

[Abstract]

This paper investigates the effect of holding company system on dividend payout policy. Dividend policy is affected by ownership structure and the effect of ownership structure varies across countries. In 1997, Korea adopted holding company system for improvement of complicated ownership due to pyramidal and circular structure of Chaebol (Korean business group). However, despite the fact that complex ownership structure has been simplified and the long control chain along pyramid has been shortened in holding company system, the concern on increased economic concentration of controlling shareholders still remains.

Despite of importance of ownership structure on dividends, few studies examine the effect of holding company system on dividend payouts. Empirical studies suggest that change in ownership structure of Chaebol affects a relationship between dividend and tunneling. Therefore, we expect that transition to holding company system influences the preference of dividend payouts in Chaebols.

Using 1,961 firm-year observations from Chaebols in Korea. We find that the level of dividend of holding company system is significantly higher than that of non-holding company system. This suggests that dividends become an attractive method to allocate wealth for controlling shareholder in holding company system. We further examine the effect of corporate governance on the association between holding company system and dividend payouts. We find a qualitatively identical result even after controlling for corporate governance characteristics such as controlling shareholders, foreign shareholders, and outside directors. These results show that holding company system is an important factor in determining Chaebols' dividend payouts.

Our results suggest that the ownership structure of business group whether holding company system or traditional system affects controlling shareholders' distribution preference, resulting in increased dividends payout. The findings implies that the effect of holding company system on dividend payouts, rather than the level of ownership concentration or ownership-control disparity itself is significant.