

Blockholder Ownership, Dividends and Firm Value In Continental Europe.¹²

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Abstract

Blockholder ownership may increase firm value because of incentive alignment or lower it because of expropriation of minority investors. Dividend policy provides a way to distinguish between the two effects since large owners may prefer low dividends if they derive private benefits from controlling firms, while minority investors may prefer high dividends that benefit all shareholders. I examine the relationship between blockholder ownership, dividend policy and firm value in a panel of the largest EU and US/UK companies 1998-1998. I find a negative effect of blockholder ownership on firm value in continental Europe, which is particularly strong for firms with high reinvestment rates and high equity-asset ratios. No similar effect is found in the US/UK. Moreover, in continental Europe blockholder ownership has a negative effect on dividend payout ratios. The findings indicate that there are conflicts of interests between majority and minority investors in European companies and that concentrated ownership leads to a preference for retained earnings, which lowers the value of the firm to minority investors.

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