Why do Family Firms Pay Cash Dividends in Emerging Markets? Corporate Control and Family Succession in Korea

Young Kyung Ko*

Sunway University, Malaysia

Abstract: Following the economic crisis in 1997, the Korean government introduced the enhanced corporate governance and reform policy, which drove family-controlled firms to search strategic reaction for control succession and wealth transfer. This paper explores alternative explanations for why Korean firms choose to pay cash dividends around this corporate reform period. What lead firms to pay cash dividends remains largely unexplained by the reducing agency cost, signaling, or life-cycle theories. This study focuses on relations between the ownership structure and cash dividends payout, seeking effects deriving from (i) controlling shareholder (CS) and (ii) their family members. The logit analysis result shows that firms with large control rights, especially higher ownership of other family members of CS are more likely to pay cash dividends. After adjusting for the characteristics that affect the degree of cash dividends, ownership variables are positively related to payout ratios and dividend yields. CS family members' ownership has a statistically stronger effect on payout ratios than CS's. These results provide the evidence of incentive for corporate control succession within the family with least costs carried by the family members of controlling shareholders who positively influence payout decisions and dividend ratios.

Keywords: Corporate Payout, Dividend, Corporate Control, Family Firm, Ownership Structure, Succession.

1. INTRODUCTION

Since Miller and Modigliani's study in 1961, a central investigative question is 'why do firms make cash payouts'. The author's argued that a corporation's payout policy is irrelevant to the firm's value in a 'perfect capital market' venue with a fixed investment policy. However, in contrast to classical theory, it is regularly and empirically observed that the announcements of dividends result in a significantly positive market response. Various empirical researches of payout policy suggested payout theories such as signal or agency models (Bhattacharya, 1979; Miller and Rock, 1985; Easterbrook, 1984; Jensen, 1986). Allen, Bernardo and Welch (2000), along with Baker and Wurgler (2004) offered alternative theories such as 'tax clienteles' and 'catering', respectively.

These payout theories inspired most academics and practitioners to undertake empirical investigations that relate the payout policy to a firm's value or characteristics. For example, Jensen (1986) argued that a cash dividend is paid to reduce free cash flow used for personal managerial objectives rather than shareholder interest. Hence, it points out that dividends are negatively related to debt/equity ratio or institutional investor ownership as alternate substitutes that alleviate the agency problem. Jensen, Solberg and Zorn (1992) provided direct empirical findings in support of Jensen's prediction (1986). In addition, Lang and Litzenberger (1989) found that market response to dividends more robustly changed for firms with a lower Tobin Q, indicating that dividends were paid to reduce agency problems for firms with poor growth opportunities. Allen and Michaely (2003), as well as Kalay and Lemmon (2008) provided further details. In contrast, Brav, Graham, Harvey and Michaely (2005) reported that financial executives explicitly provided little support for the agency hypothesis of payout policy. Despite great developments in research on motivations for paying dividends, most empirical studies, excepting a few international analyses, have examined U.S. samples (La Porta *et al*., 2000).

However, dividend policy outside the U.S.A. has received very little examination. Do firms actually pay cash dividends to shareholders to limit agency problems or signal future earnings in emerging markets? Answers to this question are important because firms engaged in emerging markets are faced with very different business environments than in the United States. Specifically, relatively poor corporate governance mechanisms or the prevalence of business groups, encourage different incentives for payouts or decisions to repurchase shares or choose cash dividends. Moreover, Mitton (2004) found that the positive relationship between firm-level governance and dividend payout was limited to countries with strong facilities for investor protection. This indicates that the extant agency theory might not be valid for firms in emerging markets. Hence, to fill the gap in current academic literature, I seek evidence that might

*Address correspondence to this author at the Sunway University Business School, Sunway University, Jalan Universiti, Bandar Sunway, 47500 Petaling Jaya, Selangor, Malaysia; E-mail: youngkyung.ko@gmail.com

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enhance my understanding of corporate payout policy in emerging markets.

My empirical approach began with evidence presented by Ko and Joh (2009) who found that a controlling family's cash-flow rights were positively related to cash dividends, but negatively related to stock repurchase. These findings were distinctive compared to evidence from the United States. First, cash dividends and stock repurchases are not alternative methods for cash payouts. Stock repurchases are used to further entrench a controlling family because they increase control rights without further investment of familial wealth. Hence, the controlling family does not gain the same outcome when paying a cash dividend. This result is incongruent with the findings of Grullon and Michaely (2002) who reported that cash dividends and stock repurchases were interchangeable in the United States. It is also inconsistent with the predictions of various payout theories. For instance, Bhattacharya (1979) implied that signaling a firm's prospects through a commitment to pay dividends or repurchase shares did not affect outcome. It is also valid for agency models such as presented by Easterbrook (1984) and Jensen (1986). This is to say that if cash is paid out and scrutinized by external professionals more frequently, or to reduce diversions of free-cash-flow, it matters not whether a firm relies on cash dividends or stock repurchases.

Secondly, Ko and Joh (2009) reported a positive relationship between controlling family ownership and cash dividends, which again opposes evidence from the United States. For example, Agrawal and Narayanan (1994), and Jensen, Solberg, and Zorn (1992) found that managerial or 'insider ownership' was negatively associated with cash dividends. They therefore argued that an insider-ownership stake substitutes for cash dividends and thereby reduces discrepancies between manager-shareholder conflicts. Jensen's agency model provides clear evidence for the negative relationship implied by a cash dividend paid to reduce conflicts of interests between owner managers and outside shareholders. To the contrary, Ko and Joh (2009) provided evidence that a family's controlling ownership had a positive effect on cash dividends, which is inconsistent with Jensen's agency theory and substitution theory.

More importantly, Ko and Joh (2009) assessment further indicated a need for alternative explanations that motivate cash dividend payouts in lieu of signaling or agency models in emerging markets. The majority of empirical studies provide evidence that non-U.S. firms affiliated to business groups behave differently from stand-alone firms within the United States. In accordance with such literature, Ko and Joh (2009) suggested that repurchasing shares was used to enhance a controlling family's leverage against hostile takeover threats; meaning the decision to repurchase shares is directed towards the interests of a controlling family. However, it is evident that cash dividend disbursements cannot appropriately replace the repurchase of shares. How then can I know why more cash is paid in firms with higher fractions of controlling family ownership? The present study provides an answer by relating such payouts to controlling family incentive.

This study's findings are now summarized. I found that leverage has a negative effect and a controlling family's aggregate ownership has a positive effect on cash dividends. According to the agency theory, these mixed results explain the motivation for dividend payments. In fact, they directly indicate a controlling family's incentive to increase member-family wealth by paying more cash dividends in firms in which they hold greater ownership. This also implies that cash dividends might be paid for private benefit in firms belonging to a business group. Although limitations in the interpretation of effects from other control variables exist, I argue the result is significant when these same variables are constant. Given that paying a cash dividend simultaneously increases the overall wealth of all shareholders, including an outside minority, subject to criticism, I suggest that cash dividends are paid in the interests of the controlling family.

To strengthen the hypothesis, I split controlling family ownership into 'ultimate' controlling shareholders and 'other' family members, and then compared separate effects on cash dividend payouts and dividend yield. If a cash dividend is paid only to increase controlling family wealth, which also increases wealth for all shareholders, I should observe no systematic differences between segregated effects. However, I noted that the sensitivity for cash dividend payouts increased relative to ownership and was specifically dependent on shareholder identity. Effects from ownership by 'other' family members are stronger than those of the 'ultimate' controlling Shareholder (CS). However, these effects on dividend yields are not significantly stronger than CS' effects.

Here I suggest that a current controlling shareholder generally has strong incentives to maintain 'within-

family succession'. Hence, successors are more likely drawn from among 'other' family members and possibly refers to a controlling family's succession incentive for cash dividend payouts in firms where 'other' family members have higher cash-flow rights. In fact, successors are subject to inheritance taxes for donated properties, which includes shares in affiliated firms. As such, they often need extra cash to buy stocks directly in member firms of business groups on the open market. This therefore predicts that cash dividends will be used to alleviate constraints placed on successor wealth, in particular, to facilitate the succession process for the next generation, within legal limits.

Why does a controlling shareholder rely on a legal method, such as cash dividends, for family member succession? It is well known that controlling shareholders divert resources for their own interests at the expense of minority shareholders. I therefore extended my effort to include relations between ownership structure and payout policy in Korean firms. Hence, I combined characteristics of a family business with determinants for cash dividend payouts. Most Korean firms are managed by controlling shareholders and usually comprise a single individual or family (La Porta *et al*., 1999, 2000; Claessens *et al*., 2000). For companies controlled by a family, control protection and succession plans are crucial to maintain corporate control continuity within the family (Burkart *et al*., 2003; Bennedsen *et al*., 2007).

Hellman, Jones and Kaufmann (2000), and Morck, Stangeland and Yeung (2000) suggested that private benefits from such control derived from nepotism and political connections (Faccio and Lang, 2002). Demsetz and Lehn (1985) submitted that family control held "amenity potential", meaning non-pecuniary private benefits that compromise profits. Other studies demonstrated that private benefits were extracted at the firm's expense to the detriment of shareholder value, interpreted as expropriation or 'tunneling' (Jensen and Meckling 1976; Johnson *et al*. 2000; La Porta *et al*. 1999). A controlling family that owns small cash flow rights can also control a large number of firms in a business group via the pyramidal structure of chain ownership or interlocking ownership of affiliated firms. Hence, they tend to appropriate private interests at shareholder expense (Almeida and Wolfenzon, 2006; Bebchuk *et al*., 1998; Claessens *et al*., 1999).

Controlling shareholders in Korea certainly wish to retain corporate control with lavish benefits and bestow these to family legatees (Burkart *et al*., 2003; Bennedsen *et al*., 2007). A simple method is to grant or bequeath ownership to a successor or retain control within the family. However, if successors are bequeathed or gifted benefits, they must pay inheritance or gift taxes, which range from 10 to 50% of donated properties. As the income tax rate on cash dividends is much lower than that on gifts and legacies, this provides incentive for controlling shareholders to use cash dividends instead. A controlling shareholder of a chaebol[1] often gives his property to his child expeditiously to avoid taxes imposed on property donation.

Based on the CS's incentive for avoiding inheritance tax, I suggest an alternative explanation that cash dividends may be used as a tool of wealth succession within a CS family. To verify this hypothesis, I segregated the ownership of controlling shareholders and 'other' CS family members' ownership, and examined their effect on payout decision and magnitude of cash dividends, separately. Controlling for firms characteristics that affect cash dividends, I found that control rights were positively related to cash dividends payout decision and payout ratios, particularly that the effect of ownership by a controlling shareholders' family was greater than that of the controlling shareholder. Furthermore, and contrary to expectations, profitability was negatively correlated with payout ratios while a firm's age had no effect. Moreover, the effect from a firm's cash flow was insignificant, but foreign ownership had a positive but insignificant effect. For dividend yields, other CS family members' ownership has significant effect, yet not stronger than CS's ownership does. Thus I provide evidence for the incentive of succession with least costs incurred by a controlling shareholder's family members who impose a positive influence on the cash dividends decision and payout ratios.

The remainder of this paper is organized as follows. Section 2 describes incentives and the status of control succession for Chaebols. Section 3 discusses cash dividends payouts and ownership structures of Korean firms. Section 4 describes the study's data and sampling. Section 5 examines factors that affect a firm's decision of payout and the magnitude of cash dividends. Section 6 concludes the study.

2. SUCCESSION OF CONTROL WITHIN A FAMILY

Most private business groups in emerging markets are controlled by families. In Korea, large family-

[1]Korean: *Chaebol*, from chae "wealth or property" + bol "faction or clan"

controlled business groups (*Chaebol*) have unwarranted influence on the Korean economy because of governmental supports that push Korea's export-driven industrialization policy. Chaebols held 46% of the Korean Economy in 2001, these holdings grew to 57.37% by 2012 (Economic Reform Research Institute).[2] A survey by the World Economic Forum in 2014 reported that Korea ranked 120th in terms of world market dominance, a position that enabled chaebols to further diversify business interests and increase profits.[3]

Chaebols, therefore, have massive incentive to bequeath the control of their numerous enterprises to their families. International evidence demonstrates that controlling shareholders extract private benefits from companies at the expense of a firm's accruing shareholder value (Jensen and Meckling, 1976; Grossman and Hart, 1998; La Porte *et al*., 1999). Private benefits deriving from control (measured through 'control value') vary across countries with Korea showing one of the highest reported control values (Nenova, 2003; Dyck and Zingales, 2004).

Table **1** lists founders and successors of Korea's largest business groups. Panel (A) shows Samsung, Hyundai and LG divisions as several business groups that handed control to a second family generation and quickly developed new chaebols. Panel (B) shows founders who maintained their positions as controlling shareholders for Lotte, Dongbu, Daelim, and STX while other groups became controlled by second-generation sons of founders. Business groups in Panels (A and B) are approaching control succession by second or third generations. Recently, Samsung C&T merged with Cheil Industries, a de facto holding company, with the goal of solidifying Jaeyong Lee's (grandson of founder) ownership of Samsung Electronics, the most profitable firm within the group.[4] Panel C shows founders of chaebols that became insolvent after the 1997 financial crisis.

Chaebol families do everything possible to bequeath wealth and 'rights of control' to their descendants while maximizing benefits with least costs. The succession of this control is a major issue that needs elaboration with relation to long-term strategies that minimize costs, including taxes and evaluations of share pricing in holding companies. For example, Jaeyong Lee (son of Gunhee Lee), the controlling shareholder of Samsung, obtained 25.1% ownership by buying CB of Everland Corporation, which has the holding company role in the business group. He also acquired 9.1% ownership by buying BW of Samsung SDS. There is a debate as to whether or not the price per share was fair. The price per share was 7700 KRW for CB and 7150 KRW for BW. Hyunjoon Lee, 12 year-old son of the Taekwang Group's controlling shareholder, also obtained 49% ownership of Taekwang systems through a seasoned equity offering at a much lower price (18,955 KRW per share) than the quoted market value of 200,000 KRW in 2006. These cases and judgments become social issues that drove the government to enhance its regulations for issuing CBs, BWs and private placements.

3. PAYOUT AND OWNERSHIP STRUCTURE OF PUBLIC FIRMS IN KOREA

Companies can pay out funds to their shareholders in two ways, cash dividends or share repurchases. I focused on cash dividends only because in Korea, share repurchasing was allowed within limits in 1994, and a ceiling was placed on the number of repurchased shares in 1998.[5] The analysis of cash dividend payouts in this paper does control for share repurchases.

Table **2** presents annual trends for cash dividend payouts. Cash dividends decreased during the economic crisis of the late 1990s but increased in amounts and numbers of firms during the next decade. Dividend payers in 1996 numbered 433 and by 2006 were 438, interpreted as recovery from the crisis. The total cash dividend amount for Korean firms increased from 925 billion KRW to 8394 billion KRW. This increasing trend in payouts was remarkably different from U.S. Fama and French (2001) experiences, where cash dividends declined for both number and percent of firms from 1978 to 1998.

Korea's 1998 corporate governance reforms and restructuring principles (i) forced firms to lower debt-to-equity ratios; (ii) prohibited cross-debt payment

[2]The Economic Power Concentration of Cheabols and Large Corporations, and Dynamic Analysis of Trends', (2007), Economic Reform Research Institute.

[3]World Economic Forum (2014): # 1 rank means market domination by a few business groups. # 7 indicates domination by many firms. Lower ranks imply market is more likely dominated by smaller numbers of business groups.

[4]"Elliott Shakes Up Corporate South Korea Despite Samsung Setback, S. Jonathan Cheng and Minsun Lee, *Wall Street Journal,* 17 July 2015.

[5]In 1992, treasury stock fund was introduced and in 1994 a firm was permitted to repurchase not more than 5% of outstanding shares. The government lifted the ceiling to 10% in 1996, and then to one third, and finally removed it in 1998. Therefore, a firm can buy their shares within the amount of profit available for dividends according to the commercial law.

Table 1: Succession of Control Rights in Business Groups

Presents controlling shareholders of family business groups prohibited from share crossholding by the Fair Trade Committee from 1996 to 2014

Panel A. Spin-off

Business Group	Founder	Spin-off	Controlling Shareholder	Relation with Founder	1996–2014
Samsung	BC Lee	Samsung	GH Lee	Son	1996~
		Hansol	IH Lee	Daughter	1996~
		CJ	JH Lee	Nephew	1996~
		Shinsegye	MH Lee	Daughter	1996~
	JK Hong	Bokwang	SK Hong	Son	1999~
Hyundai	JY Jung	Hyungdai	MH Jung	Son	1998~2003
			JE Hyun	Daughter-in-low	2003~
		Hyungdai Motors	Mong Koo Jung	Son	2000~
		Hyundai Heavy Industries	Mong Joon Jung	Son	2001~
		Hyundai Department Store	Mong Geun Jung	Son	1999~
		Hyundai Development	Mong Kyu Jung	Nephew	1999~2006
			JS Jung	Grandson	2006~
	SY Jung	KCC	SY Jung	Founder	1996~2000
			Mong Jin Jung	Son	2000~
LG	IH Koo/MJ Heo	LG	BM Koo	Grandson	1996~
		GS	CS Heo	Grandson	2004~
		LS	TH Koo	Brother	2003~2013

Panel B. Sustained Groups

Business Group	Founder	Controlling Shareholder	Relation to Founder	1996–2014
SK	JK Choi	JH Choi	brother	~ 1998
		TW Choi	Nephew	2001~
Lotte	KH Shin	KH Shin	Founder	1996 ~
Dongbu	JK Kim	JK Kim	Founder	1996~
Daelim	JJ Lee	JJ Lee	Founder	1996~
STX	DS Kang	DS Kang	Founder	2001~
Hanjin	JH Joh	JH Joh	Founder	1996~
		YH Cho	Son	2003~
Keumho Asiana	IC Park	SY Park	Son	1996~2005
		SK Park	Son	2006~
Hanwha	JH Kim	SY Kim	Son	1996~
Doosan	SJ Park	YK Park	Son	1996~
Dongyang	YG Lee	JH Hyun	Son	1996~
Hyosung	HJ Cho	SR Cho	Son	1996~
Kolong	WM Lee	DC Lee	Son	1996~
Dongkuk	KH Chang	SJ Chang	Son	1996~
Youngpoong	BH Chang/KH Choi	BH Chang	Founder	1996~2002
		HJ Chang	Son	2002~
Hite	KB Park	KB Park	Founder	1996~2007
		MD Park	Son	2007~
OCI	HL Lee	HL Lee	Founder	1996~2007
		SY Lee	Son	2007~
Taekwang	IR Lee	IY Lee	Founder	1996
		HJ Lee	Son	1996~

(Table 1). Continued.

Panel C. Bankruptcies

Business Group	Founder	Controlling Shareholder	Relation with Founder	Year of Bankruptcy
Gohap	CH Chang	CH Chang	Founder	Group dissolution or liquidation for Financial Crisis in 1997
Ssangyong	SW Kim	SW Kim	Founder	
Haetae	GB Park	GB Park	Founder	
Sami	HC Kim	HC Kim	Founder	
Hanil	JW Kim	JW Kim	Founder	
Kekdong	YS Kim	YS Kim	Founder	
NewCore	EC Kim	EC Kim	Founder	
Byuksan	ID Kim	ID Kim	Founder	
Hanbo	TS Jung	TS Jung	Founder	
DongA	WS Choi	WS Choi	Founder	
Hanla	IY Jung	IY Jung	Founder	
Jinro	JH Chang	JH Chang	Founder	
Daewoo	WJ Kim	WJ Kim	Founder	

Table 2: Annual Trends of Cash dividends in Korea

Presents number of firms that paid cash dividends from 1996 to 2006. Sample includes non-financial firms listed on the Korean Stock Exchange. I truncated cash dividends over net income from zero to one

Year	Number of listed, non-financial firms	Number of dividend payers	Aggregate Cash Dividends (unit: KRW bil)	Cash Dividends / Net Income	
				all firms	payer
1996	654	433	1329.65	32.23%	43.83%
1997	669	349	925.04	21.83%	35.91%
1998	656	317	1363.40	18.76%	30.65%
1999	637	356	2747.20	18.22%	26.85%
2000	628	343	3238.12	20.70%	32.34%
2001	624	322	3168.41	21.11%	35.46%
2002	620	362	4601.53	18.26%	29.45%
2003	632	388	6371.90	22.38%	34.14%
2004	627	411	8799.04	21.29%	30.46%
2005	649	424	8393.51	22.17%	31.37%
2006	688	438	8083.13	24.07%	33.42%
			4456.45	21.91%	33.08%

guarantees; (iii) strengthened minority shareholder rights; (iv) removed limits on foreign ownership; (v) and legalized hostile takeovers.[6] These regulations may have led firms to spend earnings on repaying debt and the repurchase of shares, rather than cash dividend payouts. Hence, improvements in transparency and governance encourage managers to pay closer attention to monitoring by outside investors and market reactions.

In spite of these increasing trends, on average, payout ratios for Korean firms were no higher than pre-crisis levels. The mean payout ratios (cash dividends/net income) were 32.23% in 1996 and 24.07% in 2006. The mean payout ratio from 1996 to

[6]Before 1998, a foreign investor was allowed to own 10% (at most) of outstanding shares of a firm and total ownership of foreign investors was no more than 25% ownership of a Korean firm.

2006 was 21.91%, far lower than the 48% reported for U.S. firms from 1998 to 2002 (Brealey *et al*., 2006), even though U.S. firms decreased cash dividends and increased share repurchases. Korean firms spent more on share repurchases than on cash dividends after 2000, yet firms with share repurchase programs were more likely to pay cash dividends, indicating 'substitution hypothesis' validity for payouts is not empirically supported in Korea (Joh and Ko, 2009).

Ownership structure is a significant component of corporate decision-making in Korea, especially when many firms have numerous affiliate companies in which controlling shareholders demonstrate large disparities between cash flow vs. voting rights. Higher degrees of benefits deriving from private control (Claessens *et al*., 2000; Nenova, 2003; Dyck and Zingales, 2004; Bae, Kang and Kim, 2002; Joh, 2003; Baek *et al*., 2006) have stronger incentives to protect corporate control and to bequeath this to children and other consanguineous relations.

Prior studies focused on large shareholders and foreign ownership (Park 2004; Park *et al*., 2003; Sul and Kim, 2005; Kim *et al*., 2009; Joh and Ko, 2009) and examined how ownership structure affected payout policy. They found that firms granting more control rights to controlling shareholders tended towards cash dividend payouts. Park (2004), and Sul and Kim (2006), argued that foreign ownership affected a firms' payout policy whereas Kim, Jung and Chun (2009) found no relation. Park, Lee and Lee (2003) suggested the relation between foreign investors and payout policy vanished after the 1997-8 economic crisis.

I examined how inherent incentives to retain corporate control within CS families affected payout behavior in Korean firms. If controlling shareholders were motivated to transfer control to their offsprings, they would more likely pay cash dividends to family members because cash dividends incurred less tax and provided increased capital to buy corporate shares within a business group. In addition, I anticipated this tendency would be stronger in firms granting higher cash flow rights to controlling shareholder families. To test the hypothesis, I divided insider ownership data into three components: (a) controlling shareholder (CS) ownership; (b) ownership by 'other' family members of CS; (c) ownership of affiliated firms. A controlling shareholder is someone at the top of the business group's pyramid structure. Firms without controlling shareholders, such as POSCO, have zero ownership by a controlling shareholder. 'Other' family members include CS relatives (children, spouse, nephew, etc.). Their 'ownership' equals their summed ownership but excludes the CS. Note that ownership by 'other' CS family members includes cash flow rights related to all shares held by relatives (spouses and direct descendants, which are generally greater than direct, second cousins and others). Using ownership by 'other'

Table 3: Ownership of Controlling Shareholders and of 'other' CS Family Members (by Year)
This table reports 'mean' ownership of controlling shareholders and 'other' CS family members

Year	Number of firms	Mean of all firms		Dividend payers		Non-dividend payer	
		Controlling Shareholder	'Other' CS family members	Controlling Shareholder	'Other' CS family members	Controlling Shareholder	'Other' CS family members
1996	592	11.11	8.52	11.45	9.19	10.16	6.69
1997	574	11.40	8.97	12.10	10.41	10.31	6.73
1998	518	10.95	10.00	11.04	10.84	10.80	8.68
1999	530	10.49	9.14	11.07	10.55	9.31	6.26
2000	536	10.48	9.47	11.58	11.18	8.53	6.45
2001	541	9.92	9.61	11.41	11.86	7.73	6.31
2002	584	9.84	9.52	11.76	12.06	6.72	5.39
2003	592	10.02	9.91	11.25	12.10	7.68	5.74
2004	588	10.32	10.40	11.14	12.34	8.43	5.89
2005	600	10.36	10.19	11.24	11.90	8.25	6.07
2006	608	10.58	10.60	11.35	12.32	8.59	6.19
		10.50	9.67	11.40	11.34	8.77	6.40

CS family members allowed us to distinguish the effect from descendants (relatives) of a CS on payouts made by the CS.

Table **3** demonstrates CS ownership and that of 'other' CS family members by year. Controlling shareholders and 'other' CS family members of dividend payers were 11.00 and 11.34%, respectively, significantly larger than 8.77 and 6.4% reported for non-dividend payers or the average 10.5 and 9.67% reported for all firms. There was little difference in the amounts reported for CS ownership between 1996 and 2006, whereas ownership of 'other' CS family members increased from 9.19% to 12.32%. Therefore, I concluded that dividend payers were in the process of handing binding shareholder control to their children, and that firms with more family member ownership were more likely to pay cash dividends.

4. DATA SOURCES AND SAMPLE SELECTION

I used the TS-2000 database; a dataset compiled by the Korean Listed Companies Association for family ownership information and accounting variables. For financial information, I used the KIS-Line database, compiled by the Korean Information Service. FN-Guides provided foreign ownership data.

I obtained stock price data from the Korean Securities Research Institute (KSRI), and manually retrieved ownership data from annual reports made available by the Data Analysis and Retrieval Transfer system (DART) of the Financial Supervisory Service (FSS). The sampling period ranged from January 1996 to December 2006. My initial sample comprised firms listed on the KOSPI market of the Korean Exchange. I initially filtered for and excluded financial firms and those that did not publish accounting or ownership structure data. Firms with negative earnings that paid cash dividends qualified for negative payout ratios. Firms that paid cash dividends greater than earnings qualified for a payout ratio >0. I set the payout ratio range of these firms at (0–1).

I also collected information from announcements of corporate share repurchase programs from January 1996 to December 2006. Public announcement data was obtained from the Korean Investor's Network for Disclosure System (KINDS); operated by the Korean Stock and Future Exchange. My analysis focused only on common stock repurchases and excluded preferred stock repurchases because of the very low frequency of preferred-stock repurchases, as the targeted volume was small. Excluding preferred stock repurchases made no significant difference in my analysis. I also excluded buy-back repurchases that occurred during corporate restructuring (post- merger, acquisition and split-offs).

5. CASH DIVIDEND DETERMINANTS

5.1. Firm Characteristics: Univariate Analysis

Table **4** presents firm characteristics that describe my sample's cash dividend payers. For comparison, I also report characteristics for non-dividend payers. The last column lists mean differences between both groups.

This analysis included total asset log values to control for firm size and cash flow measured as cash flow from operating activities scaled against total assets. Leverage of debt over total assets was used to assess capital structure, while market-to-book value measured a firm's potential for future growth. To control for repurchase effects, I employed a dummy repurchase scheme, in which the dummy variable equaled one (1) per firm buyback of shares, or zero (0) when none. I also measured ROA for profitability (return on assets). The standard deviation of operating profit (OP_STD) assessed financial volatility, meaning a 5-year averaged standard deviation of operating profit to net sales. I measured capital expenditure (Capex) for investment opportunity as the change in fixed assets scaled against total assets. A firm's age equaled the number of years since its inception. A controlling shareholder (CS) indicates the ownership of a controlling shareholder. 'Other' family ownership equates with ownership by CS family members excepting the CS. 'Family ownership' indicates ownership by a CS plus his family members. 'Control Rights' indicates ownership by a CS plus his family members and affiliated firms. 'Foreign' ownership indicates the sum of ownership for all foreign shareholders.

Firms paying cash dividends were larger, showed higher cash flows, had lower leverage, higher ROA, less financial volatility and more capital expenditures than firms without cash dividends. Firms that bought their shares and had lower market-to-book ratios were more likely to pay cash dividends. As for ownership structure, firms with more family ownership and control rights, and with more foreign ownership showed a greater predisposition towards cash dividend payouts.

Table 4: Summary of Statistics

Average firm characteristics for non-dividend paying and dividend-paying firms. Size is log of total assets in KRW thousands; Cash flow taken from operating activity scaled against total assets; Leverage is debt to assets and Market-to-Book value is market over book values. Repurchase dummy is a dummy variable, one (1) when a firm buys back shares, or zero (0) if otherwise; ROA is return on assets; OP_STD is 5-years standard deviation of operating profit to net sales; Capex is the change in fixed assets scaled against total assets; Age is the number of years since the firm's inception; Controlling shareholder is the ownership of the controlling shareholder; 'other' CS family members is ownership by all other CS family members excepting CS; Family ownership is ownership by controlling family; Control Rights is ownership by controlling shareholders and subsidiaries; Foreign ownership is the sum of all foreign shareholder ownership; ROA and MTB are winsorized at 1% and 99%. T-statistics for comparison of means for non-dividend payers and dividends payers are provided; *, ** and * denote statistically significant values at 10, 5 and 1%, respectively.**

	Non-dividend payer			Dividend payer			t-value
Variables	**Mean**	**Median**	**STD**	**Mean**	**Median**	**STD**	
Size	18.926	18.738	1.453	19.431	19.139	1.401	-12.97***
Cash flow	-0.005	0.010	0.143	0.066	0.062	0.079	-24.52***
Leverage	0.658	0.681	0.201	0.478	0.484	0.183	34.65***
Market to book	1.075	0.565	1.441	0.776	0.578	0.701	10.68***
Repurchase dummy	0.054	0.000	0.225	0.166	0.000	0.372	-12.42***
ROA	-0.044	-0.013	0.127	0.044	0.036	0.044	-38.77***
OP_STD	0.126	0.047	0.628	0.034	0.025	0.059	9.01***
Capex	-0.021	-0.011	0.252	0.039	0.023	0.102	-13.09***
Age	33.909	32.000	12.513	34.403	33.000	13.114	-1.39
Controlling shareholder	8.720	4.805	10.755	10.949	8.240	11.213	-7.34***
Other family members of CS	6.605	0.865	9.658	11.338	7.405	12.329	-15.03***
Family ownership	15.321	12.900	15.498	22.287	22.810	16.271	-15.86***
Control Rights	26.900	26.180	18.113	34.230	33.590	16.787	-15.48***
Foreign ownership	2.724	0.170	7.044	9.941	3.000	14.826	-20.73***
N	2030			3838			

5.2. Logit Analysis

I utilized a logit regression model to figure out determinant factors affecting if a firm makes decision of cash dividends payout. All variables listed in Table **4** are used, as well as the industry and year dummies as descriptive variables. Three models using different ownership variables are used to measure their effects on the payout ratio for 'ownership' and 'control' by a CS and his family. First, 'control rights' summed from the CS, other family CS members plus subsidiary ownership. This represents how much influence a controlling shareholder has over a firm via direct and indirect ownership. Second, I separated control rights into family and affiliate firms' ownership. Third, I break down family ownership into (i) CS cash flow rights and (ii) other CS family members' ownership, which enabled us to better distinguish which variable had greater effect on the cash dividend payout policy. In addition, I controlled for total ownership by foreign shareholders for each model. This logit test examines if CS family has incentive for dividend payout for wealth succession within family by separating other family ownership effect from CS ownership effect.

According to Rozeff (1982) and Easterbrook (1984), firms with greater cash flows are expected to pay cash dividends. A repurchase dummy was included in the analysis to control for stock-repurchase effects. ROA measures profitability and OP_STD measures financial volatility. I predicted that ROA and Market to Book ratio would positively influence the payout decision and that financial volatility would be negatively associated. Capex is a proxy for investment and potential future growth. Age measures a firm's maturity.

$$Payout\ Decision_i = \alpha_0 + \alpha_1\ Size + \alpha_2 Cash\ flow + \alpha_3 Leverage + \alpha_4\ Market\text{-}to\text{-}book + \alpha_5\ Repurchase\ dummy + \alpha_6\ ROA + \alpha_7 OP\_STD + \alpha_8\ Capex + \alpha_9\ Age + \alpha_{10}\ Ownership + year\ dummies + Industry\ dummies \quad (1)$$

Table 5: Logit Regression of Firms' Decision to Pay Cash Dividends

Presents coefficients from logistic regressions of dependent variables for cash dividends payout decision. Variables are defined in Table 4. Numbers in parentheses are t-statistics and *, ** and * denote statistically significant values at 10, 5 and 1%, respectively**

	(1)	(2)	(3)
Constant	-1.5485**	-3.5925**	-3.4498**
	(-2.17)	(-4.82)	(-4.62)
Size	0.1998***	0.2912***	0.2899***
	(5.58)	(7.82)	(7.76)
Cash flow	3.9873***	4.2231***	4.1008***
	(7.72)	(8.02)	(7.78)
Leverage	-5.3296***	-5.3490***	-5.3614***
	(-19)	(-18.87)	(-18.86)
Market to book	-0.2428***	-0.1987***	-0.1937***
	(-4.38)	(-3.54)	(-3.46)
Repurchase dummy	0.9317***	0.8933***	0.8997***
	(6.7)	(6.37)	(6.41)
ROA	14.3402***	14.6153***	14.7318***
	(17.61)	(17.63)	(17.72)
OP_STD	-11.7896***	-11.2560***	-11.3189***
	(-12.65)	(-11.91)	(-11.85)
Capex	1.8097***	1.8233***	1.8266***
	(6.21)	(6.25)	(6.18)
Age	0.0049**	0.0017**	-0.0008**
	(1.57)	(0.56)	(-0.25)
Control rights	2.4699***		
	(9.92)		
Family ownership		4.3744***	
		(13.53)	
Controlling shareholder			3.1132***
			(7.36)
Other family members of CS			5.5883***
			(12.92)
Affiliated		1.2415***	1.1491***
		(4.53)	(4.18)
Foreign ownership	4.4682***	4.4182***	4.4248***
	(8.73)	(8.7)	(8.68)
Difference between Controlling shareholder and Other family members of CS			
X^2			19.8112***
Adjusted R-square	0.4246	0.4378	0.4404
N	5868		

The result presents in Table **5** that after controlling other explanatory variables, CS and other family ownerships has positive relations with payout decision, in particular, other family ownership has significantly stronger impact on firm's decision of cash dividends. For Korean family firms, CS's "other family members" are mostly composed of CS's daughters and sons rather than relatives. This result supports the alternative explanation for why family firms pay cash dividends, which indicates family firms with incentive for wealth or control succession to CS's heirs are more likely to choose paying cash dividends.

5.3. Multivariate Analysis Using Regression Methodology

I utilized a regression model to discover determinant factors affecting the magnitude of cash dividend. These analyses aim to determine if and how ownership

structure affected cash dividend ratios. Two measures are used for magnitude of cash dividends, which are cash dividends to earnings (payout ratio) and cash dividends to market value (dividend yield). Payout ratio is set to one (1) when a firm operated at a loss but still paid cash dividends, or when a firm paid more than net income in any given year. I employed all variables listed in Table **4**, as well as the industry and year dummies as descriptive variables.

$$Payout\ Ratio_i = \alpha_0 + \alpha_1\ Size + \alpha_2 Cash\ flow + \alpha_3 Leverage + \alpha_4\ Market\text{-}to\text{-}book + \alpha_5\ Repurchase\ dummy + \alpha_6\ ROA + \alpha_7 OP\_STD + \alpha_8\ Capex + \alpha_9\ Age + \alpha_{10}\ Ownership + year\ dummies + Industry\ dummies \quad (2)$$

$$Dividend\ Yield_i = \alpha_0 + \alpha_1\ Size + \alpha_2 Cash\ flow + \alpha_3 Leverage + \alpha_4\ Market\text{-}to\text{-}book + \alpha_5\ Repurchase\ dummy + \alpha_6\ ROA + \alpha_7 OP\_STD + \alpha_8\ Capex + \alpha_9\ Age + \alpha_{10}\ Ownership + year\ dummies + Industry\ dummies \quad (3)$$

Six models use Control Rights, CS, other family, affiliated and foreign ownership variables. Table **6** records OLS regression estimates of payout ratios and dividend yield ratios using all sample observations. Column 1 shows that large firms with large cash flows but with lower leverage, market-to-book ratios and financial volatility had higher payout ratios. Control rights were statistically significant with a positive effect on payout ratios. Column 2 lists coefficients for family ownership and affiliated firm ownership that demonstrate significantly positive effects as well. Column 3 shows that firms with a CS and 'other' CS family members who collectively held high cash flow rights also had higher payout ratios when other variables were controlled. In addition, I determined which coefficients from both variables had stronger effects. Results showed that effects from 'other' CS family member ownership were significantly stronger than effects from the CS alone. Considering that most 'other' CS family members comprise children and/or grandchildren of a CS, the size of ownership by CS-legatee-controlling shareholders appeared to have greater effects on payout ratios than other ownership variables. These findings suggested that cash dividend payments were related to second or third generation ownership in support of my hypothesis.

Colum 4 to 6 for dividend yield ratios present that firms with large cash flow, lower leverage and market to book ratios, and higher profitability are more likely to have higher dividend yield ratios. The relation between CS family ownership variables and dividend yield ratio is significantly positive consistent with the result of payout ratios. However, the difference in effect of CS and other CS family members' ownership does not have statistical significance.

In summary, firm size associated positively with payout and dividend yield ratios while leverage associated negatively, which findings were consistent with reports by Jensen, Solberg and Zorn (1992). The effects of financial flexibility and volatility on dividend yield ratios only are consistent with arguments by Jagannathan, Stephens and Weisbach (2000), as well and by Guay and Harford (2000). Lee (1996), Kumar and Lee (2001), and Jagannathan *et al*. (2000) all demonstrated that cash dividends were related to permanent operating cash flows while repurchases were related to temporary, non-operating cash flows. Hence, cash flow and control rights appear to positively affect the payout ratio, which suggestion is inconsistent with arguments for the agency theory as put forth by Rozeff (1982) and Easterbrook (1984), or by Faccio, Lang and Young (2000). Faccio *et al*. (2000) also analyzed relationships between ownership and dividends but at the national rather than individual firm level. Furthermore, average control rights asserted by controlling families of Korean firms are, on average, greater than 25%, which does not appear "loosely-affiliated" as defined by Faccio *et al*. (2000).

Ownership by other CS family members positively and significantly affected the payout ratio, even more so than did CS ownership on its own, which suggests that the agency problem is not a payout determinant for Korean firms. Therefore, I strongly suspect that cash dividends depend on the controlling shareholder's incentive to pay cash to his children with a view towards ownership succession.

Surprisingly, and for all regression specifications, ROA and cash flow has negative relation with payout ratios but positive with dividends to market value. This outcome appeared to arise from dividend payers that operate at a loss or with very small profit margins. Finally, a firm's age had no significant effect, which is incongruent with the life-cycle theory and with young U.S. firms that prefer share repurchasing to cash dividends (Fama and French, 2001; Grullon and Michaely, 2002). Foreign ownership is positively related to payout ratios while not to dividend yields. Sul and Kim (2006) showed that foreign ownership has positive effect on cash dividends and argued this result is consistent with agency theory. However, Kim and Cho (2008) emphasized that foreign investors' effects on dividends are not homogeneous and vary with their investment strategy and type.

Table 6: Regression on Payout Ratios and Dividend Yields

Presents coefficients from logistic regressions of dependent variables for cash dividends payout decision. Variables are defined in Table 4. Numbers in parentheses are t-statistics and *, ** and * denote statistically significant values at 10, 5 and 1%, respectively**

	Cash dividends/net income			Cash dividends/Market Value		
	(1)	(2)	(3)	(1)	(2)	(3)
Constant	0.1259**	0.0832	0.0939	1.2321**	0.7573	0.7438
	(2.15)	(1.38)	(1.55)	(2.32)	(1.39)	(1.36)
Size	0.0118***	0.0137***	0.0135***	0.0325	0.0539*	0.0542
	(3.94)	(4.47)	(4.38)	(1.2)	(1.94)	(1.96)
Cash flow	0.0431	0.0439	0.0407	1.3393***	1.3477***	1.3519***
	(1.24)	(1.26)	(1.17)	(4.26)	(4.29)	(4.3)
Leverage	-0.3291***	-0.3257***	-0.3260***	-1.8654***	-1.8275***	-1.8276***
	(-15.15)	(-14.98)	(-15.01)	(-9.51)	(-9.31)	(-9.31)
Market to book	-0.0205***	-0.0193***	-0.0192***	-0.3106***	-0.2976***	-0.2978***
	(-5.54)	(-5.2)	(-5.17)	(-9.3)	(-8.87)	(-8.87)
Repurchase dummy	0.0387***	0.0375***	0.0378***	0.8231***	0.8095***	0.8090***
	(3.69)	(3.58)	(3.61)	(8.7)	(8.56)	(8.55)
ROA	-0.1227***	-0.1277***	-0.1259***	4.5674***	4.5122***	4.5099***
	(-2.84)	(-2.96)	(-2.92)	(11.72)	(11.58)	(11.57)
OP_STD	-0.0153	-0.0150	-0.0149	-0.0001	0.0038	0.0037
	(-1.64)	(-1.61)	(-1.6)	(0)	(0.04)	(0.04)
Capex	0.0131	0.0118	0.0121	0.2639	0.2490	0.2486
	(0.64)	(0.57)	(0.59)	(1.42)	(1.34)	(1.34)
Age	-0.0003	-0.0003	-0.0005*	-0.0085***	-0.0094***	-0.0092
	(-0.99)	(-1.27)	(-1.73)	(-3.46)	(-3.79)	(-3.68)
Control rights	0.0924***			1.6110***		
	(4.5)			(8.68)		
Family ownership		0.1334***			2.0670***	
		(5.35)			(9.18)	
Controlling shareholder			0.0653*			2.1513***
			(1.9)			(6.93)
Other family members of CS			0.1893***			1.9960***
			(5.99)			(6.99)
Affiliated		0.0582**	0.0531**		1.2298***	1.2355***
		(2.45)	(2.24)		(5.75)	(5.76)
Foreign ownership	0.1011***	0.1008***	0.1006***	0.2242	0.2205	0.2204
	(3.1)	(3.09)	(3.09)	(0.76)	(0.75)	(0.75)
Difference between CS and Other family members of CS: F Value			8.27***			
Adjusted R-square	0.1036	0.1048	0.1059	0.2192	0.2208	0.2206
N	5868			5868		

Table 7: Regression of Payout Ratios and Dividend Yields: Sub-Periods

Presents coefficients from logistic regressions of dependent variables for cash dividends payout decision. Variables are defined in Table 4. Numbers in parentheses are t-statistics and *, ** and * denote statistically significant values at 10, 5 and 1%, respectively.**

	1996~1999		2000~2003		2004~2006	
	Cash dividends /net income	Cash dividends /Market Value	Cash dividends /net income	Cash dividends /Market Value	Cash dividends /net income	Cash dividends /Market Value
Constant	0.0392	-0.0163	-0.1068	0.2443	0.1387	4.3193***
	(0.37)	(-0.02)	(-1.14)	(0.23)	(1.34)	(4.44)
Size	0.0157***	0.1241***	0.0261***	0.1463***	0.0108**	-0.1257**
	(2.88)	(3.37)	(5.27)	(2.62)	(2)	(-2.5)
Cash flow	0.0681	1.5738***	-0.0170	0.8900***	0.1322*	1.1098
	(0.93)	(3.28)	(-0.33)	(1.68)	(1.79)	(1.61)
Leverage	-0.4461***	-1.1407***	-0.3584***	-2.4254***	-0.2394***	-1.3063***
	(-9.97)	(-3.78)	(-11.49)	(-6.68)	(-6.68)	(-3.88)
Market to book	0.00003	-0.2235***	-0.0003	-0.3380***	-0.0130***	-0.2955***
	(0.15)	(-5.57)	(-0.51)	(-4.31)	(-3.05)	(-5.13)
Repurchase dummy	-0.0045	0.0326	0.0572***	1.3097***	0.0191	0.3044*
	(-0.18)	(0.2)	(4.07)	(8.51)	(0.97)	(1.69)
ROA	-0.0566	6.8133***	-0.0994***	3.3928***	-0.0907*	4.9661***
	(-0.69)	(10.47)	(-2.91)	(5.2)	(-1.69)	(6.51)
OP_STD	-0.3453***	-0.6900	-0.0372**	-0.1185	-0.0052	0.0978
	(-4.06)	(-1.24)	(-2.25)	(-0.75)	(-0.39)	(0.87)
Capex	-0.1364***	-0.6818**	0.0863***	0.9677***	-0.0007	0.0295
	(-3.1)	(-2.38)	(2.66)	(2.77)	(-0.02)	(0.09)
Age	0.0002	-0.0093***	-0.0006	-0.0126**	-0.0009**	-0.0079*
	(0.39)	(-2.7)	(-1.26)	(-2.47)	(-2.1)	(-1.91)
Controlling shareholder	-0.0067	0.1142	0.0783	3.7714***	0.1074*	1.1681**
	(-0.1)	(0.26)	(1.46)	(6.43)	(1.84)	(2.17)
Other family members of CS	0.2215***	0.4340***	0.2126***	2.8455***	0.1354***	2.0067***
	(3.46)	(1.04)	(4.28)	(5.23)	(2.58)	(4.13)
Affiliated	0.0461	0.1728	0.0575	2.1644***	0.0508	0.7027**
	(0.92)	(0.53)	(1.56)	(5.37)	(1.3)	(1.96)
Foreign ownership	-0.0098	-0.7673	-0.0424	-0.4060	0.1622***	1.4237***
	(-0.13)	(-1.56)	(-0.83)	(-0.69)	(3.29)	(3.13)
Difference between CS and Other family members of CS						
F Value	7.69***	0.35	3.67*	1.53	0.07	1.57
Adjusted R-square	0.1123	0.1735	0.1277	0.2398	0.0883	0.1956
N	2035		2125		1706	

5.4. Sub-Period Multivariate analysis of Dividend Payout Ratios and Dividend Yield

To determine whether or not effects on payout ratios change over time from 'other' CS family member ownership, I divided my sample period into three sub-periods. The first period covered 1996 to 1999, the time of the Asian economic crisis; the second covered 2000 to 2003, and third covered 2004 to 2006. Table **6** lists OLS regression estimates for all three sub-periods.

First columns (1) and (2) show results for the first period, with column (3) to (6) showing results for periods two and three, respectively.

Columns (1), (3) and (5) demonstrates that firms of larger size with lower leverages, lower financial volatilities, lower capital expenditures and more control rights and/or higher family ownership had higher payout ratios. Ownership of 'other' CS family members had a significantly positive effect for all sample period, whereas effects from the CS, affiliated firms, and foreign ownership were significant only 2004 to 2006. Cash dividend payouts did not depend on CS ownership but on ownership of 'other' CS family members, which results are inconsistent with Rozeff's agency explanation (1982). Hence, if firms intend to reduce the agency problem, they would do well to consider that payout ratios depend on both variables.

On the other hand, as corporate reforms force firms to stop 'tunneling' by unfair intra-group transactions between business groups in Korea, family firms with available profits are likely to pay more cash to CS descendants, which means delimiting succession of ownership with least costs, even during a crisis.

Results for dividend yields are similar regarding firm size and leverage as for payout ratios. However, the market-to-book ratio, ROA and capital expenditure negatively correlated with the dividend yield, while ROA was positively associated. Some firms with negative income or lower profitability also paid cash dividends. These results might be explained by investor demands for cash dividends or by other controlling shareholder motivations. However, foreign ownership had no significant effect and control rights had a significantly positive effect on the payout ratio, which indicates that foreign investors did not cause those firms to pay cash dividends. Share repurchase dummy are effective only for second sub-period as it was allowed after the corporate reform resulted from financial crisis in 1998. As the reform measures were adopted with removal of a ceiling on the ratio of shares as a means to protect control against takeover threats, firms increased spending on repurchases. Nevertheless, those firms with a repurchase program tended to pay cash dividends, which fails to support the substitution hypothesis (Allen *et al*., 2000; Brennan and Thakor, 1990; Lee and Rui, 2007). During recovery from the 1997 crisis, firms with investment opportunities tended to pay more cash to investors.

'Other' CS family member ownership had a significant effect on the payout ratio and its coefficient was significantly larger than that of CS ownership; a finding that cannot be explained by the agency hypothesis or the expropriation argument proffered by Faccio *et al*. (2000). As post crisis debt-payment guarantees and equity investments in affiliated firms were restricted, the pyramidal structure of the business group weakened, which appeared to have caused controlling shareholders to choose cash payments for their children in preparation for corporate control succession.

Column (5) and (6) present that foreign ownership positively and significantly affected payout ratios as well as dividend yield at the 1% level. Controversy exists over effects from foreign investors before and after crisis, but I found that the relation between foreign ownership and payouts became significant only during the last period. CS and 'other' CS family member ownership had positive effects but the difference between both coefficients was insignificant. This result might have been driven by a change in payout policy. 'Other' CS family members have more ownership of private subsidiaries, as supported via the lifting of sales by other affiliated firms. Only for the last sub-period of 2004-2006, foreign ownership is significantly positive relation with dividend yield as well as payout ratios. After the financial crisis in 1997, foreign ownership was increasing with the corporate reform in Korea, which results in positive relation between foreign ownership and cash dividends. Previous studies present that foreign investors have positive effect on cash dividends, which is consistent with agency theory (Sul and Kim, 2006). Other researches argue that the relation between foreign ownership and cash dividends vary with depending on a firm's life-cycle stage and a foreign investor's type (Kim and Cho, 2008; Jung and Kim, 2007). My finding implies that foreign investors' effect has not been constant over the sample period.

In summary, effects from ownership allocated to 'other' CS family member controlling shareholders were significantly positive when other instructive variables were controlled for. Furthermore, its effects were stronger than those of CS ownership alone. This finding is consistent with my expectation that cash dividends paid depend on ownership structure and incentives for ownership succession at least cost.

6. CONCLUSION

Why firms pay cash dividends has been commonly explained by the reducing agency problem or by signaling or by life-cycle theory in the literature. I

focused on the relation between ownership structure and cash dividend payouts made by Korean firms. I found that the average payout ratio for Korean firms was lower than that of U.S. firms, and further, that control rights of controlling shareholders were positively associated with the payout ratio. This result does not support the concept that firms with more shareholders but holding less ownership are likely to payout more in cash dividends to alleviate the agency problem. Most Korean firms are controlled by controlling shareholders or their family and have incentive to transfer corporate control to descendants for purposes of reaping high private benefits. When successors are bequeathed or gifted ownership, they are liable for inheritance or gift taxes that range from 10 to 50% of donated properties, which is significantly higher than income tax rates on cash dividends. Therefore, I naturally expect that controlling shareholders are motivated to utilize cash dividends rather than inheritance or gifting.

To determine how the ownership structure of family firms affects payouts, I sub-divided control rights into categories: the controlling shareholder (CS), 'other' CS family members, and affiliated firms. CS ownership did not increase when 'other' CS family member ownership increased between 1996 and 2006, demonstrating that firms did their best to retain control within a controlling family. I tested for differences in effects deriving from the CS and 'other' CS family members on the cash dividends payout decision and ratios. Results demonstrated that effects from ownership by 'other' CS family members were significantly positive and greater than those of CS ownership alone when controlling for other explanatory variables. This result supports my expectation that cash dividend payouts depend on the ownership structure of the controlling shareholder's descendants. Furthermore, it is conjectured that family firms are more likely to use cash dividends as a tool for wealth succession within family in order to maintain their private benefits in emerging market with less cost.

Of note is that the differences between CS coefficients and those for 'other' CS family member ownership were significant for the first and second sub-periods (1996 to 2003), but not for the last sub-period (2004 to 2006). Recently, firms with large disparities between controlling shareholder(s) and cash flow cum voting rights were more likely to use private firms to retain corporate control. As my analysis deals solely with listed companies, an avenue open for future research is to explore and perhaps compare both public and private firms in business groups.

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