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외국인투자자와 한국기업의  
배당정책의 관계에 대한 연구: 재벌의  
조절효과를 중심으로

The Impact Of Foreign Investors On Dividend  
Policy In Korea: The Moderating  
Role Of Chaebol Membership

2013년 8월

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경영학과 국제경영전공  
김 알렉산더



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# Abstract

## The Impact Of Foreign Investors On Dividend Policy In Korea: The Moderating Role of Chaebol Membership

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Little is known about how business group (Chaebol) affiliation affects dividend policy although many Korean firms belong to Chaebol. This study investigates the moderating effect of Korean Business Groups on the relationship between foreign investors' ownership and dividend policy in Korea. Using sample Business Groups from 2008 to 2012 we find that Chaebol exert a significant impact on the relationship between foreign investor's ownership and dividend payout. This study shows the effect of Chaebol from the viewpoint of corporate governance in Korea and highlights the importance of studying further the agency problems that controlling shareholders present for minority shareholders, especially in business groups.

*Key Words:* Chaebol, moderating effect, dividend policy, corporate governance

*Student number:* 2011-24266



# Contents

Abstract .....	i
Contents .....	ii
Tables .....	iii
1 Introduction .....	1
2 Theoretical Background .....	3
2.1 Dividends and Dividend Policy .....	3
2.2 Theory of Business Groups .....	5
3 Recent trends of FDI and Dividends .....	6
3.1 Trends in foreign investment .....	6
3.2 Trends in dividends .....	10
4 Hypotheses and statistical analysis .....	16
4.1 Hypotheses .....	16
4.2 Statistical analysis .....	20
5 Conclusion .....	23
Literature .....	24
요약 .....	27

## Tables

Table 1. Sectoral composition of foreign investment (1990–2012) .....	8
Table 2. Distribution of foreign investment by sources (1990–2012) ...	9
Table 3. Dividend payout by markets (2006–2012) .....	11
Table 4. Dividend payout by markets (2006–2011) .....	12
Table 5. Dividend payout by companies (2011) .....	13
Table 6. Dividend payout by country (2005–2011) .....	15
Table 7. Definition of each variable .....	19
Table 8. The impact of foreign ownership on dividend rate .....	20
Table 9. The Moderating effect of Business groups .....	21

# 1. Introduction

The proportion of foreign institutional investors has gradually grown in developing countries as a result of financial globalization. With their large funding size and high shareholding ratio, major outside shareholders are motivated and empowered to oversee corporate management (Shleifer and Vishny, 1986). For example, in Korea, foreign investors own around 30 percent of the stock of listed companies, and the numbers of foreign institutional investors who own more than five per cent of a company's shares have steadily increased (S. Kim, Sul and Kang, 2010)

Previous studies analyzing the relationship between foreign investors and dividend policy have generated conflicting results (K. Park (2004); Bin and Cho (2005); H. Park (2004); W. Sul and Kim (2006)). This is mainly caused by the differences in samples, dependent variables, and methodology used for different studies. For example S. Kim, W. Sul and S. Kang (2010) suggest that foreign institutional investors need to be considered as one of the variables in emerging markets that determine corporate dividends. They argue that the more shares foreign institutional investors have in relation to major domestic shareholders and the more shares foreign institutional investors have against the previous year, the stronger the impact of the foreign institutional investors on the firm's dividend increase. On the other hand K. Park (2004) and K. Bin and S. Cho (2005) reported that foreign shareholders have no influence on dividends. On balance, the studies investigating the relation between foreign ownership and dividend policy in Korea seem to fall far short of consensus.

In parallel, prior literature has not sufficiently done justice to the unique institutional context of Korea. Preceding foreign studies show

that the major determinants of corporate dividend policy are agency cost, growth potential, cash-flow uncertainty, governance structure, financial risk, etc. (Rozeff, 1982; La Porta, et al., 2000; Fama and French, 2001; Fenn and Liang, 1998; Chay and Suh, 2005). They document evidence that the higher the agency cost, the less the growth potential, the more stable the cash-flow, the better the governance structure, and the lower the financial risk, the higher is the dividend level. However, these results might not necessarily hold true in Korea whose institutional contexts and corporate governance practices substantially differ from those of western countries. Accordingly, a further investigation is soundly warranted.

The study first seeks to fill the gaps by investigating how foreign institutional investors determine corporate dividends which can be viewed as a potential solution to the agency problem (Easterbrook, 1984). In so doing, we consider how Chaebol membership moderates the relation between foreign ownership and dividend policy.

Moreover the Chaebols are characterized by concentrated family ownership and management which frequently leads to expropriation of small shareholders.<sup>1)</sup> A report in the South China Morning Post (1998), for example, draws attention to the plight of small investors who have been exploited by the management of family-controlled Chaebol. L. Hwang, K. Park and R. Park (2004) found that firms affiliated with major business groups (chaebol) tend to have lower dividend payouts than independent firms do. The scholars attributed the lower dividend to divergence between the controlling owners' cash flow and voting rights. The underlying logic is that the control divergence increases the likelihood of expropriation of non-controlling

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1) Gul, Kealey, 1999, Chaebol, Investment Opportunity Set and Corporate Debt and Dividend Policies of Korean Companies, Review of Quantitative Finance and Accounting,

shareholders, so that wary investors undervalue Chaebol firms' new issues. In the face of such increased cost of capital, Chaebol firms might prefer internal sources of funds, which decrease dividend payout. Thus, the scholars expect that chaebol firms on average pay lower dividends compared to independent firms.

The thesis consists of the following. Section 2 provides a theoretical review of the objectives investigated; section 3 reports a brief overview of the background on the institutional ownership and dividend payout policy of Korean firms. Section 4 discusses data, describes a methodology used in the study and shows results, followed by a summary and conclusion in Section 5.

## 2. Theoretical Background

### 2.1 Dividends and Dividend Policy

Dividends are payments made by a corporation to its shareholder members.<sup>2)</sup> Dividends are usually distributed in the form of cash (cash dividends) or share (share dividends). When a company distributes a cash dividend, it must have sufficient cash to do so. This creates a cash flow issue. Profit generated may not be in the form of cash. There are drastic differences between the dividend payout ratios in different industries. The banking industry had a higher dividend payout ratio than property developers. This is

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2) M. Simkovic, 2009, The Effect of Enhanced Disclosure on Open Market Stock Repurchases, 6 Berkeley Bus. L.J. 96

due to one important accounting issue. A large proportion of the profit earned by property developers is not cash in nature, so these companies cannot distribute high dividends.

Other factors in addition to profit and cash flow may influence the dividend level. In some countries, dividends are taxable. The higher the dividend, the higher the tax an investor needs to pay. In such cases, high dividends are not desirable. If a company is expanding, it needs to keep sufficient cash for its plans rather than having to go to the equity or debt market to raise additional finance.

Dividend Policy is the policy used by a company to decide how much it will pay out to shareholders in dividends and based the answers to several important questions: 1) How much dividend should a company distribute to shareholders? 2) What will the impact of the dividend policy be on the company's share price?, 3) What will happen if the amount of dividend changes from year to year?<sup>3)</sup>

Common dividend policies are the stable dividend policy, constant payout ratio and residual dividend policy. In the stable dividend policy, management maintains a fixed dividend per share each year. In the constant payout ratio situation, management maintains a fixed percentage dividend payout ratio. In a residual dividend policy, profits are used to fund new projects with the residual or remaining profit distributed as dividends.

Dividend theory includes an argument called dividend irrelevance which was proposed by two Noble Laureates, Modigliani and Miller. They argued that if a company distributed high dividends now it may reduce its dividends later.

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3) S. Lee, 2009, Dividend Policy, The Chinese University of Hong Kong

## 2.2 Theory of Business Groups

Business groups, known as Chaebol in Korea, are defined as a gathering of formally independent firms under single common administrative and financial control, and are owned and controlled by certain families. These Chaebols are an important part of the Korean economy (S. Chang, J. Hong 2002).

Leff (1978) noted that the business group is common in developing countries. He interpreted the business group as an interfirm organization that existed due to market imperfections. According to Leff, the business group serves three main structural roles. First, it is a means for appropriating quasi-rents, which accrue from access to scarce and imperfectly marketed inputs such as capital and information. Second, it is an alternative to portfolio diversification when markets for risk and uncertainty are absent. Third, it facilitates vertical integration, thereby eliminating problems arising from bilateral monopoly or oligopoly.

Korean Chaebols can be classified in three categories based on the timing of the formation: the late 1950s, the 1960s, and the 1970s.<sup>4)</sup> Chaebols of the late 1950s—such as Hyundai, Samsung, and Lucky-Goldstar (formerly Lucky)—were established by self-made founders through governmental support such as preferential allotment of grants, disposal of government-vested properties, and preference in taxation and finance. Chaebols of the 1960s—such as Hajin, Korea Explosive, Hyosung, Sangyong, and Dong-A—came about because of foreign loans induced for a series of five-year plans. Finally, those of the 1970s—such as Daewoo, Sunkyong, Lotte, Kolon, and Doosan—were

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4) M. Hwang. 1973, Study about Korean Business Groups and Entrepreneurs, The Collection of Papers, Volume 17.

formed during the economic boom based on a rabid growth of export and domestic demand.

### 3. Recent trends in FDI and Dividends in Korea

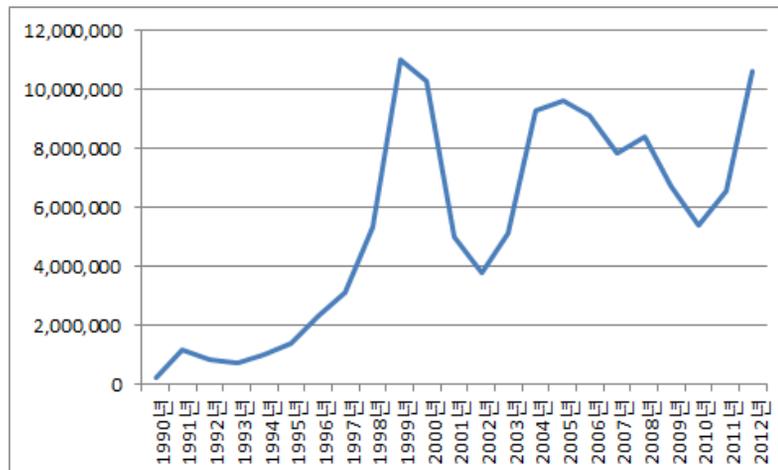
#### 3.1 Trends in foreign investment

Foreign investment is an integral part of the Korean economy. The number of foreign-invested companies in Korea has increased exponentially over the last decade or so. Since the onset of the financial crisis in 1997, the Korean government has been active in its efforts to attract foreign direct investment to Korea; passage of the Foreign Investment Promotion Act in 1998 greatly facilitated these efforts. This new legislation focuses on creating an investor-oriented policy environment by streamlining foreign investment procedures, expanding investment incentives, and establishing an institutional framework for investor relations, including one-stop service. The Korean government also undertook full-fledged liberalization in the area of hostile cross-border M&As and foreign land ownership.

FDI in Korea was minimal during the initial liberalization that lasted from the 1960s until the mid-1980s. In the 1980s, however, annual average FDI in Korea increased from US\$ 100 million to over \$800 million. Following a contraction that lasted until 1993, FDI resumed an upward trend, reaching \$3 billion in 1997 and a record \$5.1 billion in 1998. This growth is in part explained by the fall in stock market and real estate prices and the depreciation of the won. It also reflects the Korean

government's new policy measures to promote FDI and progress in restructuring the financial and corporate sectors.

Pic 1. Foreign investment inflow to Korea (1990-2012)  
(Unit: thousand dollar)



Source: Ministry of Trade, Industry and Energy

The graph shows the amount of foreign investments from 1990 to 2012. The first several years (from 1990 to 1993) the amount of foreign investments fluctuated markedly in the US\$ 500 million to US\$ 1 billion. However from 1993 the amount consistently increased and topped US\$ 11 billion in 1999. Due to the unstable economic situation in US that time the foreign investment received by Korea rapidly decreased to less than US\$ 4 billion in 2002. However since 2003 the amount of foreign investment grew and Korea aimed to attract about US\$ 9.3 billion in 2004. From 2005 to 2008 the amount of foreign investments fluctuated in the US\$ 7.5 to US\$ 10 billion. In addition Korea aimed to get more than US\$ 10 billion of foreign investment in 2012.

For the sectoral distribution of FDI inflow into Korea, the

manufacturing sector was the largest recipient during the early liberalization period, absorbing 67.4 percent of total inward FDI during 1962–86 (table 9.2). This trend continued until 1993, when the share of the manufacturing sector exceeded 65 percent of total FDI inflow. The share of manufacturing as a percentage of total FDI has remained at approximately 55 percent since 1996.

In the manufacturing sector, the composition of inward FDI changed toward more investment in the heavy and chemical industries. Since the mid-1980s, FDI in labor-intensive and low-technology industries, such as textiles and clothing, has fallen significantly because of the rise in labor costs. Instead, the electrical and electronics sector and transport equipment and chemicals are receiving increased amounts of foreign investment. Since 1997, foreign food companies increased their investment in Korea by acquiring domestic food companies and their distribution networks.<sup>5)</sup>

Table 1. Sectoral composition of foreign investment (1990–2012)

(Unit: thousand dollar)

Year	1990년	2000년	2005년	2010년	2011년	2012년
Total	169,666	15,264,880	11,565,528	13,071,314	13,673,060	16,286,005
Manufactur. Industry	92,232	6,876,972	3,078,032	6,658,538	5,657,482	6,097,387
Service Industry	76,581	8,129,379	8,300,961	6,302,087	7,269,362	9,601,538
Others	327	254,881	183,530	106,704	690,024	582,843

Source: Ministry of Trade, Industry and Energy

The table shows the amount of foreign investors by sector.

5) J. Kim, S. Hwang, 2000, The Role of Foreign Direct Investment in Korea's Economic Development, University of Chicago Press

According to the table there was growing interest by investors in manufacturing industry up to 1990. Indeed the industry attracted more than US\$ 90 thousand. However from 2000 service industry has become the largest for foreign investors and in 2012 it rose to US\$ 9.6 billion and surged 59% of total amount of foreign investors.

Table 2. Distribution of foreign investment by sources (1990–2012)  
(Unit: thousand dollar)

Year	1990년	2000년	2010년	2011년	2012년	Total
Total	161,169	14,288,557	8,669,396	10,947,232	13,145,920	167,029,562
USA	85,912	2,921,330	1,974,404	2,371,779	3,674,193	47,671,521
Canada	314	519,887	480,345	739,268	393,769	5,533,096
Japan	37,294	2,451,886	2,082,692	2,289,134	4,541,610	29,043,604
China	100	76,288	414,178	650,853	727,052	4,460,905
Singapore	1,046	297,090	772,977	611,306	1,405,407	8,648,020
Malaysia	0	1,408,181	105,822	93,492	182,157	7,426,934
Germany	730	1,627,003	268,260	1,471,035	407,864	10,824,762
England	6,367	86,481	649,133	920,115	363,491	11,762,321
France	9,554	616,340	159,919	236,282	221,701	6,266,392
Belgium	4,920	164,679	83,465	1,599	22,055	3,394,642
Holland	10,044	1,775,172	1,184,887	1,011,004	634,621	21,485,484
Ireland	17	48,533	325,884	70,625	267,801	2,920,045
Sweden	4,661	12,779	30,061	107,192	208,774	1,673,696

Source: Ministry of Trade, Industry and Energy

The table describes the amount of foreign investment received from different countries from 1990 to 2012. According to the table leading investors such as Japan, US and Netherlands still maintain a conservative stance. Indeed the countries invested in Korean companies about 50 % of total amount of foreign investment. US direct investment in Korea increased to a cumulative value of \$3.6 billion in 2012 while Japan and Netherlands's one rose to \$4 billion and \$634 million respectively.

However there is an increasing tendency for European and Asian countries to invest in Korean companies recently. For example China's total investment grew to \$4.4 billion from 1990 to 2012 and surged 2% of total investment received by Korea during that period. In addition, Singapore and Malaysia invested in Korean companies \$8.6 billion and \$7.4 billion during the same period of time. The results mean that Asian countries play an important role in Korea's economy as well as US and European countries do.

### 3.2 Trends in dividends

Dividend payout of Korean firms listed on the Korea Exchange and KOSDAQ consistently increases. However Dividend payouts tend to be low in comparison to other countries, and consistently so across firms in Korea, which is consistent with the cultural norm for Korean firms to hoard cash rather than pay dividends.<sup>6)</sup>

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6) T. O' Connor, 2012, Dividend payout, corporate governance, and the enforcement of creditor rights in emerging markets, National University of Ireland Maynooth

Table 3. Dividend payout by markets (2006–2012)

(Unit: Firm, ₩100 million,%)

Year	Korea Exchange			KOSDAQ			Total		
	Number of Firms	Dividends	Ratio	Number of Firms	Dividends	Ratio	Number of firms)	Dividends	Ratio
2006	427	98,105	95.2	372	4,932	4.8	799	103,037	100
2007	444	113,572	94.6	398	6,485	5.4	842	120,057	100
2008	417	75,195	94.8	328	4,120	5.2	745	79,315	100
2009	443	96,233	95.0	397	5,106	5.0	840	101,339	100
2010	486	108,491	94.2	430	6,624	5.8	916	115,115	100
2011	472	103,454	93.6	424	7,031	6.4	896	110,485	100
2012	456	102,208	93.2	427	7,399	6.8	883	109,607	100
Growth since last year	Δ16	Δ1,246 (Δ1.2%)		3	368 (5.2%)		Δ13	Δ878 (Δ0.8%)	

Source: <http://joongang.joinsmsn.com>

The table shows the amount of dividends paid by Korean firms. According to the Korea Exchange data ₩10.8 trillion paid out by 456 firms in 2010 while KOSDAQ data shows that only 662.4 million were distributed by 430 firms. Korea Exchange surged 94.2 % of total dividend paid to investors in comparison to KOSDAQ which possesses only 5.8 %.

In addition The combined amount of dividends paid out by 456 firms listed on the main stock market is 10.9 trillion won (US\$10.7 billion) for 2012, compared to 11 trillion won tallied in 2011.<sup>7)</sup>

Table 4. Dividend payout by markets (2006–2011)

(Unit: ₩100 million, %)

Year	Korea Exchange			KOSDAQ			Total		
	Total dividends	Foreign dividends	Ratio	Total dividends	Foreign dividends	Ratio	Total dividends	Foreign dividends	Ratio
2006	98,105	50,220	51.2	4,932	595	12.1	103,037	50,815	49.3
2007	113,572	50,402	44.4	6,485	1,044	16.1	120,057	51,446	42.9
2008	75,195	24,619	32.7	4,120	386	9.4	79,315	25,005	31.5
2009	96,233	36,266	37.7	5,106	438	8.6	101,339	36,704	36.2
2010	108,491	42,673	39.3	6,624	724	10.9	115,115	43,397	37.7
2011	103,454	37,880	36.6	7,031	727	10.3	110,485	38,607	34.9
Growth since last year	△5,037	△4,793 (△2.7%)		407	3 (△0.6%)		△4630	△4790 △2.8%	

Source: <http://joongang.joinsmsn.com>

The table illustrates the amount of dividends paid to foreign investors from 2006 to 2011. According to the Korea Exchange the sum of foreign dividends fluctuated markedly in the ₩3 trillion to ₩5. On the other hand KOSDAQ data illustrates that the amount of dividends paid to foreign investors fluctuated in the ₩38 billion to ₩104 billion during the same period of time. In 2011 the total amount of foreign dividends decreased from 37.7% to 34.9%.

7) <http://www.globalpost.com/dispatch/news/yonhap-news-agency/130326/listed-firms-dividend-payout>

Table 5. Dividend payout by companies (2011)

(Unit: ₩100 million)

Ranking	Korea Exchange		KOSDAQ	
	Company	Dividends	Company	Dividends
1	Samsung Elec	4,639	Megastudy	145
2	POSCO	3,107	GS Home S.	86
3	SK Telecom	2,733	Daum Com.	57
4	KT&G	2,635	Dongsuh	38
5	KT	2,501	Celltrion	28

Source: <http://joongang.joinsmsn.com>

According to the table Samsung Electronics is a company which pays more dividends to foreign investors than others. In fact It paid ₩463 billion of total amount of dividends paid to foreign investors while POSCO and SK Telecom paid ₩310 billion and ₩273 billion respectively.

Compared with other countries, dividend behavior in Korea is less explained and Korean firms pay less smoothed dividend. The average observed payout ratio for Korean firms is also lower than that of some other countries. The result can be due to the unfavorable tax treatment of dividend income in Korea<sup>8)</sup>

In addition Samsung Electronics Co. is expected to pay out the largest amount of 1.27 trillion won in dividends for fiscal 2012, trailed by top mobile carrier SK Telecom Co. with 678.3 billion won while the country's No. 1 carmaker Hyundai Motor Co. is anticipated to pay 547.6 billion won in dividends, followed by top steelmaker POSCO with 523.1 billion won. Hankook Shell Oil Co., the local unit of global oil and gas giant Royal Dutch Shell Plc., recorded the highest dividend payout per share at 18,000 won in 2012.

Meanwhile, 428 companies listed on the country's tech-heavy KOSDAQ market are anticipated to pay out dividends worth 808.6

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8) J. Jeong, 2008, Dynamics of Dividend Policy in Korea, Division of BA, Korea University

billion won for fiscal 2012, up 2.6 percent from 788 billion won tallied in 2011<sup>9)</sup>

By company, Dongsuh Companies Inc., a South Korean foodmaker, is expected to pay out the highest amount at 47.3 billion won, trailed by OCI Materials Co., a local energy firm, with 30.1 billion won.

Local retailer GS Home Shopping Inc. and Megastudy Co., South Korea's largest online tutoring website, posted the highest dividend payout per share at 3,000 won each.

However dividend payouts in Korea tend to be low in comparison to other countries. As it was mentioned before it is consistent with the cultural norm for Korean firms to hoard cash rather than pay dividends.

The miserly dividend yields of South Korean companies are well known to foreign investors. But the country's chaebol, the huge family-run conglomerates, are facing growing shareholder calls for bigger payouts, spurred by stalling growth in capital investment and an incoming president who has promised to attack corporate governance failings.<sup>10)</sup>

One of the reasons why Korean companies have a much lower trading multiple against companies in other countries is because of the cash management

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9) <http://www.globalpost.com/dispatch/news/yonhap-news-agency/130326/listed-firms-dividend-payout>

10) <http://www.ft.com/intl/cms/s/0/ee002b48-48da-11e2-b94d-00144feab49a.html#axzz2TSaJwI2O>

Table 6. Dividend payout by country (2005–2011)

Country	Dividend Payout (%)		Dividend paying companies (%)		Profitability (%)		Cash Flow(%)			
	Cash Dividend	Cash Dividend + Share Repurchases	Cash Dividends	Share Repurchases	Rate of Operating Profits	Net Income Ratio	Cash Flow for Operation/Sales	Cash Flow for Investment/Sales	Free Cash Flow/Sales	Dividend/Free Cash Flow
S. Korea	22.4	31.9	67.9	20.2	6.2	3.3	7.7	8.9	-12	-0.9
USA	37.8	100.4	38.4	43.3	11.4	5.9	12.2	8.2	4.0	1.5
Japan	33.6	51.6	88.1	47.9	5.7	2.7	8.1	6.5	1.6	0.9
England	48.1	73.4	46.0	19.3	12.1	6.9	12.1	8.1	4.0	1.3
France	51.3	62.7	44.2	19.7	8.7	4.6	10.5	8.1	2.3	1.2
Germany	47.0	58.4	36.3	9.0	5.9	3.7	9.6	8.6	1.0	2.2
Italy	63.7	68.4	56.3	15.8	11.0	5.4	13.6	12.2	1.5	2.5
China	18.3	18.3	2.3	0.0	7.8	5.8	9.8	11.3	-1.5	-0.7
Australia	53.6	73.7	27.6	6.3	14.2	8.6	15.2	13.8	1.4	4.5
India	28.7	29.6	89.4	5.8	12.0	9.0	11.9	14.3	-2.4	-1.1
Brazil	48.9	53.8	59.6	12.0	17.2	10.9	18.0	18.1	-0.1	-62.5
Mexico	30.7	46.8	38.3	23.3	15.3	8.9	15.3	11.7	3.6	1.1
Indonesia	47.7	49.9	39.2	2.7	14.9	8.1	13.8	13.5	0.4	11.2
Argentina	63.8	65.3	37.9	2.2	15.5	8.5	20.0	13.5	6.5	0.9
Russia	15.4	16.4	1.0	0.4	10.0	6.0	4.8	6.9	-2.1	-0.5
Turkey	54.0	55.1	38.7	0.5	7.2	5.3	6.7	6.2	0.5	6.5
S. Arabia	56.8	56.8	58.5	1.8	20.9	14.3	28.6	34.3	-5.6	-1.4
S. Africa	41.1	48.9	60.4	18.1	12.5	8.6	12.9	10.0	2.8	1.5
G7	48.1	68.4	44.2	19.3	11.0	5.4	12.1	8.2	1.6	1.3
Others	44.4	49.4	38.9	4.3	13.4	8.5	13.4	12.6	0.1	0.2
Total	47.7	55.1	39.2	9.0	12.0	6.9	12.2	11.3	1.0	1.1
Global Ent	36.8	60.2	93.4	65.6	14.7	8.9	16.2	12.0	4.2	0.5

Source: Thomson Financial, Thomson ONE Banker DB

The table shows the dividend payout ratio of selected countries. According to the table korean dividend payout remains lackluster in comparison to other countries. From 2005 to 2011 the average dividend payout of korean firms possessed 22.4 %, less than the

average dividend payout of G20 countries which is 47.7%.

If to include share repurchases which are considered to be cash dividends Korean firms on average paid 31.9%, less than the average dividend payout of G20 countries which is 55.1%.

In addition Argentina market offers the highest dividend payout and US market offers the highest dividend payout which includes share repurchases within the G20 markets.

The reason of such differences between dividend payouts of Korea and G20 is a company's cash flow from which dividends are paid to investors. Indeed the gap between control rights and cash flow rights in Korea doesn't lead to payment of high and smooth dividends to foreign investors. There is the same tendency to pay low dividends due to cash flow rights in China and India.<sup>11)</sup>

## 4 Hypotheses and statistical analysis

### 4.1 Hypotheses

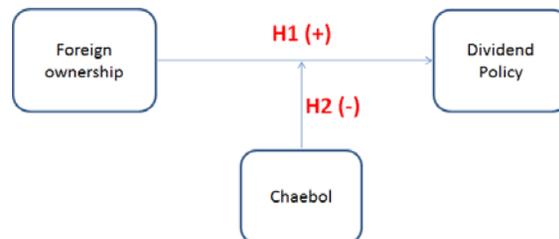
In constructing our sample, we selected firms listed on KSE. The sample covers the 2001-2010 period. To assess the impact of foreign institutional ownership on dividend payout and the moderating effect of Chaebol the study adopted the fixed-effects vs. random-effects model of linear regression analysis.

$$DIV_t = B_0 + B_1FOR_t + B_2Chaebol_t + B_3(FOR_t*Chaebol_t) + \varepsilon$$

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11) H. Lee, 2012, Dividend Payout in Korea. LGERI Report

To test the hypotheses the study adopted the theoretical model given as follows:



The first hypothesis is about foreign institutional investors and dividends. A few studies that analyze the relationship between foreign investors and dividends are available in Korea. K. Park (2004) and Bin and Cho (2005) reported that foreign shareholders have no influence on dividends. They included all the listed manufacturing companies in their study. In such cases, it becomes quite difficult to accurately measure the effect that the shareholding ratio of foreign investors has on dividends, since too many companies whose ownership by foreign investors was zero per cent or was close to zero percent were included in their sample.

As it's well known that with enhanced monitoring by foreign investors, firms are more likely to pay out their cash through dividends or share repurchases, consistent with the notion that paying out more cash provides a cost-effective substitute to shareholder monitoring in an effort to reduce over-investment problems (Easterbrook 1984, Jensen 1986). Therefore, it is presumed that the foreign investors' ownership is positively related to dividend payout.

**H1:** The foreign investors' ownership is positively related to dividend payout

The next hypothesis considers the moderating effect of Chaebol.

Existing studies have focused only on Chaebol's main effect on Korean dividend policy. For example, L. Hwang, K. Park and R. Park (2004) suggest that firms affiliated with major business groups tend to have lower dividend payout than independent firms do.

Business groups actively take advantage of internal capital market which hinges mostly on related earnings from existing firms. This tendency becomes greater since the expropriation concern about Chaebol firms, fund-raising from external capital market becomes costly. Taken together, Chaebol does not want to payout dividends of their affiliate firms (i.e., motivation)

On the other hand, Chaebol firms are highly entrenched from capital market discipline through a radical separation of cash flow and voting rights (La Porta et. al. 1999)<sup>12</sup>).

Thus, Chaebol firms are more able to resist foreign investors' pressure to dividend payout (i.e., capability)

In view of motivation and capability of Chaebol firms, we conclude that the Chaebol have negative effect on the relationship between foreign ownership and dividend payout.

**H2:** The Chaebol membership moderates the relation between foreign ownership and dividend, in such a manner that the positive relation becomes weaker for Chaebol firms.

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12) La Porta, A. Shleifer, 1999, Ownership around the world, The Journal of Finance. Vol 54, No. 2.

Table 7. Definition of variables

	Variable	Definition
Dependent variables	Dividend rate	dividend rate
Independent variables	ROA	annual return on assets (net income / total assets)
	Free Cash Flow	free cash flow (cash flow minus capital expenditures)
	Total Asset	total asset
	Current Ratio	current ratio (current assets / current liabilities)
	Debt To Equity Ratio	debt to equity ratio (total liabilities / shareholders equity)
	FOR	foreign ownership
	Chaebol dummy	Chaebol dummy

The table provides definitions of the variables we use in this study. We use one dependent variable dividend rate which is the total expected dividend payments from an investment, fund or portfolio expressed on an annualized basis plus any additional non-recurring dividends that may be received during that period. Among independent variables annual return on assets, free cash flow, ratio of foreign institutional investors, dummy Chaebol and others are used to test the hypotheses.

## 4.2 Statistical analysis

This table summarizes the results of cross-sectional regressions of dividend rate on foreign investor's ownership and other financial characteristics.

Table 8. The impact of foreign ownership on dividend rate<sup>a,b</sup>

	Mean	S.D.	1	2	3	4	5	6	7
1.Dividend rate <sub>t</sub>	0.257	0.771							
2.ROA <sub>t-1</sub>	0.049	0.088	0.19*						
3.Free cash flow <sub>t</sub>	0.012	0.314	0.02	0.06*					
4.Total asset <sub>t</sub> <sup>a</sup>	1.222	4.575	0.16*	0.20*	0.00				
5.Current ratio <sub>t</sub>	2.024	20.502	0.00	0.01	0.00	-0.02			
6.Debt to equity ratio <sub>t</sub>	1.357	7.519	-0.06*	-0.02	0.01	0.01	-0.01		
7.FOR <sub>t</sub>	0.117	0.156	0.20*	0.25*	0.03	0.43*	0.04*	-0.02	
8.Chaebol dummy <sub>t</sub>	0.174	0.379	0.09*	0.07*	0.00	0.50*	-0.02	0.02	0.18*

a. in trillions of wons

b. \* p<0.05

Table 8 shows the correlation matrix of the variables included in our study. According to the results, the impact of foreign ownership on dividend rate is significant at p<0.05 level and positive. This finding is consistent with our hypothesis 1. From this finding it is easy to conclude that foreign institutional investors are seizing

dividend while investing in Korean companies. In addition, the results show that the Chaebol dummy is significantly and positively related to dividend rate at  $p < 0.05$  level. The findings suggest that Chaebol groups are willing to pay high total dividends from an investment to shareholders. On the other hand, debt to equity ratio has a negative effect on dividend rate. This means that the more total liabilities the firm possesses, the less dividends it is willing to payout to investors.

Table 9. The Moderating effect of Business groups<sup>a,b</sup>

	(1)	(2)	(3)	(4)	(5)
Constant term	-3.001*** (0.407)	-3.172*** (0.453)	-3.009*** (0.406)	-3.186*** (0.453)	-3.173*** (0.452)
Year dummy (2003)	-0.001 (0.013)	-0.001 (0.015)	-0.001 (0.013)	-0.000 (0.015)	-0.000 (0.015)
Year dummy (2004)	0.029* (0.013)	0.028+ (0.015)	0.029* (0.013)	0.029+ (0.015)	0.030+ (0.015)
Year dummy (2005)	0.024+ (0.014)	0.025 (0.016)	0.025+ (0.014)	0.026+ (0.016)	0.026+ (0.016)
Year dummy (2006)	0.020 (0.014)	0.020 (0.016)	0.021 (0.014)	0.021 (0.016)	0.021 (0.016)
Year dummy (2007)	0.042** (0.014)	0.044** (0.016)	0.043** (0.014)	0.046** (0.016)	0.045** (0.016)
Year dummy (2008)	0.012 (0.015)	0.017 (0.017)	0.012 (0.015)	0.018 (0.017)	0.017 (0.017)
Year dummy (2009)	0.030+ (0.016)	0.037* (0.018)	0.031+ (0.016)	0.038* (0.018)	0.038* (0.018)
Year dummy (2010)	0.046** (0.017)	0.053** (0.018)	0.046** (0.017)	0.053** (0.018)	0.054** (0.018)
ROA <sub>t-1</sub>	0.467*** (0.076)	0.465*** (0.083)	0.467*** (0.076)	0.465*** (0.083)	0.470*** (0.083)
Free cash flow <sub>t</sub>	0.119** (0.039)	0.130** (0.043)	0.119** (0.039)	0.130** (0.043)	0.130** (0.043)
Total asset <sub>t</sub>	0.122*** (0.016)	0.127*** (0.017)	0.123*** (0.016)	0.128*** (0.017)	0.127*** (0.017)

Table 9. The Moderating effect of Business groups<sup>a,b</sup>  
(continued)

Current ratio <sub>t</sub>	0.000	0.000	0.000	0.000	0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Debt to equity ratio <sub>t</sub>	-0.043***	-0.043***	-0.043***	-0.044***	-0.044***
	(0.010)	(0.011)	(0.010)	(0.011)	(0.011)
Foreign investors' ownership <sub>t</sub> (A)		0.198**		0.194**	0.260***
		(0.064)		(0.064)	(0.068)
Chaebol dummy <sub>t</sub> (B)			-0.028	-0.028	0.010
			(0.020)	(0.021)	(0.025)
(A) X (B)					-0.314**
					(0.118)
No. Observations	3,397	3,117	3,397	3,117	3,117
Number of firms	534	521	534	521	521
Average period	6.361	5.983	6.361	5.983	5.983
F statistics	19.13***	17.88***	17.91***	16.82***	16.25***
Within R-squared	0.080	0.088	0.081	0.089	0.092

a. Standard errors in parentheses

b. \*\*\* p<0.001, \*\* p<0.01, \* p<0.05, + p<0.1

Table 9 illustrates the estimated effects of foreign investors' ownership, Chaebol dummy and other variables on dividend rate based on fixed effect. Models 2, 4 and 5 show the results of the verification done on Hypothesis 1 which imply that the foreign investors' ownership has a significant and positive effect on dividend rate at p<0.01 (Models 2,4) and p<0.001 (Model 5) levels. In addition, the debt to equity ratio has a significant and negative impact on dividend rate at p<0.001 level according to models 1 to 5. Model 5 includes the results about the moderating effect of Chaebol according to what Business groups' moderating effect is negative and significant at p<0.01 level. This result is consistent with hypothesis 2. To put differently, the impact of Business groups in Korea on the relationship between foreign ownership and dividend rate is negative.

The results imply that Chaebol contribute to decreases in dividend rate. Thus the study suggests it is necessary to improve governance mechanisms further to restructure business groups properly. Governments should tighten disclosure requirements and protect the rights of minority shareholders by allowing class action lawsuits.

## Conclusion

The unique institutional arrangements in the Korean corporate sector which include the existence of the Chaebol characterized by high levels of family ownership and affiliations provide the primary motivation for this study. We examined the association between Korean Chaebol, foreign investors' ownership and dividend policy.

Previous studies primarily focus on Chaebol's main effect on Korean dividend policy and did not explicitly consider the possibility that Chaebol may negatively affect the relationship between foreign ownership and dividend policy in Korea. This study explored the moderating effect of Chaebol's membership and suggests that in family controlled business groups, affiliate ownership is an explicit substitute for family ownership to artificially inflate family owners' control rights relative to their cash flow rights.

In details, first the work investigated the relationship between foreign investors' ownership and dividend policy in Korea and estimated the impact of Chaebol membership on the relationship between foreign ownership and dividend rate.

The results show that the impact of Chaebol is significant and negative. In fact Business groups in Korea are negatively related to the relationship between foreign ownership and dividend rate. Our

findings imply that Chaebol contributes to decreases in dividend rate in Korea.

Overall the study suggests it is necessary to improve governance mechanisms further to restructure business groups properly. Governments should tighten disclosure requirements and protect the rights of minority shareholders by allowing class action lawsuits.

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## 요약

배당정책에 대한 연구가 있음에도 불구하고 재벌의 조절효과를 고려하고 외국인투자자의 보유지분율과 한국기업의 배당정책에 대한 연구는 거의 없는 것이다. 이에 본 논문은 선행연구들이 재벌의 효과를 고려하지 못하고 연구를 수행하고 있는 한계점을 극복하기 위한 것이다.

이와 같은 연구배경 하에서, 본 연구는 2001년부터 2010년까지의 한국 기업을 연구대상으로 외국인투자자의 보유지분율이 한국기업의 배당성향에 미치는 영향을 살펴보았다. 또한 나아가 이들 관계에 대한 재벌의 조절효과를 통해 재벌기업과 재벌기업이 아닌 기업들 간의 비교함으로써 배당정책에 대한 재벌의 효과를 살펴보았다.

실증분석 결과, 배당성향은 외국인투자자의 보유지분율이 높아질수록 커진다는 것으로 나타났다. 또한, 재벌의 조절효과에 대한 분석에서는 외국인투자자의 보유지분율과 배당성향 간의 관계에 대한 재벌의 조절효과가 유의한 부(-)의 것으로 나타났다.

## 감사의 말

석사과정은 여러 가지로 힘들었고 무엇 하나 만만한 것이 없었습니다. 하지만 그것을 인정하고 수용했기 때문에 다행히 치열한 자세로 공부할 수 있었고, 지금의 결실도 볼 수 있었습니다. 힘든 과정을 통해 석사학위라는 학문적 성과뿐만 아니라 인생을 살아가는 중요한 가르침도 얻었습니다. 앞으로 많은 사람에게 도움을 주는 사람이 되어야겠다는 다짐을 하였으며, 그동안 도움을 준 많은 사람께 진심으로 감사해야 함을 배웠습니다. 그 첫 실천으로 이번 석사학위 속 감사의 글을 통해 저를 도와주신 분들에게 감사의 마음을 전하고자 합니다.

가장 먼저 제가 논문을 쓰게끔 지도해 주신 박철순 교수님께 감사합니다. 제대로 일을 하지 못하는 저를 언제나 도와주신 점에 대해서 이루 말할 수 없는 고마움을 느낍니다. 또한, 묵묵히 제가 하는 일을 지켜봐 주시면서 잘 가르쳐주신 점들이 제가 공부하고 또한 앞으로 생활하는데 많은 도움이 되었습니다.

다음으로 진규호 박사님께 진심으로 감사의 말씀을 드립니다. 바쁘신 와중에도 제 논문이 발전할 수 있게 함께 고민해주시고 지도해주셔서 감사합니다. 덕분에 제 눈에 보이지 않는 많은 부족함을 수정할 수 있었습니다. 그리고 박사님께서 보여주신 온화한 마음과 학생을 존중하는 태도는 정말 큰 감동이었습니다.