The Influence of Corporate Governance on Dividend Payments in the Russian Stock Market

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After the economic reforms of the 1990s, Russian companies were tasked with adapting to international corporate governance standards [9]. In this context, legislative initiatives aimed at improving practices in this area are being developed. A prominent example of such an approach is the Corporate Governance Code (CGC), created by the Bank of Russia with the goal of enhancing the effectiveness of domestic companies and protecting shareholder rights. This Code is advisory in nature and was updated in 2014. In mid-2023, the possibility of another update was announced [10].

There are two theoretical models that explain the relationship between corporate governance and dividend payouts: the outcome model and the substitution model, which suggest positive and negative relationships, respectively [6]. According to the outcome model, dividend payments are the result of strong protection of shareholder interests [6]. Corporate governance consists of a set of mechanisms aimed at ensuring investors a reasonable return on their capital [2, 8]. Corporate governance consists of a set of mechanisms aimed at ensuring investors a reasonable return on their capital [1]. It is focused on safeguarding shareholder rights and overseeing the decision-making processes and actions of management. On the other hand, the substitution model posits that dividend payments serve as a compensatory mechanism for legal protection and a substitute for deficiencies in corporate governance. Companies with weak corporate governance pay dividends to create a positive reputation among shareholders in order to attract capital on favorable terms in the future [6]. Dividends help mitigate the conflict of interest between managers and shareholders by compensating for the shortcomings in corporate governance [4, 7]

The characteristics of developed and developing countries can differ regarding the degree of investor protection and corporate governance [5]. In emerging markets, where investor rights are often inadequately protected, shareholders frequently face issues with dividend payments. This occurs against a backdrop of underdeveloped legal systems and corporate mechanisms that provide limited protection for minority shareholders. Consequently, hypotheses can be formulated in the context of the "substitution model" for the Russian market. A key feature of the Russian market is the presence of state-owned companies, which are obliged to pay at least 50% of their adjusted net profit as dividends since July 1, 2021, creating a unique dynamic in the field of corporate governance [3].

The purpose of this study is to assess the impact of corporate governance characteristics on dividend payouts by companies. The time frame under consideration is from 2010 to 2022. Information has been collected on 33 companies listed on the Russian stock market that possess the following characteristics: they consistently belong to the MOEX index (more than four times), have a history of dividend payments, are non-financial companies, and ordinary shares are considered.

Corporate governance characteristics included gender diversity, the share of independent directors, the size of the Board of Directors, board stability (the proportion of directors remaining on the board compared to the previous year), among others. Additionally, the study proposed a methodology to account for the degree of adherence to the recommendations of the Bank of Russia on corporate governance (Corporate Governance Code) using the Herfindahl-Hirschman index, which constitutes a novel aspect of this research. The regressors taken into account were dividend yield and dividends per share.

The regression models constructed with fixed and random effects yielded the following results:

1) Independent directors may see greater value in reinvesting profits for the long-term growth of the company than in dividend payouts, which could lead to lower dividend yields. An increase in the share of independent directors by 10 percentage points is associated with an average decrease in dividend yield by 0.4 percentage points.
2) A larger Board of Directors (in terms of numbers) leads to a decrease in dividends per share (consistent with the substitution theory), which is linked to deteriorating coordination processes within the Board as it grows.
3) With an increase in adherence to the recommendations of the Bank of Russia on corporate governance by 0.1, the dividend yield increases on average by 0.4 percentage points. The degree of adherence to these recommendations can signal to investors that there is a higher dividend yield among companies that more closely follow them.

To test the robustness of the findings across various subsamples and subspaces, the "random forest" machine learning method was employed. Although each individual tree demonstrates low predictive quality, characterized by high variance in Bias-Variance Decomposition (the difference between the model on the subsample and the average model), the aggregation of these trees into an ensemble provides good generalization capability at 62%, which represents a significant improvement compared to 40% in the regression models. In this regard, corporate governance characteristics play an important role in the tree-splitting process.

The results obtained are significant for understanding the influence of corporate governance both from the perspective of management, which determines the targets for dividend policy (e.g., dividends per share), and from the perspective of investors, who make decisions about purchasing shares based on dividend yield. A promising direction for future research is a more detailed examination of corporate governance processes in the Russian market, including aspects such as the movement of directors between companies or dual roles, as well as their impact not only on dividend policy but also on the overall value of companies.

Literature

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