

Do country-level legal, corporate governance and cultural characteristic influence the relationship between insider ownership and dividend policy?

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Abstract. Previous studies of the relation between insider ownership and dividend policy have focused only on U.S. or European firms from a legal system perspective. We explore how the effects of the increase in insider ownership concentration on the dividend policy change in different legal, corporate governance, and cultural environments in Asian countries. The severity of agency problems between controlling insiders and outside investors in Asian countries provides a unique circumstance for exploring this issue. We find that insider ownership has an inverse U-shaped relation with dividend payouts in Asian countries and that the inversely U-shaped relation becomes stronger in common law, strong corporate governance, low long-term orientation, or low uncertainty avoidance countries.

Keywords: insider ownership; dividend payout; law; corporate governance; culture; Asian countries

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1. Introduction

One strand of the literature documents that insider ownership has a significant effect on dividend policy (e.g., Jensen et al. 1992; Schooley and Barney 1994; Chen and Steiner 1999). However, to clarify the relation between insider ownership and dividend policy, we must take into account firms' agency structure, since the separation of ownership and control in companies inevitably creates agency problems between shareholders and insiders (managers), who make decisions on dividend policy. Furthermore, we should also consider the characteristics of the countries in which firms are operating because country-level characteristics affect firms' agency structure greatly.

A country's legal and institutional environment is an important determinant of the ownership and control structures of companies (La Porta et al. 1998). Licht et al. (2005) point out that legal and institutional approach explains only some aspects of the agency structure of companies and emphasize the need to incorporate culture as another important determinant. Fidmuc and Jacob (2010) indicate that law as a formal factor as well as culture as an informal factor may influence a company's dividend policy.

Recent studies of the relation between insider ownership and dividend policy have focused only on the United States or European firms from a legal system perspective (Farinha and Lopez-de-Foronda 2009). However, the relation may be different for Asian companies because their legal, governance, and cultural environments are different from those of the United States and European countries. Specifically, as many authors have indicated (La Porta et al. 2000a; Claessens et al. 2000; Lins 2003), the widespread use of pyramidal ownership structures and cross-holdings together with the absence of strong legal protection and other external governance mechanisms in Asian countries gives insiders the greater ability and an incentive to expropriate minority shareholders' wealth compared with western countries. Furthermore, according to the Hofstede index, Asian countries show a higher propensity toward long-term orientation and uncertainty aversion than western countries, which also influences the relation between insider ownership and dividend policy. However, few studies have considered this issue when examining the effect of insider ownership change on dividend policy, especially when focusing on firms operating in Asian countries.

This study intends to bridge the gap in the literature by simultaneously considering the legal, corporate governance, and cultural dimensions to explain the relationship between insider ownership and dividend policy in Asian firms. We incorporate cultural dimensions into our analysis because these remain significant in the determination of firms' dividend policy even after controlling for corporate governance, as evidenced by Bae et al. (2012).

We argue that even in common law countries, the U-shaped pattern evidenced by Farinha and Lopez-de-Foronda (2009) may not appear in Asian countries because the increase in insider ownership concentration will not incur the substitution effect with dividends, and that dividend payouts increase more strongly until they reach a maximum point as insider ownership grows in common law countries than in civil law countries because the likelihood of compensation for minority shareholders is greater in the former.

Second, we argue that the inverse U-shaped relation between insider ownership and dividend payouts is stronger in Asian countries with stronger corporate governance because the likelihood of compensation for minority shareholders is greater and the expropriation incentive (or insider entrenchment effect) is weaker in stronger corporate governance

countries.

Third, as evidenced in Bae et al. (2012), the relation between long-term oriented or risk-averse scores and dividend payouts can be different, depending on which one dominates between an investor's desire and an insider's desire. Because a preliminary data analysis shows that investors' preference for dividends outweighs insiders' preference for dividends in Asian countries, we argue that dividend payouts have a positive relation with long-term-oriented or risk-averse propensity in Asian countries. We also argue that the relation between insider ownership and dividend policy is inversely U-shaped and stronger in low long-term-oriented or risk-averse Asian countries than in high long-term-oriented or risk-averse Asian countries.

Our contribution is to explore how the effects of the increase in insider ownership concentration on the dividend policy of companies change in different legal, corporate governance, and cultural environments. The severity of agency problems between controlling insiders and outside investors in Asian countries provides a unique circumstance for exploring the issue. Farinha and Lopez-de-Foronda (2009) examine the same issue in the context of different legal systems, focusing on the United States and European countries. Our paper is different from Bae et al. (2012) and Khambata and Liu (2005) in that they examine how corporate governance and/or culture affect(s) dividend policy.

The remainder of the paper is organized as follows. Section 2 provides a brief review of the related literature. Section 3 develops the hypotheses to be tested. In Section 4, the data are described and methodologies are presented. Section 5 presents the empirical results and the final section concludes the paper.

2. Literature Review

A firm's dividend policy plays an important role in controlling agency problems and reducing asymmetric information in the firm (Rozeff 1982; Jensen 1986). Brockman et al. (2014) find that firms use dividend payout policy to reduce the information asymmetry and agency costs caused by country-level institutional weaknesses. The law and finance approach pioneered by La Porta et al. (1997, 1998) suggests that when the legal and institutional environment differs, agency problems are also different with the consequence that the results obtained in one legal and institutional environment may not necessarily be appropriate in another environment. La Porta et al. (2000b) compare dividend practices in common law countries and civil law countries and provide evidence supporting the outcome agency model of dividends. According to them, firms operating in countries with stronger minority shareholder rights tend to pay higher dividends since minority shareholders force insiders to curb free cash flows and pay dividends instead.

Morck et al. (1988) suggest that insider ownership can also play the same role of an alignment mechanism as dividends, implying a substitution effect between insider ownership and dividend policy. However, they find that since an insider entrenchment effect may occur at high ownership levels, the relation between insider ownership and dividends may be U-shaped. Farinha and Lopez-de-Foronda (2009) report international evidence on the relation between dividend policy and insider ownership by analyzing a sample of firms from common law countries characterized by an Anglo-Saxon tradition and a matching sample of companies from countries with civil law legal systems. They find that while in common law

countries the relation between dividends and insider ownership follows the pattern negative-positive-negative, in civil law countries the relation is positive-negative-positive.

Relative to the United States and many other well-developed economies, Claessens et al. (2000) and Lins (2003) show that the widespread use of pyramidal ownership structures and cross-holdings in East Asia allows insiders to exercise effective control over a company. This gives insiders the ability and an incentive to expropriate from minority shareholders, despite owning relatively few of the firm's cash flow rights. Moreover, La Porta et al. (2000a) argue that the absence of strong legal protection and other external governance mechanisms (such as takeovers) in many emerging economies further increases the severity of agency problems between controlling insiders and outside investors.

Licht et al. (2005) suggest that the law and finance approach explains only some aspects of the agency structure of companies and emphasize the need to incorporate culture as another important determinant. A nation's culture defines the nature of agency relations in a firm and reveals people's perceptions of the degree of agency problems, which can determine the suitability of firms' dividend strategies in the nation. From a cultural perspective, Khambata and Liu (2005) find that dividend policy is correlated with cultural dimensions in Asian firms. Specifically, they suggest that firms in countries with high risk aversion show both lower dividend ratios and a lower propensity to pay dividends.

Fidmuc and Jacob (2010) present a culturally rooted agency explanation of the differences in dividend payout policies globally and indicate that law as a formal factor and culture as an informal factor may influence corporate dividend policy. They suggest that high individualism, low power distance, and low uncertainty avoidance are significantly associated with higher dividend payouts. Furthermore, Bae et al. (2012) find that Hofstede's cultural dimensions remain significant in the determination of firms' dividend policies, even after controlling for corporate governance. They suggest that when uncertainty avoidance is high, only firms in countries with stronger investor protection pay higher dividends since an investor's desire dominates a manager's desire. Moreover, when LTO is strong, firms pay lower dividends.

Previous research has used national culture to explain several corporate decisions. Ahern et al. (2015) document that cultural differences have a substantial impact on multiple aspects of cross-border mergers. Chen et al. (2015) examine whether cultural dimensions explain the variation in corporate cash holdings globally and in the United States. Li et al. (2013) document that culture influences corporate risk-taking through its effects on managerial decision-making and on a country's formal institution. Other studies also find that cultural differences affect capital structure (Chui et al. 2002), growth and innovation (Gorodnichenko and Roland 2010), and earnings quality (Kanagaretnam et al. 2011).

3. Hypotheses development

We develop the following hypotheses regarding the relation between insider ownership and dividend policy in the context of law, corporate governance, and culture.

3.1. Joint effect of law and insider ownership on dividend policy

Farinha and Lopez-de-Foronda (2009) show evidence that in common law countries such as

the United States and the United Kingdom, a substitution effect between insider ownership and dividends may occur at low ownership levels and an insider entrenchment effect may occur at high ownership levels. On the contrary, in civil law countries such as those in continental Europe where the degree of shareholder protection is weak, dividend policy may act mostly as a proactive mechanism for the rights of minority shareholders. In Asian countries, the widespread use of pyramidal ownership structures and cross-holdings together with the absence of strong legal protection and other external governance mechanisms gives insiders the greater ability and an incentive to expropriate minority shareholders' wealth compared with western countries.

Therefore, we argue that the severe agency problems of Asian countries cause the relation between insider ownership and dividend policy to show a distinct shape from those presented by previous studies. In other words, even if some Asian countries follow a common law tradition, the relation between insider ownership and dividends may not show the same U-shaped pattern because the increase in insider ownership concentration will not incur the substitution effect with dividends in most Asian countries with serious agency problems and weak protection of minority shareholders. Hence, we hypothesize that the high degree of control and potential expropriation by insiders in Asia means that dividend payouts increase as insider ownership grows regardless of the country law tradition in order to compensate for the greater possibility of minority expropriation. Further, at high levels of ownership, a further increase in ownership concentration may entice entrenched insiders to curtail dividends and expropriate minority shareholders' wealth in both country law traditions. We also hypothesize that dividend payouts increase more strongly until they reach a maximum point as insider ownership grows in common law countries than in civil law countries because the likelihood of compensation for minority shareholders is greater in the former.

Hypothesis 1: Insider ownership has an inverse U-shaped relation with dividend payouts in Asian countries regardless of the country law tradition.

Hypothesis 2: The relation between insider ownership and dividend payouts in Asian countries is stronger in common law countries than in civil law countries.

3.2. Joint effect of corporate governance and insider ownership on dividend policy

Previous studies (e.g., La Porta et al. 2000b; Mitton 2004; Adjaoud and Ben-Amar 2010) have shown that firms in countries with stronger corporate governance have higher dividend payouts, consistent with the outcome model of dividend policy. However, if insider ownership exceeds some level as insider ownership grows, dividends may be curtailed by entrenched insiders to expropriate minority shareholders' wealth. We hypothesize that the inverse U-shaped relation between insider ownership and dividend payouts is stronger in Asian countries with stronger corporate governance because the likelihood of compensation for minority shareholders is greater and the expropriation incentive (or insider entrenchment effect) is weaker in stronger corporate governance countries.

Hypothesis 3: The inverse U-shaped relation between insider ownership and dividend payouts is stronger in Asian countries with strong corporate governance than in Asian

countries with weak corporate governance.

3.3. Joint effect of culture and insider ownership on dividend policy

To examine the joint effect of culture and insider ownership on dividend policy, we consider the LTO and uncertainty aversion index (UAI) scores among Hofstede's five cultural dimensions. LTO is defined as the fostering of virtues oriented toward future rewards and UAI is defined as the extent to which the members of a culture feel threatened by uncertain situations.

In a high LTO or UAI culture, insiders desire to keep more cash and pay lower dividends, whereas investors prefer to have higher dividends. Contrarily, in a low LTO or UAI culture, insiders desire to pay higher dividends but investors do not demand higher dividends. Therefore, the relation between LTO or UAI scores and dividend payouts can be an empirical matter. However, as shown in a preliminary data analysis presented in Table 2 later in the paper, the higher LTO or UAI, the higher are the dividend payouts in Asian countries. This finding implies that investors' preference for dividends outweighs insiders' preference for dividends in Asian countries. The importance of dividends may be much greater to investors than to insiders in Asian countries because of their severe agency problems.

Therefore, we hypothesize that dividend payouts have a positive relation with LTO or UAI scores in Asian countries. We also hypothesize that the relation between insider ownership and dividend policy is inversely U-shaped and stronger in low LTO or UAI Asian countries than in high LTO or UAI Asian countries, since as insider ownership increases, insiders attempt to increase dividends as much as they can for their own interests, although investors do not need to do so in low LTO or UAI countries, whereas insiders attempt to increase dividends by lower amounts in the pursuit of their own interests, although investors demand higher dividends in high LTO or UAI countries.

Hypothesis 4: Dividend payouts have a positive relationship with LTO or UAI scores in Asian countries.

Hypothesis 5: The relation between insider ownership and dividend payouts is inversely U-shaped and stronger in low LTO or UAI Asian countries than in high LTO or UAI Asian countries.

4. Data and Methodology

4.1. Data description

To test our proposed hypotheses, we consider non-financial listed firms in 10 Asian countries during 2011–2014. The Asian countries we include are China, Indonesia, Japan, Korea, Taiwan, Hong Kong, India, Malaysia, Singapore, and Thailand. Our sample data has 4,028 firm-year observations, which are obtained from the Bloomberg database service. We exclude companies that have either incomplete financial data or negative equity or asset values.

4.2. Methodology

For a preliminary comparison, we use *t*-tests to see whether there are any significant differences in dividend payouts, insider ownership levels, and so on between common law and civil law countries, between high corporate and low corporate governance firms, between high LTO and low LTO countries, and between high UAI and low UAI countries. To test our proposed hypotheses, we use the following panel regression model:

$$\begin{aligned}
 DYP_{it} = & \beta_0 + \beta_1 INS_{it} + \beta_2 INS_{it}^2 + \beta_3 INS_{it} \times Law_{it} + \beta_4 INS_{it}^2 \times Law_{it} + \beta_5 INS_{it} \times CGDummy_{it} \\
 & + \beta_6 INS_{it}^2 \times CGDummy_{it} + \beta_7 INS_{it} \times UAIDummy_{it} + \beta_8 INS_{it}^2 \times UAIDummy_{it} + \beta_9 INS_{it} \times LTODummy_{it} \\
 & + \beta_{10} INS_{it}^2 \times LTODummy_{it} + \beta_{11} Law_{it} + \beta_{12} CGDummy_{it} + \beta_{13} UAIDummy_{it} + \beta_{14} LTODummy_{it} \\
 & + \beta_x X_{it} + u_i + e_{it}.
 \end{aligned} \tag{1}$$

DYP is measured by cash dividends divided by net income. We winsorize *DYP* between 0 and 1 and set *DYP* to 1 if cash dividends are larger than net income and to 0 for negative net income firms that do not pay cash dividends. Our main independent variable is insider ownership (*INS*). An insider is defined as a company officer and director or holder of more than 10% of outstanding shares. *INS* is defined as the total number of shares held in aggregate by all officers and directors and by large shareholders with more than 10% of outstanding shares divided by the number of shares outstanding. *Law* is a dummy variable that equals 1 if a country has a common law tradition and 0 if a country has a civil law tradition. In our sample, common law countries are Hong Kong, India, Malaysia, Singapore, and Thailand, while civil law countries are China, Indonesia, Japan, Korea, and Taiwan. *CG* represents the degree of corporate governance in a country provided by Asian corporate governance associations. The *CG Dummy* is a dummy variable that equals 1 if the degree of corporate governance is higher than average and 0 otherwise. In addition, *LTO* and *UAI* represent the LTO and UAI scores proposed by Hofstede (1980, 1991), respectively. The *LTO Dummy* is a dummy variable that equals 1 if the *LTO* score is higher than average and 0 otherwise. The *UAI Dummy* is a dummy variable that equals 1 if the *UAI* score is higher than average and 0 otherwise.

X_{it} is a vector of the control variables and β_x is the coefficient vector for these control variables. The control variables include the market-to-book ratio (*MKT*), firm size (*LnAsset*), profitability (*Profit*), the leverage ratio (*Lev*), and the asset growth ratio (*AssetGr*). *MKT* is a proxy variable for growth opportunities (i.e., market capitalization plus total debt divided by total assets). *LnAsset* is a proxy variable for firm size (i.e., the natural logarithm of total assets). *Profit* is a proxy variable for profitability, measured by EBIT (earnings before interest and tax) divided by total assets. *Lev* is a proxy variable used to analyze the impact of financial distress costs, measured as total debt divided by total assets. *AssetGr* is measured by subtracting total assets in year t-1 from total assets in year t divided by total assets in year t-1. The predicted signs for the firm-specific variables are as follows: *MKT* (-), *LnAsset* (+), *Profit* (+), *Lev* (-), and *AssetGr* (-). According to Brockman et al. (2014), growth firms and firms under financial distress are unlikely to pay dividends. Meanwhile, larger and more profitable firms have a high possibility of paying dividends (Denis and Osobov 2008). We

include the fixed effects for each firm and each year to consider the unobserved relationships. The parameter u_i is the firm's unobservable individual effects, which allow us to control for the unique characteristics of each firm. The parameter e_{it} is the random disturbance.

5. Empirical Results

5.1. Summary Statistics

Table 1 presents the descriptive statistics for the variables used in our analysis. The mean *DYP* is 35.24%, implying that the dividend payouts of Asian listed non-financial companies are slightly less than those in developed countries such as the United States, the United Kingdom, and Germany.¹ The mean *INS* is 5.66%, showing that the insider ownership of Asian listed non-financial companies is less than that in common law firms.² Interestingly, the insider ownership of Japan is 0.41, indicating that Japanese firms have widely dispersed ownership. On average, *Lev* and *Profit* are 0.48 and 0.06, respectively. The means of *MKT* and *AssetGr* are 1.82 and 0.55, indicating that Asian firms have high growth opportunities and high growth rates. The average *CG* is 54, suggesting that corporate governance of Asian companies is weaker than that of developed countries.³ The average *LTO* is 78, indicating that the *LTO* of Asian firms is very high compared with that of developed countries.⁴ The average *UAI* is 52, indicating that uncertainty avoidance in Asian firms is slightly higher than that in developed country firms except those in Germany.⁵

5.2. Differences in the variables between the two groups dichotomized by law, corporate governance, and culture

We use a parametric *t*-test to examine whether the key variables are statistically different based on the dichotomization of law, corporate governance, and culture. Table 2 shows the results of the *t*-test of the key variables used in our analysis.

Panel A shows the differences in the variables between common law and civil law Asian countries. The average *DYP* for firms of common law Asian countries is 37.399%, significantly higher than the 33.129% for firms of civil law Asian countries at the 1% significance level. The average *INS* for firms of common law Asian countries is 6.452%, significantly higher than the 4.887% for firms of civil law Asian countries at the 1% significance level, implying that firms of common law Asian countries show higher insider

¹ According to La Porta et al. (2000b), dividend payouts in the United States, the United Kingdom, and Germany are 22.11%, 36.91%, and 42.86%, respectively.

² According to Farinha and Lopez-de-Foronda (2009), the average insider ownership of common law firms is 29.7%. They calculate insider ownership as the total percentage of all shares owned by the members of the managerial team, both executive and non-executive board members, in addition to those owned by shareholders whose stake is over 5% of the total shares in the company.

³ According to S&P transparency and disclosure ratings given in Doidge et al. (2007), corporate governance scores of the United Kingdom, France, Germany, Netherlands, and Sweden among others, 71, 68, 56, 63, and 62, respectively.

⁴ According to Hofstede (2001), the *LTO* values of the United States, the United Kingdom, Canada, and Germany are 29, 25, 23, and 31, respectively.

⁵ According to Hofstede (2001), the *UAI* values of the United States, the United Kingdom, Canada and Germany are 46, 35, 48, and 65, respectively.

ownership and higher dividend payouts than firms of civil law Asian countries. On average, firms of civil law Asian countries have significantly higher *Lev* and *LnAsset* but lower *Profit* than firms of common law Asian countries at the 1% significance level.

Panel B shows the differences in the variables between high corporate governance and low corporate governance Asian countries. The average *DYP* for firms of high corporate governance countries is 42.886%, significantly higher than the 23.650% for firms of low corporate governance countries at the 1% significance level. The average *INS* for firms of high corporate governance countries is 6.114%, significantly higher than the 4.977% for firms of low corporate governance countries at the 1% significance level, implying that firms of high corporate governance countries show higher insider ownership and higher dividend payouts than firms of low corporate governance countries. On average, firms of high corporate governance countries have significantly lower *LnAsset*, *MKT*, and *Profit* than firms of low corporate governance countries at the 1% significance level.

Panel C shows the differences in the variables between high and low LTO Asian countries. The average *DYP* for firms of high LTO countries is 38.475%, significantly higher than the 33.045% for firms of low LTO countries at the 1% significance level. There is no significant difference in the average *INS* between firms of high LTO countries and low LTO countries. On average, firms of high LTO countries have significantly higher *Lev* and *LnAsset* but significantly lower *MKT* and *Profit* than firms of low LTO countries at the 1% significance level.

Panel D shows the differences in the variables between high and low UAI Asian countries. The average *DYP* for firms of high UAI countries is 38.688%, significantly higher than the 32.909% for firms of low UAI countries at the 1% significance level. The average *INS* for firms of high UAI countries is 7.014%, significantly higher than the 4.746% for firms of low UAI countries at the 1% significance level, implying that firms of high UAI countries show higher insider ownership and higher dividend payouts than firms of low UAI countries. On average, firms of high UAI countries have significantly higher *LnAsset* but lower *MKT* and *Profit* than firms of low UAI countries at the 1% significance level.

[Tables 1 and 2]

Table 3 reports the correlations between the variables. Based on the Pearson correlations, *DYP* is positively correlated with *MKT* (0.155), *Profit* (0.101), *Law* (0.071), *CG* (0.191), and *UAI* (0.049) and negatively correlated with *LnAsset* (-0.054) and *AssetGr* (-0.036). However, *DYP* is not correlated with *INS* (0.006), *Lev* (-0.028), and *LTO* (-0.024). Although the Pearson correlations show that the independent variables have some correlations with each other, we do not need to consider the multicollinearity problem in later regressions because they are not too high.

[Table 3]

5.3. The relation between insider ownership and dividend policy in different legal, corporate governance, and cultural environments

This section examines how the relation between insider ownership and dividend policy

changes in the different contexts of law, corporate governance, and culture. We employ a panel regression model controlling for firm characteristics such as leverage, growth opportunities, firm size, profitability, and growth rate. The significantly positive coefficient of INS (0.463) at the 1% significance level and the negative coefficient of INS^2 (-0.004) at the 10% significance level in column (1) of Table 4 show that insider ownership generally has an inverse U-shaped relationship with dividend payouts in Asian countries. Column (2) shows that the coefficient of Law (4.836) is significantly positive at the 1% significance level, indicating that Asian firms in common law countries pay higher dividends compared with Asian firms in civil law countries. Column (3) shows that insider ownership has an inverse U-shaped relation with dividend payouts for both country law traditions but only the coefficients of $INS \times CommonLaw$ (0.911) and $INS^2 \times CommonLaw$ (-0.009) are statistically significant at the 1% and 5% levels, respectively. These results support Hypotheses 1 and 2. Column (4) shows that the $CG Dummy$ has a significantly positive coefficient (22.35) at the 1% significance level, indicating that firms in countries with stronger corporate governance have higher dividend payouts, consistent with the outcome model of dividend policy. Column (5) shows that the inverse U-shaped relation between insider ownership and dividend payouts is only statistically significant in Asian countries with stronger corporate governance, where the coefficients of $INS \times CG High$ (0.529) and $INS^2 \times CG High$ (-0.005) are statistically significant at the 1% and 10% levels, respectively. These results support Hypothesis 3.

[Table 4]

Table 5 shows the results for the relationship between insider ownership and dividend policy in different cultural environments. Columns (1) and (2) of Table 5 show that LTO (6.548) and UAI (8.253) have significantly positive effects on dividend payouts at the 1% significance level, supporting Hypothesis 4. This finding implies that the importance of dividends is much greater to investors than to insiders in Asian countries because of the severe agency problems. Columns (3) and (4) of Table 5 show that the coefficient of $INS \times LTO Low$ (0.617) is not only significant at the 1% level but also much higher than that of $INS \times LTO High$ (0.324). Identical results are found for UAI scores. We also find that the relation between insider ownership and dividend payouts has an inverse U-shaped pattern regardless of LTO or UAI scores but that the inverse U-shaped relation is significant at the 1% level only for low UAI score countries.

[Table 5]

5.4. Robustness check

We perform a robustness test and present the results in Table 6. Columns (1) and (2) show the results when we divide the sample into common law and civil law countries. These results confirm that the relation between insider ownership and dividend payouts has an inverse U-shaped pattern in both groups but that the pattern is much stronger in common law countries. Columns (3) and (4) show the results when we divide the sample into strong corporate governance and weak corporate governance countries. The relation between insider ownership and dividend payouts has a weak inverse U-shaped pattern for both groups and

only the linear coefficient of insider ownership is significant at the 1% level for strong corporate governance countries. Columns (5) and (6) show the results when we divide the sample into high LTO and low LTO groups. The relation between insider ownership and dividend payouts has a weak inverse U-shaped pattern for both groups and only the linear coefficient of insider ownership is significant at the 10% level for low LTO countries. Lastly, columns (7) and (8) show the results when we divide the sample into high UAI and low UAI groups. These results confirm that the relation between insider ownership and dividend payouts has a strong inverse U-shaped pattern at the 5% level only for low UAI countries.

[Table 6]

6. Conclusions

Recent studies of the relation between insider ownership and dividend policy have focused on the United States or European firms, particularly from a legal system perspective. We incorporate cultural dimensions into our analysis because these remain significant in the determination of firms' dividend policy even after controlling for legal origin and corporate governance. Because Asian countries are known to have much more severe agency problems between controlling insiders and outside investors and show a higher propensity toward LTO and uncertainty avoidance than the United States and European countries, we examine the effect of insider ownership change on dividend policy, focusing on firms operating in Asian countries.

We make the following findings. First, insider ownership generally has an inverse U-shaped relationship with dividend payouts in Asian countries, which is different from the findings on the United States and European countries. Second, the relation between insider ownership and dividend payouts in Asian countries is stronger in common law countries than in civil law countries. Third, the inverse U-shaped relation between insider ownership and dividend payouts is only statistically significant in Asian countries with stronger corporate governance. Fourth, LTO and UAI have significantly positive effects on dividend payouts, implying that the importance of dividends is much greater to investors than to insiders in Asian countries because of the severe agency problems. Lastly, the relation between insider ownership and dividend payouts shows an inverse U-shaped pattern regardless of LTO or UAI scores, whereas the inverse U-shaped relation is significant only for low UAI score countries.

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