

Minority shareholders' protection in Romanian capital markets: evidence on dividends

Victor Dragotă *

Abstract

Recent studies in Finance suggest dividends' role as monitoring mechanism, which allows minority shareholders to control the managers or larger shareholders' decisions. This paper tests this hypothesis on listed companies at Bucharest Stock Exchange, in 2000-2003 period, from the legislation perspective, but, also, using dividend ratios. Even the regulations and the enforcement of the law seem to guarantee an effective protection for minority shareholders, dividend policy is different from company to company, depending on shareholders structure. However, companies can fund their operations by banks, which could explain the relative indifference for minority shareholders proper treatment.

Keywords: Dividend policy, Agency problem, Minority shareholder's protection, Emergent capital markets, Romania.

JEL classification: G35

* Victor Dragotă, Academy (University) of Economic Studies, Faculty of Finance, Piata Romana, No. 6, Room 1104, Bucharest, Telephone: 0040-0722.52.33.18; e-mails: victor.dragota@fin.ase.ro, victordragota@yahoo.com.

In the perspective of market economy system enlargement, a study on minority shareholders rights could be useful for practitioners and for academics, too, in order to understand financial markets mechanisms in emergent ex-communist countries. In this context, I choose Romanian capital markets as an example, some of the results being possible to be extended to the other countries included in this category. I focus on minority shareholders rights as a premise for capital markets developing, as a financing source for listed companies. If minority shareholders feel their rights are protected, they will assume shares issued on capital markets as an attractive investment. In the opposite case, a lack in this area could be considered as a possible explanation for the slowly developing of capital markets in these countries.

We suppose that, even if the regulations permit the development of capital markets, the enforcement of them is very important, too. This implies not only the law to be respected, but also to understand every opportunities and rights. For this reason, I presented for the beginning the status of shareholders rights, but I preferred for my conclusions to interpret the dividend policy in companies controlled by larger versus minority shareholders. There are some discussions about the opportunity of dividend payments on companies with growth opportunities. However, if we are taking into account the asymmetrical information, existent between insiders (those could be managers or larger shareholders) and the minority shareholders or the outside investors, dividends could serve as a signalling mechanism, clearing up to the financial market the minority shareholders interests are respected. If companies do not operate dividend payments, this decision could cause a lack of credibility for potential investors on the market, and future shares issues will be very probably unsuccessful.

In my study, I find for 2000-2003 period a significant difference between the dividend ratio for companies with shares owned in more than 50% by larger shareholders and the other companies. Practically, minority shareholders benefit by dividends only if they own a large number of shares. Of course, I could not conclude this is the only main cause for the slow development of capital markets in Romania, or in other emergent ex-communist countries. There are some other reasons that could explain lower dividend ratios, for example investors' psychology, which could accept "present pain for future happiness". More, it is possible, even in the case the minority shareholders interests are not respected, this fact to do not alter very much the companies' main decisions, because of the existence of alternative sources of financing as banks' loans.

The paper is structured in 5 sections. In Section 1 there are discussed the main topics related to dividends as a mechanism for minority shareholders to monitor the decisions of larger shareholders. Section 2 lights some considerations about the Romanian general economic situation and specific legislation. In Section 3 there are analysed the main attributes of Romanian shareholders and database for the study. The results are presented in Section 4, and the conclusions and new directions for the study in Section 5.

1. A short survey on financial literature about dividends as mechanisms to monitor the corporate insiders decisions

Dividend policy remains an open research field in Finance: between the persons who reject the idea that dividends have any importance and these ones who write hundreds of pages trying to explain this reality, many results appear, very different one

from another... Beginning with Miller and Modigliani [1961] Dividend Irrelevance Theorem demonstration, it was confirmed in time that there are some assumptions which must, at least, be taken into account in order to explain the reality of capital markets. In this category we could include the impact of taxes and transaction costs, the informational asymmetry, the agency problems, and the particularities in investors' behaviour. This study focuses on the explanation of dividends as a mechanism in monitoring larger shareholder decisions in their agency relation with minority shareholders.

Whatever the Financial Theory proclaims about the independence between economics and politics, a complete analysis about the reality on corporate management level must take into account the investors' behaviour related to financial decisions, inclusive the impact of organisational culture. Acting in a field under the influence of subjective decisions, the fashions' influence is present, too, in Corporate Finance practice and Theory. Some time the optimal decision is translated from time to time, and some time the old theories are rejected only because of their political component. In this context, the East European financial markets could be an interesting field of study.

Before 1989, the year of Romanian Anticommunist Revolution, the individual property was discouraged, and the financial surpluses were oriented to investments, decision which, in dividend policy terms, means retained earnings. This optic remains legitimate after 1989, because, even the legal system became different, the general mentality remained the same (for example, on every elections after 1989, excepting 1996-2000 period, the political elections were dominated by Socialist Parties).

Even in developed market economies, some time the research could not be conducted rationally. For instance, in an interview, there is a very low probability that a

manager to answer his objective is to maximise his own welfare or his own utility, and not the shareholders welfare. In the end, the shareholders decide if the manager will remain or not in position. In some countries, he could accept his objective is to harmonise the stakeholders' interests, with an explanation focused on social responsibility, but, again, not to maximise his own welfare. In these conditions, it could exist a significant difference between the declarations and decisions, reason for that we are aware of some indubitable conclusions.

The main stream in Finance Theory suggest rational investors follow maximisation of their utility, even if this objective acts contrary the interest of the others (see Cyert and March [1963], Williamson [1963], Jensen and Meckling [1976] etc.). In this context, the rational agent is defined as a calculator, permanently making comparative studies between different existing opportunities, and practically, he is amoral when is taking decisions (only the other agents monitoring activity induce his morality). On the other side, some theories declaim individuals are only the product of the social environment. When these particular conditions are favourable, agents will act for satisfying the interest of the community, in this case the interests of the company. Both of these theories contain some truth, but remain only theories when we have to take control over some considerations like legislation, financial resources for investments, the attitude toward risk, and other attributes of the countries where the study is made. In fact, every Theory related to the objectives of Corporate Finance must take into control the response of the other stakeholders, even if we analyse only the interest of shareholders: an adverse response could cause a decrease of the company performance. Stiglitz [1985] pointed that, in large corporations, the separation between ownership and control became a reality. However, since there is some cost associated

both with obtaining information to find out whether a manager is a good manager and with evaluating alternative management teams, and there is a negligible benefit, no rational shareholder should spend the financial resources required voting intelligently. In these circumstances, as long as the companies plan to obtain financial resources from capital markets, they must signal to outside investors that they assure a good treatment to minority shareholders.

In the absence of other restrictions, practically, managers must only to signal to shareholders everything is going well, and be careful to do not transmit to the public the bad news. Of course, there are some mechanisms by which shareholders could monitor the managers' decisions, like dividends payment and capital structure. Nevertheless, the agency problem between managers and shareholders still exist in reality and it is studied by financial literature (see Easterbrook [1984]). However, this situation is present only in very few countries, like US, Great Britain, Canada, Australia, generally the economies characterised by very low percents in corporate equity detained individually by investors. In these countries, investors are protected not only by laws, but also by the custom that the companies to finance corporate operations by equity issuing. Here, as La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] suggest, "shareholders receive dividends because they can vote out the directors who do not pay them, and creditors are paid because they have the power to repossess collateral. Without these rights, investors would not be able to get paid, and therefore companies would find it harder to raise external finance".

In many countries, this potential conflict between managers and shareholders is generally replaced by the agency problem between larger and minority shareholders. In these cases, the control is under a little number of investors (La Porta, Lopez-de-

Silanes, Shleifer and Vishny [1998], Gomes [2000]). This situation could be explained not only by traditions, but by the requirements of a good management, too. Controlling shareholders adapt their policy in order to protect their interests, cause of poor investor protection. For example, La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] find that “poor investor protection in French-civil-law countries is associated with extremely concentrated ownership. The data on ownership concentration thus support the idea that legal systems matter for corporate governance and that companies have to adapt to the limitations of the legal systems that they operate in.”.

The best dividend policy dilemma, even we accept the main objective of financial management to be to maximise the shareholders’ wealth, does not offer an indubitable answer. It is not so clear what is the best decision: to retain earnings in order to assure a significant growth in the future, or to pay dividends, in order to create a good reputation on financial market. In these circumstances, it is a very large field of debates what is the best choice for the company. More, on a market without a large experience in investment in capitalist conditions, the little investors could be easy manipulated.

In Eastern Europe ex-communist countries, appear some particularities related to transition process. For example, as Shleifer and Vishny [1997] mention, “in less developed countries, including some of the transition economies, corporate governance mechanisms leads to substantial diversion of assets by managers of many privatised companies, and the virtual non-existence of external capital supply to companies.”

In ex-communist countries, there were adopted some organisational structures from developed countries, but they didn’t always possessed the proper mechanisms to implement them into a functional way. As a result, it was created a heterogeneously system, in which coexist simultaneously structures and institutions characteristic for

capitalist markets, but, also, for socialist ones. Moreover, the situation is deteriorated by the communist mentalities of many individuals. Romania could serve as an example for the situation in most of the Eastern Europe ex-communist countries.

La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] define the “outcome”, respectively, “substitute” models. According to the “outcome” model, dividends are the result of effective pressure by minority shareholders to force corporate insiders to disgorge cash. According to the “substitute” model, insiders interested in issuing equity in the future choose to pay dividends to establish a reputation for decent treatment of minority shareholders. The first model predicts that stronger minority shareholder rights should be associated with higher dividend payouts; the second predicts the opposite. La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998]’ tests on a cross-section of 4000 companies from 33 countries (in this list do not appear East European ex-communist countries) with different levels of minority shareholder rights support the outcome agency model of dividends.

In accordance with opinions exposed in Easterbrook [1984], Zwiebel [1996], Fluck [1999], etc., this study also assumes that dividend policies address agency problems between corporate insiders and outside shareholders. Agreeing to these studies, unless profits are paid out to the shareholders, the insiders may divert them for personal use or for unprofitable projects, which provide private benefits for the insiders. As a consequence, outside shareholders have a preference for dividends over retaining earnings (see, also, La Porta, Lopez-de-Silanes, Shleifer and Vishny [1999]).

In a world of significant agency problems between corporate insiders and outsiders, dividends can play a useful role. By paying dividends, insiders return corporate earnings to investors and hence are no longer capable of using these earnings

to benefit themselves. Dividends (“a bird in hand”) are better than retained earnings (“a bird in the bush”) because the latter might never materialise as future dividends (“can fly away”). In addition, the dividends payment exposes companies to the risk to raise external funds on the capital markets in the future, and hence gives outside investors an opportunity to exercise some control over the insiders at that time (Easterbrook [1984], La Porta, Lopez-de-Silanes, Shleifer and Vishny [1999]). However, there are some inconveniences related to this point of view. As Stiglitz [1985] pointed, this mechanism is efficient only in the case in which capital must be raised on the capital market, because the managers have considerable discretion over the company cash flow. Moreover, the interests of the larger shareholders may well not coincide with the interests of the small shareholders. Shleifer and Vishny [1997] suggest “This cost of concentrated ownership becomes particularly important when others – such as employees or minority investors – have their own firm-specific investments to make, which are distorted because of possible expropriation by the large investors. Although large investors can be very effective in solving the agency problem, they may also inefficiently redistribute wealth from other investors to themselves.”.

It could be argued the companies must be interested in create a reputation on the market because they must be interested to achieve financing resources in the future, by issuing shares. However, as Gomes [2000] pointed, the reputation effect is not significantly dependent on the company’s growth opportunities as long as the company can raise debt financing or the owner-manager is not constrained by credit conditions. A related point of view appear in La Porta, Lopez-de-Silanes and Shleifer [1999]: “Firms in “bank-centred” financial systems might rely on debt finance, making it unnecessary

for controlling shareholders to sell their equity to raise funds, but also making legal rules protecting minority shareholders less essential.”

2. Some considerations about the Romanian economic situation and legislation

We showed in Dragotã and Mitricã [2004] that, after a half century of dictatorship, the post-communist Romanian Governments tried to promote reform programs in almost every sector: politics, economics, civil rights, local administration, etc., but these changes were characterised by slowness. Establishment of modern capital markets is an important measure in the programs promoted after 1989 (the year of Romanian anticommunist revolution). The capital markets development was founded on the Privatisation Mass Program, process in which shares in more than 5000 companies, property of the Romanian State, were granted gratis to the population. Has the privatisation in Romania a political or an economic purpose? Some East-European developed capital markets before individuals to need the assets transfer. This is one explanation for a very low liquidity on the capital markets. In this situation, there is a very minor concern on minority shareholders’ protection: companies generally do not need financial resources on the capital markets, by issuing shares, and if they do, the market is not able to interpret in a coherent analysis the companies’ perspectives.

In a financial system where companies are not forced to issue shares on the market, for financing resources, there is very possible not to pay dividends (see La Porta, Lopez-de-Silanes and Shleifer [1999], Gomes [2000]). Practically, the top management pays dividends to create a good reputation in order to obtain cash if the companies’ perspectives require this. It is not the case if this practice is not usual. In Romania, in October 28, 2004 were listed 60 companies (17 at the first category, and 43

at the second category). From this number, in 2000-2003 period, only 27 issued shares at least one time (this is only 49% from this panel), so, on average, only 12% from the panel issued shares per year. More, if issuing operations for larger shareholders are excluded, there are only 18 issuers oriented to market, to minority shareholders (in this view, only 33% from the panel, so, on average, only 8% companies from the panel issued shares per year). I can conclude in these conditions a very minor impact of shares' issue as a financing mechanism.

In these circumstances, the only way minority investors' interests could be protected is the law. To quantify the order these interests are protected I use the methodology proposed by La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998]. The main result of La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] study is common-law countries generally have the strongest, and French-civil-law countries the weakest, legal protections of investors, with German- and Scandinavian-civil-law countries in the middle. Concentration of ownership of shares in the largest public companies is negatively related to investor protection, consistent with the hypothesis that small, diversified shareholders are unlikely to be important in countries which fail to protect their rights (La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998]). For the purpose of my study, I focused on 2001-2004 period (corresponding to shareholders meeting for earning distribution, for 2000-2003 financial exercises).

Romanian Law states the "one share – one vote" principle. However, it is specified this regulation is not applied if the internally rules (society contract, statute of the company) do not limit the number of votes for the shareholders who detain more than one share. The Romanian Financial Investment Societies (SIF-s), with very many traded shares, present such a rule: the number of votes is limited to under 1% whatever

is the number of shares an investor has. According to La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] terminology, shareholders protection is not in the law. I will note Shareholders Rights (SR) = 0.

For the analysed period, in Romania, shareholders must show up in person or send an authorised representative to shareholders' meeting to be able to vote (SR = 0).

Related to the obligation to deposit the shares before the shareholders' meeting, are assured the conditions that every shareholder to vote. The shares are managed electronically, in the Stock Exchange Registers, so we can conclude there are not discriminations between shareholders (SR = 1).

About the cumulative vote, the Romanian legislation specifies the voting right cannot be given to another person. Every convention about exercising in some way of voting right is characterised by nullity. In this situation, the minority shareholders are not able to put their representatives on board of directors. Even the cumulative vote is allowed in Romanian legislation beginning to December 2003, it wasn't applicable in practice even in 2004 (SR = 0).

In Romania there are some specific mechanisms which give the possibility for minority shareholders to protect them against the perceived oppression by directors. For example, beginning to 2003, in companies in which minority shareholders detain under 5% from the equity shares the larger shareholders are obliged to make a public offer in order to buy these remaining 5%. Moreover, if shareholders do not agree to decisions related to the change of the main activity domain, to the change of the main address, or to the form of organisation, they have the right to the repurchase of their shares. However, in some situations these mechanisms are not operational, so we could approximate $SR = 0.25$.¹

Romanian legislation grants shareholders a pre-emptive right to buy new issues of stocks, which can be waived only by a shareholders vote. This right is intended to protect shareholders from dilution, whereby shares are issued to favoured investors at below-market prices. However, there were allowed in some cases equity capital increases based on a contribution in tangible assets, so without preemptive right to buy shares, so we could approximate $SR = 0.5$.

The percentage of share capital needed to call an extraordinary shareholder meeting is 10%, which is equal with the world median (La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998]), so we could conclude $SR = 1$.

According to La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] terminology, the aggregate score for shareholders protection (anti-director rights) is 2.75, comparatively to values for the English-origin common law (4), French-origin (2.33), German-origin (2.33) and Scandinavian-origin (3.00) averages. However, in some cases, in East European emergent markets, there are differences between the law rules and their enforcement. In run, let's note in Romania there is not a right to mandatory dividend.

Apparently, the Romanian minority shareholders are characterised by a satisfactory protection. However, the Romanian capital markets presents the attributes presented by La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998] study for the countries with poor investors' protection, because there is a concentrated ownership for very many companies.

The Romanian capital markets situation, from a formal point of view, remains practically the same for the entire period after the re-opening of Bucharest Stock Exchange, to 2003. In this period, some events demonstrated the Romanian investors

could be very interested by the capital markets. Dragotă, Vlăsceanu and Zecheru [2003] pointed the Romanian capital markets react to the Government measures, which protect the minority shareholders. For example, at the end of the 2000, the Romanian Government approved the regulation that stipulated the dividends must be paid in maximum 60 days after the shareholders' meeting. As an effect, the transaction volume and, also, the market capitalisation increase in the next few months. Before this regulation, the dividends' payment wasn't constrained, some companies creating a custom to pay dividends even 1-3 years later. We point the modern legislation could not offer in some situation a very good position for shareholders for the reason there are not developed the mentalities in accordance to the market economy education. For example, in a letter signed by the directors of some important Investment Funds, it was written the larger investors are interested by the existence of some regulations for protection of minority shareholders interests. However, as persons who act in practice, they declared that understand and sustain the principle "managers must to lead". This point of view is not singular in such countries. La Porta, Lopez-de-Silanes, Shleifer and Vishny [2000] concluded "What the reformers see as a protection of investors, the founding families call "expropriation of entrepreneurs". No wonder, then, that in all countries – from Latin America to Asia and Europe – the families have opposed legal reform". In Romania, generally, these companies are the result of privatisation, so we do not discuss about founding families, but conflicts of interest between larger shareholders and the other investors remain.

Even the minority shareholders required transparency, the respect for their rights, and a correct behaviour from large shareholders, the Government renounced to the application of this regulation, argued by its deficiencies. A new regulation does not

appear for a very long period of time. In this context, the OCDE declaration concluded at the end of 2001 that there are cases in which the little shareholders do not have any possibility to protect their interests in front of strategic investors.

Between these two points of view, dividends could serve as an answer. After La Porta, Lopez-de-Silanes, Shleifer and Vishny [1998], if the minority shareholders are protected, they could obtain a sum as dividends, if they not, they are not protected.

3. Romanian listed companies' shareholders and database of the study

Who are the Romanian shareholders? I structured Romanian shareholders in five main categories: the Romanian State, the investments funds created initially as collectors of vouchers under Romanian State control, employees' organisations which control a part of companies' capital (PAS), significant shareholders (defined in Romanian legislation as shareholder who own 10% of shares. I assumed a 5% for a better understanding of the phenomenon) and minority shareholders.

Several companies listed on Bucharest Stock Exchange have still in present Romanian State participation (SR in tables). These shares appear in some specific portfolios as the ones of Minister of Economy and Trade, the Romanian Agency for Recover the State Receivables (APAPS), State Property Fund (FPS), etc. I suppose these participation as a whole, without taking into account of some possible differences of management, for the reason the Romanian State is the final owner.

A particular case is the one of Romanian Financial Investment Societies (SIF-s). In the beginning, as a result of voucher privatisation, result 5 structures named in this moment Financial Investment Societies (SIF-s), with a dispersed capital and practically managed only by a board initially named by Government, but, 100% in possession of

non-State investors. However, it is possible that these Financial Investment Societies to act in some moments in the interest of politicians, as Boycko, Shleifer and Vishny [1993] suggest, as a result of their study for Russia. This is possible because, practically, in these Financial Investment Societies, capital is dispersed and a board, initially named by Government, manages the societies. Thus, the shareholders power is limited under 1% from votes, whatever is the financial contribution. This rule creates for shareholders the impossibility to effectively control these institutions. Indeed, the Board election is made practically ignoring the preferences of shareholders, so the decisions could be made totally independently from them. Theoretically, these funds must be interested in paying dividends, for a correct monitoring from shareholders. Also, theoretically, these funds must be interested to obtain dividends from the companies where they have participation, for cash reasons. If SIF-s are acting for political reasons (which could be translated in votes for the Government Party), the right policy is to distribute dividends for SIF-s shareholders, but to accept low dividend ratios at the companies where their capital is invested.

An unusual situation is the presence as shareholders of employees organisations that control a part of some listed companies' capital (noted PAS by me). These organisations were developed once with the privatisation of a part of the capital to employees, in "Managers and Employees Buy Out" (MEBO) form. In these organisations, it could be identified some elements of groups' psychology, which can develop a solidarity to the future of the company, and, from a financial point of view, a capacity to support a low dividends policy. Also, the dividend policy of these companies is influenced: in the moment of privatisation, these shares were not sold for cash, but as a loan, on long term, paid from future dividends. For this reason,

practically, these companies distributed dividends at higher level than other companies did.

I used information from the official web site of Bucharest Stock Exchange (*www.bvb.ro*) and from the web site *www.kmarket.ro*.

For analysis I considered the net earnings and dividends for listed companies on Bucharest Stock Exchange in 2001-2004 period (which correspond to 2000-2003 financial exercises), and calculate the dividend ratio (dividends / net earnings). I excluded from my study companies that obtain losses. I linked this financial information with the ownership structure. It resulted a database containing 43 companies in 2001 (for 2000 financial exercise), 48 companies in 2002 (for 2001 financial exercise), 47 companies in 2003 (for 2002 financial exercise), and 47 companies in 2004 (for 2003 financial exercise).

4. Results

I classified the listed companies in two categories: companies which have more than 50% capital owned by minority shareholders, and companies that have less than 50% capital owned by minority shareholders². Obvious, this 50% is a conventional value, but it could be argued from the point of view of power of decision. Of course, it is possible in some situations to control companies' decision with 15% or less from the total capital, but it implies a more profound (and, sometimes, very subjective) analysis, different from company to company. To identify the tendency in dividend policy for the examined statistic population, I present in Table no. 1 the dividend ratio median for companies which have more than 50% capital owned by minority shareholders, comparatively with the situation for the other companies.

Table no. 1: Dividend ratio median for listed companies which have more than 50% capital owned by minority shareholders, comparatively with the situation for the other companies (%)		
Financial year	Companies which have more than 50% capital owned by minority shareholders	Companies which have less than 50% capital owned by minority shareholders
2000	72.84 % (7 companies)	21.27 % (36 companies)
2001	70.09 % (7 companies)	13.29 % (41 companies)
2002	69.58 % (7 companies)	0 % (40 companies)
2003	65.01 % (11 companies)	0% (36 companies)

In this situation, it seems that the main rational investment strategy in order to obtain dividends is to buy shares in the companies owned preponderant by minority shareholders. Also, it is possible that the larger shareholders to be interested to acquire the control over companies for other reasons except the maximisation of company' value, so distributing dividends to be not the preferred strategy. One explanation for dividends payment could be the possibility that dividends to be mechanisms for monitoring managerial decision. Why it is not applying for every company? Perhaps because the financing strategy by shares issuing is not a common practice in Romania (see section 2).

I test also if there are some particularities in dividend policy in the companies where the employees' organisations detain significant percents of capital. As Stiglitz [1985] points, the unions, which could be assimilated to these MEBO organisations, have one advantage over virtually every other institution. They (or their members) are intimately involved in the day-to-day functioning of the company, and hence the costs of acquiring (certain kinds of) information concerning the company are likely to be less

than to others. They have a second advantage: they have strong interest in the survival of the company. The workers collectively may have the largest undiversified stake in the company. In these societies, the medians for dividend ratio are presented in Table no. 2.

Table no. 2: Dividend ratio median for listed companies where employees' organisations detain significant percents for capital (%)	
Financial year	Dividend ratio median (%)
2000	54.81 (12 companies)
2001	48.06 (10 companies)
2002	18.72 (9 companies)
2003	0 (9 companies)

I can conclude the decrease of the amounts distributed as dividends, but, also, comparatively with the general situation, a higher interest for dividends for companies where employees detain higher percents of capital. One hypothesis is these employees are protecting their interests by higher dividend ratios, forcing management to renounce to unattractive projects. However, these dividends were generally used for paying the debt to Romanian State, obtain in order to buy shares in privatisation process, so the dividend policy is very influenced by the cash necessities for paying back this loan. In fact, this phenomenon is visible, the dividend ratio decreasing year after year. This could be an evolution to the general situation of the market, because it is possible, even the theoretical owner is an employee's organisation, the leader of this organisation to follow his own benefit.

5 from the companies that have more than 50% capital detained by minority shareholders, are the SIF-s. Apparently, these societies, which offer higher dividends,

must be interested in higher dividend payouts, as shareholders. I test if it is true. The situation for the 2000-2003 period is presented in Table no. 3.

Table no. 3: Dividend ratio median for listed companies where SIF-s detain significant percents for capital (%)	
Financial year	Dividend ratio median (%)
2000	27.90 % (12 companies)
2001	0 % (12 companies)
2002	0% (12 companies)
2003	0% (9 companies)

In this situation, one possible explanation could be the existence of some benefits of the SIF's management, which can not be visible from accounting point of view. Another explanation could be offered by the existence of some political benefits, which are not visible for the public (see Boycko, Shleifer and Vishny [1993] for a similar situation in Russia).

Concluding, these results are in accordance to the results of La Porta, Lopez-de-Silanes and Shleifer [1998], for the countries that do not offer a significant protection for minority shareholders. One explanation for this situation is the minor impact of shares' sales on the capital market. In the case companies obtain considerable amounts from shares' sales, they are interested in insuring a higher stock price, and a good reputation for the companies. When banks offer the preponderant source of financing, the interest for minority shareholders protection is not very important.

One more problem is caused by the general mentality. The potential importance of financing by shares issuing is not very clear for Romanian larger shareholders and managers. Official declarations suggest the minority shareholders protection is not very

important as long as their invested capitals are practically insignificant. In these circumstances, companies do not issue shares on the capital markets because they are not very attractive and stock prices are very low. On the other side, minority shareholders are not interested to buy shares, because their interests are not respected. As long as the situation is not changed the chance for Stock Exchange rehabilitation is very low. Assuming there are not agency problems between larger and minority shareholders, a policy oriented on retained earnings could be argued by the interest on long term development of the companies. This demagogical argument could be convincing when larger shareholders must justify their behaviour.

5. Conclusions and new directions for the study

I could conclude the dividend ratio for companies detained in more than 50% by minority shareholders are significantly greater than the dividend ratio for the other companies. The results seem to be in accordance with the hypothesis that the power of larger shareholders could be proven by low dividend ratios. One possible explanation could be, unfortunately, that larger shareholders could obtain benefits from other sources, more or less visible from outside. This minor concerning on minority shareholders protection could cause problems for companies' financing decision because the new shares issues will become unattractive for them. However, even this fact creates great difficulties for companies which operate in Anglo-Saxon financial systems, is less visible in financial markets like Romanian one, where shares issues are not very important as financing mechanisms. The general accepted argument is that the low dividend ratios are a result of better growth opportunities after liberalisation: they may choose to distribute fewer dividends and invest more (Bekaert and Harvey [2000]).

Another explanation could be given by Shleifer and Vishny [1997], that argued a large investor might be rich enough that to prefer to maximise private benefits of control rather than wealth. This assumption could be an interesting study field, in order to analyse the correlation between large shareholders in companies and their political activity.

On the other side, this reality implies a very slowly development for capital markets. More, the invisible earnings of larger shareholders are not taxed, so a supplementary problem for Governments in these emergent markets. From this point of view, the minimal dividend ratio given by legislation, could be supposed as a solution for developing the capital market, and for earn more fiscal earnings, too.

One specific attribute for East European Ex-Communist Countries (inclusive Romanian) economies is a large representation of State enterprises. This one is also important for the Romanian capital market. In these circumstances, one direction of study is to test the provocation given by Boycko, Shleifer and Vishny [1993], as a result of their study for Russia: “An alternative theory of public enterprise argues that they are inefficient because they become the means by which politicians attain their political objectives. Public enterprises are inefficient because their inefficiency serves the goals of politicians. In sum, the transition from political to private governance is clearly very painful. Politicians do not give up their control over enterprises very easily. They have resisted privatisation from the start, and they are still trying to bring companies under the control of industry associations and financial-industrial groups. Moreover, the residual equity stakes still remain in the hands of property funds may well be used in the future to reassert political control over enterprises.”

Also, one direction of study is to identify some social or cultural factors, which could serve as explanation for the differences between dividend policies around the World.

Concluding, the development of capital markets is related to minority shareholders protection. Of course, companies could obtain financing on monetary markets and be very little concerned about issuing shares, but this decision will imply a higher cost of capital.

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Endnotes:

¹ Of course, there could be some discussion over the quality of this estimation. Generally speaking, a law could be in some way, or in another, which could be modelled in dichotomous variables (yes or no, 1 or 0). Even the law states something the interpretation and the enforcement could give different results by the law itself.

² Some partial results were presented in Dragota [2003].