minority shareholders. That is higher dividends are expected to be associated with lower private benefits of control.

On the other hand, large shareholders would rather grant higher dividends in order to signal their unwillingness to exploit minority shareholders (Gugler and Yurtoglu, 2003). Indeed, insiders have more information about firms’ future cash flow than do outsiders. They particularly have incentives to convey that information to outsiders. Dividends can be an excellent signaling scheme of such information especially that they are believed to play a great role in limiting rent expropriation scope. Therefore, dividends are claimed to signal the severity of such a problem, and likewise, dividend change announcements provide new information about that problem. However, the reality can be so far. Large shareholders are tempted to urge managers to distribute higher dividends so as to hide the severity of the expropriation problem as well as the acute con1ict between the controlling owner and small outside shareholders and to ultimately reveal the unwillingness of the former to expropriate the latter. Accordingly, the rent extraction hypothesis expects positive abnormal returns for dividend increases, implying significant levels of private benefits that the controlling party vainly tries to disguise. Meanwhile, higher dividends are assessed to positively influence the level of private benefits of control. Such a finding is also consistent for personal profits that are reaped by managers (Fudenberg and Tirole, 1995). For instance, managers who derive private benefits from their key position have incentives to smooth dividends and to continue distributing high dividends even in bad times in order to entrench themselves and lengthen their tenure.

**3. Data and research design**

***3.1 Sample Selection and Data***

Our sample is composed of 110 French listed firms, over the period 2009-2013, belonging to the SBF250 index (*Société des Bourses Françaises 250 index*) which represents all sectors of the French economy. We eliminate both regulated and financial firms as well as those with missing data relative to the amount of related party transactions, ownership concentration, dividend payout ratio and financial statement. All data have been manually collected from the reference document available on the website of the AMF (*Autorités des Marchés Financiers*); otherwise we use the annual reports.

***3.2 Variables Estimates***

Four sets of variables are used in our study: the proxy of the private benefits of control, the dividend payout ratio in addition to the estimates of ownership structure and financial characteristics of the firm.

*3.2.1 Measuring Private Benefits of Control and Dividends*

Many studies have estimated private benefits of control through indirect measures: the legal system (Djankov et *al.,* 2008; La Porta et *al.,* 2000), the ratio of control rights on cash flow rights (Zingales, 1994). Few studies have used direct proxies to estimate benefits of control: the pricing of stock blocks trades (Barclay and Holderness, 1989; Dyck and Zingales, 2004), the control premium (Nenova, 2003; Masulis et *al.,* 2009), the CEO compensation (Ehrhardt and Nowak, 2003) and the amount of related party transactions (Berkman et *al.,* 2009; Cheung et *al.,* 2009). Our measure of private benefits of control is based on the amount of related party transactions that accrue to large shareholders. RPT is the proxy of the related party transactions. It is approximed by the neperian logarithm of the sum (1+ the amount of related party transactions). Following Bradford et al. (2013) and Adjaoud and Ben-Amar (2010), dividend payout (DPR) is defined by the ratio of cash dividend per share to earnings per share.

Higher levels of private benefits of control can either increase the dividend payout ratio (La Porta et al., 2000; Faccio et al., 2001; Gugler and Yurtoglu, 2003) or decrease it (Shleifer and Vishny, 1997; Faccio et al., 2001; Renneboog and Trojanowski, 2005; Khan, 2006; Harada and Nguyen, 2011). Alternatively, higher dividends can imply either a severe rent extraction and expropriation (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986; La Porta et al., 2000) or a lower issue (Fudenberg and Tirole, 1995; Gugler and Yurtoglu, 2003)

*3.2.2 Ownership Structure and Corporate Governance Variables*

Two variables are introduced to examine the impact of ownership concentration: **CONC** and **MULT**. Following Dyck and Zingales (2004), we use the proportion of equity held by the three largest shareholders to approximate the ownership concentration (**CONC**). Controlling shareholders can either intensify or reduce private benefits of control. Therefore, largest shareholder can either increase dividend payout (Jensen, 1986; Thanatawee, 2013) or reduce dividends payments (Dyck and Zingales, 2004; Maury and Pajuste, 2002). **MULT** is a binary variable that takes 1 if there is a second shareholder that held at least 10% of the control rights, 0 otherwise. The presence of a second large shareholder may either intensify (Maury and Pajuste, 2002) or reduce the conflicts of interest between controlling shareholders and minority shareholders (Gugler and Yurtoglu, 2003). The presence of another controlling blockholder is believed to influence the level of both distributed benefits and expropriated rent (Pagano and Roell, 1998; Faccio et al., 2001; Maury and Pajuste, 2002).

In addition to ownership concentration, we add two other variables that might explain the level of private benefits based on the theoretical arguments of Bebchuk (1999), Faccio et al. (2001) and findings of Dyck and Zingales (2004), namely dual-class-shares and cross-listing. Private benefits are argued to be lower in US cross-listed firms (Doidge et al., 2009) whereas in dual class firms they are significantly higher (Masulis et *al.,* 2009).

*3.2.3 Firms Characteristics Estimates*

Five additional variables are introduced, namely the firm size (SIZE), the profitability (ROA), the growth opportunities (Growth), the leverage (LEV) and the asset tangibility (TANG). These variables may significantly influence both the dividend payout ratio as well as the private benefits of control.

SIZE measures the size of the firm and is approximed by the neperian logarithm of total assets. Larger firms are more mature and have higher free cash flows. They are more able to distribute higher dividends than smaller firms (Fama and French, 2002). A positive relationship between firm size and dividends is thus expected. Similarly, larger firms are believed to provide more non-pecuniary and pecuniary benefits and private benefits of control can be more easily extracted (Barclay and Holderness, 1989; Weifeng et al., 2008). We also consider the influence of asset tangibility (TANG) on private benefits. Asset tangibility is apprehended by the ratio of fixed assets divided by total assets. It is expected that large shareholders find it harder to extract resources from the firm when the assets are observable such as the tangible assets (Dyck and Zingales, 2004; Hwang and Hu, 2009).

Return on assets ratio (ROA) measures profitability and is apprehended by the ratio of operating income and total assets**.** Jensen et al. (1992), Truong and Heaney (2007) find that firms with higher profitability tend to pay higher dividends than firms with lower profitability. Therefore, we anticipate a positive relationship between profitability and payout ratio. Likewise, a similar relationship between private benefits and profitability is expected. Majority shareholders are likely to drain off larger benefits of control when the firm is more profitable (Dyck and Zingales, 2004). Furthermore, opportunities growth (Growth) may influence the dividend policy. Opportunities growth is approximated by the market-to-bookratio. Truong and Heaney (2007) find that firms with higher growth opportunities retain cash for future investments and are less able to pay higher dividend. Likewise, lower levels of private benefits are reported for firms with higher opportunities of growth (Weifeng et al., 2008; Mueller, 2008).

Debt (LEV) may also influence the dividend policy. Thus, higher levered firms are financially constrained and less able to pay higher payout ratio (Gugler and Yortuglu, 2003). (LEV)is apprehended by the ratio of total liabilities to total assets**.** It is expected that debt negatively affects the dividend payout ratio so as to shelter the debt from bankruptcy risks (Amihud and Murgia, 1997; Jensen et al., 1992). Debt is also expected to reduce rent extraction and expropriation. This is consistent with the free cash flow hypothesis (Jensen, 1986).

***3.3 Regressions Specifications***

Previous studies try to explain each variable, the dividend payout decision and the level of private benefits of control, independently. Both of them are determined conjointly and are related to the firm’s characteristics. Therefore, a simultaneous equation would be the best tool to investigate the effects of these two interdependent decisions.To estimate the relationship between private benefits of control and dividend payout ratio, we examine successively three models. We first assess the impact of the benefits of control on the payout ratio (Model 1), then the influence of dividend payout ratio on the private benefits of control (Model 2) and finally the simultaneous relation between them (Model 3). To estimate models 1 and 2, we use panel data approach while the simultaneous equations relative to model 3 are estimated by the three-stage least squares (3SLS) analysis.

**Model 1:** *Dividend payout ratio* = *f* (Private benefits of control, Ownership structure, Control Variables)

**Model 2:** *Private benefits of control* = *f* (Dividend payout ratio, Ownership structure, Control Variables)

**Model 3:** 

**4. Empirical Results**

***4.1 Descriptive Statistics and Univariate Analysis***

Table 1 presents the descriptive statistics of the dividend payout ratio, the related-party transactions as well as the firms’ characteristics. Table 1 puts in evidence that French firms distribute less than the third of their earnings as dividends; the average ratio of dividend payout in is 27.12 percent. Table 1 also reveals that half the capital of most French firms is mainly held by the three principal shareholders. The average percentage of common shares owned by the three largest shareholders is 44.4% and varies from 2% to 99.9%.

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| **Table 1. Descriptive Statistics** | | | | |
| **Variables** | **Mean** | **Min** | **Max** | **S.D** |
| **DPR** | 0.2712 | 0 | 4.53 | 0.7081 |
| **RPT** | 6.471 | 0 | 11.244 | 3.699 |
| **CONC** | 0.444 | 0.02 | 0.999 | 0.243 |
| **SIZE** | 14.13 | 7.6 | 19.003 | 2.109 |
| **LEV** | 0.563 | 0.040 | 1.3 | 0.1969 |
| **TANG** | 0.2114 | 0 | 0.98 | 0.191 |
| **ROA** | 0.066 | -0.7 | 0.6 | 0.0918 |
| **Growth** | 2.860 | 0.180 | 12.87 | 3.619 |

Table 2 presents the Pearson correlation coefficients of variables used in the analysis. The results show a significant negative relationship between the related party transactions and the dividend payout ratio. Such results reveal that the dividend payout ratio decreases with the level of private benefits of control, as stipulated by the study of Gugler and Yurtoglu (2003). Such result provides the univariate support for their importance. This study stipulates that firms with high levels of private benefits of control are likely to distribute lower dividend. Table 2 points as well a positive correlation between profitability and the payout ratio. Such results reveal that the payout ratio increases with profitability, which is in line with the findings of the study of Truong and Heaney (2007). However, the correlation between the dividend payout ratio and debt ratio is significantly negative.

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| **Table 2. Pairewise correlation** | | | | | | | |
|  | **DPR** | **RPT** | **LEV** | **CONC** | **SIZE** | **Growth** | **ROA TANG** |
| **DPR** | 1.000 |  |  |  |  |  |  |
| **RPT** | -0.0013\*(-0.007) | 1.000 |  |  |  |  |  |
| **LEV** | -0.087\* (0.0328) | 0.0864\* (0.0918) | 1.000 |  |  |  |  |
| **CONC** | 0.0222\* (0.014) | 0.1480\* (0.0039) | 0.0096 (0.825) | 1.000 |  |  |  |
| **SIZE** | 0.066 (0.1056) | -0.2371\* (0.000) | 0.0886\* (0.0260) | -0.2990\* (0.000) | 1.000 |  |  |
| **Growth** | 0.0019 (0.9679) | -0.1112\* (0.0344) | -0.0683 (0.1331) | 0.0657 (0.1696) | -0.0543 (0.2324) | 1.000 |  |
| **ROA** | 0.1036\* (0.011) | 0.030 (0.4839) | -0.2041\* (0.000) | 0.0491 (0.2576) | 0.0525 (0.1875) | 0.0323 (0.4784) | 1.000 |
| **TANG** | 0.0414 (0.335) | -0.136\* (0.007) | -0.1504\* (0.000) | -0.0339 (0.4571) | 0.2669\* (0.000) | -0.0634 (0.1641) | 1.000 |

***4.2 On the Relationship between Private Benefits and Dividends***

Table 3 summarizes the three sets of empirical results: those related to the influence of private benefits on dividends (Panel 1), those issued from the effect of dividends on private benefits of control (Panel 2) and finally the outcomes of the simultaneous relationship between private and shared benefits (Panel 3).

Panel 1 shows that dividend payout ratio increases with the related-party transactions. The higher are private benefits accumulated through related party transactions, the more dividends the firms distribute. Thus, in presence of higher private benefits, rational investors that expect being expropriated from controlling owners would demand higher dividends to reduce the scope of rent extraction and expropriation. This finding corroborates those of Faccio et al. (2001). Panel 1 also highlights that highly-concentrated ownership firms distribute higher dividends. This is consistent with La Porta et al. (2000), Jensen et al. (1992) and Harada and Nguyen (2011), who found substitution between dividends and insider ownership as monitoring devices. However, empirical results reported in Panel 1 reveal that firms with multiple blockholders distribute fewer dividends. Perhaps, the presence of multiple dominant shareholders may lead to collusion between them; what facilitates rent expropriation at the expense of minority investors (Pagano and Roell, 1998; Faccio et al., 2001; Maury and Pajuste, 2002). Besides, Panel 1 reports that dividend payout ratio increases with the size and profitability of the firm accordingly to the arguments of Fama and French (2002) as well as Truong and Heaney (2007). Dividends however decrease with the firm leverage which highlights firms’ incentives to favor lower and not necessarily stable dividend payouts to protect its debt better from bankruptcy risks (Amihud and Murgia, 1997; Jensen et al., 1992).

Panel 2 puts in evidence that the level of private benefits decreases with the dividend payout ratio. Thus, an increase in dividends would reduce the size of private rents that controlling owners would extract and expropriate from small investors. This is consistent with free cash flow hypothesis of Jensen (1986) that advocates that dividends play a significant role in reducing agency conflicts and enhancing corporate governance. Panel 2 also points that the level of private benefits increases with the ownership concentration. Such a finding provides further support for the rent extraction hypothesis by revealing that dominant blockholders are tempted to accrue private benefits at the expense of other outside minority shareholders (Barclay and Holderness, 1989; Shleifer and Vishny, 1997). However, Panel 2 highlights that the presence of another blockholder implies a mutual monitoring and thus would curtail the problem of rent expropriation; which is already argued by Bloch and Hege (2001), Faccio et al. (2001) and Maury and Pajuste (2005). Similarly, rent expropriation is more difficult when firms are cross-listed in the United States (Doidge et *al.,* 2009), thanks to strong legal protection and effective regulation. In the contrast, private benefits are more easily extracted in dual class firms in which the major issue is between majority and minority shareholders rather than shareholders and managers (Masulis et *al.,* 2009). Finally, Panel 2 shows that according to Barclays and Holderness (1989) and Weifeng et al. (2008), higher private benefits are likely accrued in bigger firms. Similarly excessive leverage would imply a severe rent extraction (Nicodano and Sembenelli, 2004) and so does high profitability (Dyck and Zingales, 2004). However, firms with higher fixed assets and greater growth of opportunities are associated with a lower level of private benefits of control. The negative effect of growth opportunities on rent expropriation is argued by Weifeng et al. (2008) as well as Mueller (2008) and that of tangible assets is assessed by Dyck and Zingales (2004) and Hwang and Hu (2009).

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| **Table 3.** **Relationship between Private Benefits and Dividends** | | | | |
|  | Panel 1 | Panel 2 | Panel 3 | |
|  | **DPR** | **RPT** | **DPR** | **RPT** |
| **Intercept** | -0.1302 (-3.51\*\*\*) | 10.409 (15.01\*\*\*) | -0.6760 (-2.09\*) | 4.9319 (4.05\*\*\*) |
| **RPT** | 0.0039 (3.27\*\*\*) |  | 0.05213 (2.14\*) | - |
| **DPR** |  | -0.4207 (-2.78\*\*) |  | -5.4858 (-2.10\*) |
| **CONC** | 0.1071 (5.83\*\*\*) | 1.204 (3.69\*\*\*) | 0.1604 (1.41) | 1.3775 (1.53) |
| **MULT** | -0.07 (-6.55\*\*\*) | -0.7005 (-4.02\*\*\*) | -0.069 (-5.33\*\*\*) | -0.744 (-1.47\*\*\*) |
| **Dual\_class** |  | 2.21 (7.52\*\*\*) |  | 3.1944 (5.31\*\*\*) |
| **Cross\_list** |  | -1.0304 (-2.4\*\*) |  | -1.3876 (-2.09\*) |
| **LEV** | -0.1544 (-5.23\*\*\*) | 2.661 (8.55\*\*\*) | -0.3728 (-2.7\*\*) | 1.8731 (1.46) |
| **Growth** | -0.00004 (-0.18) | -0.0035 (-0.89) | 0.0008 ( 1.65) | -0.00796 (-2.24\*) |
| **ROA** | 0.6346 (9.29\*\*\*) | 3.0195 (3.52\*\*\*) | 0.6022 (2.41\*\*) | 7.3764 (1.71\*) |
| **TANG** |  | -2.70 (-4.79\*\*\*) | - | -2.346 (-1.92\*) |
| **SIZE** | 0.0286 ( 12.07\*\*\*) | 0.4169 ( 8.27\*\*\*) | - | 0.1837 (1.02) |
| **Adj. R²** | 18.08% | 16.2% | 9.13% | 25.72% |
| **N** | 534 | 534 | 534 | 534 |
| RPT: neperian logarithm (1+the amount of related party transactions; DPR: ratio of dividend per share and earnings per share; CONC: sum of the shares of the three major shareholders; MULT: a dummy variable that takes 1 if the firm has a second shareholder with at least 10% of the voting rights and 0 otherwise; Dual\_class: binary variable that indicates whether firms have dual class share; Cross-list: an indicator to identify whether a company is listed on a US exchange; LEV: total debt over assets; Growth: market-to-book ratio; ROA: ratio of profit before interest and tax to total assets; TANG: ratio of fixed assets to total assets; SIZE: neperian logarithm of book value of the total assets of the firm.  \*\*\*, \*\*, \* denote significance at 1%, 5%, and 10% level, respectively. | | | | |

Panel 3 presents the results of the three-stage least squares (3SLS) analysis in which both private benefits of control and dividend payout are endogenous variables and simultaneously interrelate. Most findings reported in Panel 3 converge with those already exhibited in Panel 1 and Panel 2 which separately investigate the influence of benefits of control on dividend payout ratio and the impact of latter on the former. That is, not only the dividend policy that influences the level of the private benefits of control; but also the latter does interfere when the controlling holder decides the payout ratio of the firm. On one hand, higher private benefits result in higher dividends; what reveals the incentives of rational investors concerned with the potential expropriation to demand higher dividends. On the other hand, distributing higher dividends contributes to lessening the level of private benefits; what puts in evidence the role of dividends as a monitoring scheme. Furthermore, highly-concentrated firms exhibit higher levels of both private and shared benefits. Blockholders are tempted therefore to accrue profits, whatever is the kind. However, the presence of multiple dominant blockholders would reduce dividend distribution as well as rent expropriation; leaving hence more cash flows to the firm for reinvestment and future opportunities.

**5. Conclusion**

This study investigates whether the dividend policy affects the private benefits of control in France; or that is the level of private benefits of control that drive the firm payout policy. The study is carried on 110 French firms during 2009-2013. The empirical findings of this study suggest that the private benefits of control and the dividend payout ratio are interdependent. Specifically, higher private benefits result in higher dividends and distributing out fair profits, namely dividends, implies lower rent extraction and expropriation. This simultaneous relationship is in line with both the rent-protection theory and the agency theory.

On one hand, higher levels of dividends reduce the private benefits of control in the hands of the dominant blockholders. In contrast, a decrease in dividends implies more severe rent extraction and expropriation of small shareholders by controlling shareholders. Therefore, dividends play a significant role in reducing rent extraction of minority shareholders. This result consistently supports the free cash flow hypothesis that highlighted the monitoring role of dividends. On the other hand, an increase in private benefits of control contributes in improving the dividend payout ratio. Thus, rational investors anticipating being expropriated require higher dividends. Likewise, large shareholders would rather grant higher dividends in order to signal their unwillingness to expropriate minority shareholders. Such a finding takes into account the rent extraction property of dividends. The study also shows that blockholders prefer more cash through either dividends or private benefits. In contrast, the presence of many blockholders would contribute to reducing dividend distribution as well as private benefits extraction and expropriation. The presence of multiple dominant investors would prioritize the firm value. More specifically, it enables the firm to hold more cash to pursue investment opportunities.

This research adds new insights to the existing literature on agency theory and international corporate governance through at least three channels. First of all, we take advantage to derive our measure of private benefits of control through direct proxy: the related-party transactions. Second, we focus on the simultaneous relationship that might directly exist between these two kinds of benefits. Most previous studies deal with the relationship between, on one hand, block ownership, and on the other hand, either private benefits or dividends. Third, we investigate such a simultaneous relationship in an ideal pattern that exhibits a highly concentrated ownership; and hence the problem of rent expropriation is so acute.

Several practical implications can be associated with this study. For instance, large shareholding, which is an eminent criterion of civil law countries such as France, is a double-edged sword. It works as a monitoring scheme that enables both majority and minority shareholders to get better return on their investments; but also offers incentives for the former to siphon off private benefits at the expense of the latter. Therefore, determining whether this higher level of dividends ensures better protection of minority shareholders deserves further investigation. Besides, aware shareholders should not look for high dividends as such, even though large dividends do not necessarily hide an acute problem of expropriation. Shareholders should be concerned with the firm sake rather than their own interests as higher dividends may result in an increase in the need for external funds or even in the loss of good growth opportunities. Thus, adjusting the ownership structure of firms or enacting new rules for ownership control may be a crucial step for policy makers in civil law countries, such as France, if they wish to appeal to more investors and to improve the protection of their interests; and hence to their rival common law peers.

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1. Corresponding author : amel\_bns@yahoo.fr [↑](#footnote-ref-1)