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Dividend policy from the perspective of social system theory

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Przemysław Wechta
Faculty of Sociology, Adam Mickiewicz University, Poland

Abstract
The aim of the article is to analyse the functions that dividends perform in contractual relationships between public companies' executives and shareholders. The author analyses the income function of dividend, but also considers its sociological aspects. Talcott Parsons' social system theory is the main point of reference, especially, the concept of contract institution. The article justifies the thesis on the relevance of dividends in shaping the equilibrium of power, information policy and the composition of shareholders in a joint-stock company. Dividend policy has a great regulatory potential, which is important in the face of various crises occurring in contemporary capitalism.

JEL Codes: A14, D86, Z13

Keywords
Corporate governance, contractual relationships, dividends, ownership, executives, shareholders, Talcott Parsons

Introduction

The 1990s are referred to as 'the dark ages of dividends.' This is when shareholders had to accept the fact that capital gains were the primary source of income from shares. As dividends began to 'disappear', their role in stabilising the stock market was also reduced.

Theoretical justification for this process was provided by the dividend irrelevance theory of Merton Miller and Franco Modigliani (Miller and Modigliani, 1961). It is still a reference point for the modern economic discussion on dividends, in which two streams

Corresponding author:
Przemysław Wechta, Faculty of Sociology, Adam Mickiewicz University, Szamarzewskiego 89 Budynek C, Poznan 60-568, Poland.
Email: wechta@amu.edu.pl

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of thought can be distinguished: the first maintains the thesis of dividend irrelevance, the second rejects this approach (Baker and Weigand, 2015). Generally speaking, the second stream is based on criticism of the assumption of market perfection and puts forward the thesis that dividends affect the value of company shares. Representatives of the dividend relevance trend justify their position by referring to various types of market imperfections (Lease et al., 2000: 50). One such imperfection is asymmetric information (Filbeck, 2009: 174; Baker et al., 2011). Dividends are important for reducing agency costs and related conflicts (Mukherjee 2009; Bøhren et al., 2012; Farre-Mensa et al., 2014). Dividend preferences can be influenced by behavioural factors related to age, status, and risk aversion, among others (Shefrin, 2009). Investors' dividend sentiments are referred to by adherents of the catering theory of dividends (Li and Lie, 2006; De Rooij and Renneboog, 2009: 234–235). Dividend payments can be influenced by taxes (Baker et al., 2011: 278).

The approach proposed in this article can be categorised as part of the dividend relevance stream. It does not focus solely on the income function of dividends, but also takes into account sociological aspects of the phenomenon (Foster and Jonker, 2005; Thomsen, 2004; Darko et al., 2016; Setiawan et al., 2016). The main thesis of the article is: dividends are important for the relationship between managers and shareholders of the company. Detailed theses are concerned with the role of dividends in shaping the balance of power, information policy, and the composition of shareholders in a joint stock company.

Dividend policy can be regarded as a practical doctrine presenting a normative model of relations between managers and shareholders of the company, who receive dividends from the achieved profit. While the complexity of the stock market is unlikely to enable full implementation, it is worth noting the regulatory potential of dividend policy. From this perspective, dividend policy can be considered as one means of mitigating the effects of crises inherent in the business cycle of the modern economy, as well as its sudden collapses known as 'black swans'.

Research methodology

The paper starts with epistemological issues that serve to select adequate tools for the sociological analysis of dividend policy of joint-stock companies. This role can be fulfilled by Talcott Parsons' theory of the social system, and especially by the concept of the institution of contract contained in the work *Economy and Society. A Study in the Integration of Economic and Social Theory* written together with Neil Smelser (1957) and in a series of articles on power, influence and shared values-commitments (Parsons, 1969a; 1969b; 1969c).

The concept of the contract has not earned proper attention in economic sociology. Parsons' book was considered too hermetic. Holton and Turner (1986) were among the few to address the perception that Parsons was too economic for sociologists and too sociological for economists. In the 21st century an American representative of economic sociology, Milan Zafirovski (2006), contributed to a re-interpretation of Parsons' institutionalism and its restoration to a proper place in the social sciences. As Parsons himself pointed out, it is institutionalism that is the proper meeting place for

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sociologists and economists. Therefore, it is not surprising that there are points of contact between the concept of contractual institutions and the new institutional economics, which includes the theory of agency, property rights, and transaction costs. Both institutionalisms go beyond the narrow limits of methodological individualism. 'In a contract not everything is contractual' repeats Parsons, after Emile Durkheim (2013). The enterprise is an alternative to the market mechanism with individual actors, as argued by institutional economists. Parsons' institutionalism and the new institutional economics go beyond legal formalism in their treatment of contractual relations — especially in terms of equality of parties, equal access to information, and equal exercise of property rights — expressed in the concept of moving equilibrium (Parsons), transaction cost analysis (Williamson, 1985), agency costs (Baumol, 1965) and information asymmetry (Alchian and Demsetz, 1972).

The article focuses on the relationships between managers and shareholders from the perspective of dividend policy in joint-stock companies. Talcott Parsons' social system theory (the AGIL — adaption, goal attainment, integration, and latency — scheme) allows one to identify a dividend's rewarding function and analyse its relationship to executives' systems of power, as well as to the issues of exerting influence and retaining shareholders in a company. The possibilities for executives to exert different forms of control over shareholders are based on four types of sanctions. These are: rewarding sanctions — at the goal attainment level; punishing sanctions — at the adaptation level; persuasive sanctions — at the integration level; and deterrent sanctions — at the level of common values. However, when such sanctions are imposed, this may lead to different states of exchange regarding the inputs and outputs in the contractual relationship between executives and shareholders. At the goal attainment level, a dividend is an income component. As for the remaining levels, a dividend's function is to overcome inflation and deflation, and restore equilibrium in the contractual relationship (Parsons and Smelser, 1957: 51–69; Parsons, 1969a).

An analysis of dividends based on social system theory needs complementation. At equilibrium, inflation and deflation concerning an exchange at the four identified levels bring different income benefits to both parties of a contractual relationship. Social system theory does not provide the criteria for analysing the differences between these benefits.

An epistemological approach, generally referred to as rent-seeking theories (Tullock 1971, 1980) will be used to analyse these issues. It includes the analyses of Polish sociologists Stanisław Kozyr-Kowalski (1985; Kozyr-Kowalski et al., 1993) and Tittenbrun (1993, 2011), who studied property relations during the communist period, as well as privatisation processes during the political transformation in Poland. They are a source of theoretical inspiration for the author of this article. The same function is fulfilled by the theory of organisation of W Richard Scott (2003; Scott and Gerald, 2007), especially in terms of the division into formal and informal social structures, as well as problems related to the human factor.

From an ontological aspect, the rent-seeking approach makes it possible to divide company executives and shareholders into the following categories, based on their ability to implement different income strategies: 'corporal' shareholders, 'non-corporal' shareholders, and salaried managers.

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‘***Corporal’ shareholders*** are individual investors who can obtain positions on the management or supervisory boards and receive remuneration for fulfilling these responsibilities because they have a majority or dominant share in a company’s share capital. The direct management of a company by shareholders as well as their family members corresponds to a ‘bodily and sensory’ i.e., corporal, attitude of the owner to the object of ownership. This management can have a real or formal character. As for the real type of management, shareholders make real investment and financial decisions in a company, whereas in the formal type of management, ‘apparent managers’ occupy managerial positions only with the aim of obtaining remuneration and other benefits from a company.

Corporal shareholders use an ownership and remuneration-based income strategy which is unavailable to other types of shareholders. The shares they hold allow them to obtain dividends and capital gains, as is the case with other shareholders. Since they are dominant shareholders, they can provide themselves with the opportunity to use shares that are preferred both as to voting and dividends. Since they are a company’s executives, they also gain the opportunity to maximise income from the shares they hold as well as from the components of their remuneration. Moreover, they can combine these two sources of income and replace one with the other, depending on the financial condition of the company and the stock market situation. For example, corporal shareholders may prefer remuneration over a dividend that is paid out of the company’s net profit which is divided among all shareholders. Their position within the power structure in a company, allows them to gain control over and obtain free cash flow, in the form of particular components of remuneration or income from shares, in a way that is unavailable to the other shareholders, for example, by transferring this cash to subsidiaries.

Maintenance of their majority or dominant position in a company’s shareholding structure is the basic condition for corporal shareholders to be able to implement an ownership and remuneration-based income strategy. This condition can reduce their tendency to use capital gain by selling or trading in the company’s shares. Corporal shareholders’ position within a company’s management structure makes it possible for them to derive economic benefits from resources other than dividends.

‘***Non-corporal’ shareholders*** are those shareholders who do not have seats on a company’s management or supervisory boards, or who are represented by salaried managers on these boards. Among those who do not have such seats are individual minority shareholders as well as a company’s employee shareholders who do not hold positions within the company’s management structures. Among those who are represented by salaried managers are shareholders, stakeholders, and economic beneficiaries of various kinds of legal entities which are formal and legal holders of the company’s shares. These shareholders obtain income from shares indirectly, for example, as a result of an increase in the value of a unit in an investment fund or an accounting unit in a pension fund.

Non-corporal shareholders can use an ownership-based income strategy that involves obtaining capital gain and a dividend on a company’s shares. Unlike corporal shareholders, they do not earn income in the form of remuneration for sitting on a company’s management or supervisory board.

Salaried managers hold positions on a company’s management or supervisory boards. A dividend is a source of income for them to the extent that the shares and

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options on shares in the company that they manage are components of their remuneration or if they themselves convert salaries into the share capital of the company they manage. However, this is not a necessary condition for them to obtain and hold positions within the company's management structure. This is what makes their situation different from that of corporal shareholders. What corporal shareholders and salaried managers have in common is that they use a remuneration-based income strategy that involves maximising income from the components of remuneration in a way that is unavailable to the other employees. Since they are a company's executives, they can adopt different methods for increasing the value of these components, thus limiting potential sources of income for non-corporal shareholders. Salaried managers can be more interested in investing free cash and, consequently, in gaining control over and obtaining this cash, for example, in the form of a turnover-related bonus rather than in allocating this cash for dividend payments to shareholders.

The term '***a company's executives***' that is used in this article refers to corporal shareholders and salaried managers who sit on the management and supervisory boards of companies.

An equilibrium in a contractual relationship means that the implementation of one income strategy does not limit the possibility of using other types of income strategies. Inflation in an exchange in a contractual relationship involves an increased use of a specific type of sanction, which influences the possibilities of employing particular methods for obtaining financial benefits in a production organisation. The same is true of deflation, which leads to reducing the use of given types of positive or negative sanctions. Both inflation and deflation limit the possibilities of implementing an income strategy for at least one of the parties to a contractual relationship.

Methodologically, the article is a theoretical analysis referring to existing data and secondary sources to illustrate these different categories. An attempt is made at qualitative interpretation of quantitative data on dividends, specifically, how they affect the relationship between managers and shareholders of the company.

The analysis covers public joint stock companies. In the Polish legal system, the status of a public company is granted to a joint stock company, which has at least one share admitted to stock exchange trading. This results in benefits for the company, including increased credibility, easier access to capital, legal solutions available only to listed companies, and liquidity of shares. For shareholders, the benefits include investment in an entity with a certain level of credibility, access to information, and disposal of shares. A dividend is one of the forms of distributing a company's profits, decided by the general meeting of shareholders. The right to dividends is absolute, and a shareholder cannot be deprived of it by decisions of company authorities. The most important condition for shareholders to exercise their right to dividends is that the company makes a profit (Kowerski, 2011a: 101–105).

A dividend's income related function

At the goal attainment level, the financial capital for buying a company's shares constitutes investors' contribution to this company. A company's executives use positive situational sanctions towards shareholders. Two basic types of such sanctions are available

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to all shareholders. A dividend payment is the first of these types; those who manage a company have a direct influence on this payment through the company's net profit. A capital gain from an increase in share prices represents the second type of sanction; this gain does not result only from the activities carried out by a company's executives.

When there is an equilibrium between the parties to a contractual relationship at the goal attainment level, the types of rewards for shareholders are adapted to particular stages of the company's development. For example, the strategy of paying dividends can be associated with a company's life cycle. This strategy assumes that a company's shareholders and executives pursue the same company objective. A company's executives can decide to pay dividends to maintain an equilibrium between the company's decreasing investment opportunities and shareholders' financial expectations (Block et al., 2008: 558–559).

When dividend payments are adjusted to a company's development cycle, this makes it possible to employ all the income strategies that have been identified. A company's corporal shareholders and salaried executives receive remuneration for holding positions on the management board and supervisory board. They maximise income generated in this way by properly choosing its fixed and variable components. Non-corporal shareholders can obtain capital gains if the value of the company's shares increases.

As a company develops, the possibilities of using property income components also grow. When retained earnings more than cover a company's decreasing investment needs, an increase in the share of equity capital in the company's value creates favorable conditions for paying dividends. This is a positive situational sanction which is generally available to all owners of a given company's shares.

Inflation of dividend payments occurs when funds allocated to such payments are equal to a given company's entire net profit or exceed the amount of this profit. This increases the influence of a positive situational sanction on shareholders. For the company's executives it means a reduction in investment funds.

The allocation of a company's current net profit to dividend payments may contribute to increasing the executives' effectiveness in managing the company with the aim of providing funds for future dividend payments. In Poland, the Żywiec company is known for making regular dividend payments by using its capital reserve for dividends. The allocation of part of current net profit is allocated to reserves secures funds for future dividend payments to shareholders in the event of loss or makes it possible to increase the amount of such payments so that it exceeds a company's annual net profit.

Inflation of dividend payments increases the possibilities of implementing any ownership-based income strategy by non-corporal shareholders. The allocation of a company's entire net profit to dividend payments can be an important motivation for investing for those shareholders for whom methods of obtaining income from the shares they own other than *via* capital gains and dividends are unavailable.

Inflation of dividend payments can be maintained by institutional investors i.e., non-corporal shareholders, who have a majority or dominant holding in a company. The salaried managers who represent those investors may be limited by the need to keep or increase their share in the company's share capital, making it impossible to use capital gains during a given time period. Therefore, dividends become the only economical method of using the company's property. The inflation of dividend payments can also be

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facilitated by tax preferences for this kind of income, for example, equal taxes on dividends and capital gains as well as tax preferences for a specific type of shareholders e.g., foreign investors.

The dividend payout ratio can be used to analyse the inflation of dividend payments. If its value exceeds 100%, this means that the value of dividend payments is higher than the company's annual net income. Quantitatively, the inflation of dividend payments on the Warsaw Stock Exchange (WSE) in Poland does not occur on a large scale. According to Mieczysław Kowerski (2011a), a total of 42 domestic companies paid out dividends in the years 1992–2009 in an amount exceeding the net profit from the previous year. The lowest rate of inflation of dividend payments was 100.1% and the highest rate was 627%. Four of the companies paid dividends despite negative financial performance. However, the small number of companies that recorded an inflation of dividend payments was not qualitatively insignificant. As for the companies listed on the WSE that paid the highest dividends, one can point to years during which the rate of inflation of dividend payments was equal to or exceeded 100%. For example, in 2007 the state-owned mining multinational KGHM SA (Kombinat Górniczo-Hutniczy Miedzi) made the largest annual dividend payment in the history of the WSE — the company allocated its entire net profit from the previous year for this purpose. In 2008 PEKAO SA (Bank Polska Kasa Opieki) exceeded the threshold of the dividend payout ratio of 100%. The telephi=one company TPSA was the leader among companies that paid the largest, 'inflated' dividends. For this company, the dividend payout ratio was 119.5% in 2006, 185.8% in 2007, 244% in 2008 and 385% in 2009 (Kowerski, 2011a: 141–149).

The inflationary way of paying dividends can be pursued by representatives of institutional investors, who seek to provide economic benefits to their shareholders and beneficiaries. This strategy is used by representatives of the State Treasury as well as by privately owned and co-owned entities. Dividends can, to a certain extent, reconcile the economic interests of a company's non-corporal majority, dominant as well as minority shareholders and the interests of its salaried executives. On the one hand, the fact that these shareholders expect regular payments of specific dividend amounts may 'properly motivate' the management, thus determining their principal objective. On the other hand, maintaining a high-level inflation of dividend payments may drain a company's assets and limit its development possibilities. For the State Treasury, a dividend payment is a means of budgetary saving. For example, the dividend payment made by KGHM in 2007 triggered protests from representatives of the company's employees. However, an inflation of dividend payments also occurred in companies whose dominant investor was a privately-owned company, for example, TPSA or PEKAO SA.

Deflation of dividend payments occurs when the capital gain from selling a company's shares is the only type of income available to all shareholders. This phenomenon is referred to as 'disappearing dividends'. Whereby dividends cease to be perceived by shareholders as a sanction rewarding them for their capital contributions. Shareholders treat capital gains as the primary means of obtaining income especially in bull markets.

Miller and Modigliani's dividend irrelevance theory was an attempt at explaining the role of dividends in investors' strategies (Miller and Modigliani, 1961). These economists stated that a company's value depends on investment decisions and not on financial decisions, which also include decisions to pay dividends. For executives it does not

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matter whether they make investments by using retained earnings or newly acquired funds. For investors, however, it is unimportant whether their income consists of the value of shares before dividend payment or the value of shares less dividend payout. If a company has paid out dividends, it must issue new shares to compensate for the cash it has spent, to be able to continue making investments. Dividend irrelevance theory entails a market model that is far from reality because it assumes the existence of a perfect capital market. It fails to take into consideration those factors which result from the market's imperfection, and which may cause dividends to influence the value of shares. Among these factors are tax preferences, agency costs, information asymmetry and the clientele effect (Asquith and Mullins, 1983: 77–78; Baker and Wurgler, 2004: 1125–1127).

Deflation of dividend payments increases the possibilities of implementing a remuneration-based income strategy by a company's salaried executives because it eliminates the need to ensure funds for dividend payments. Dividend irrelevance theory ignores the importance of many factors that allow salaried managers to maximise income from fixed and variable components of remuneration as well as fringe benefits. The lack of dividend payments deprives shareholders of one means of covering agency costs. Moreover, they do not receive a clear signal about the company's financial condition. The deflation of dividend payments deprives non-corporal shareholders of a convenient and relatively effective means of controlling executives' actions. The manner in which the pure type of salaried manager (i.e., one that does not own any shares in the employing company) manages a company, as well as the effectiveness of such management, is influenced by the fact that such a manager has no personal interest in a capital gain or dividend on the company's shares.

A dividend's function related to reducing agency costs

At the adaptation level, shareholders contribute to the system of power in a company by transferring responsibility for the organisation to the company's salaried executives. This process is referred to as the separation of ownership and control. Shareholders entrust executives with the management of their property rights, especially as regards decision-making, whereas salaried executives gain the ability to control the production process and the company's employees, make investment decisions, represent the company, and conclude agreements on its behalf. Corporal shareholders, who hold managerial positions and receive remuneration for holding these positions, transfer responsibility for the organisation to salaried managers on a smaller scale.

Salaried managers act as agents and their management of the company generates agency costs, which constitute negative situational sanctions for shareholders. The problems of agency costs and agency conflicts occur in joint-stock companies when those who manage such companies have too much cash at their disposal.

When there is an equilibrium between the parties to a contractual relationship at the adaptation level, dividends reduce the increase in agency costs for the company's shareholders. For example, the strategy analysed by Frank Easterbrook assumes that dividends reduce the surplus of financial resources and thus compel management boards to issue new shares to obtain capital for new investment projects. A company and its management must submit to external monitoring by new shareholders, whose interests are in

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line with what the existing shareholders expect. This is conducive to reducing agency costs that are related to supervising and monitoring management boards (Easterbrook, 1984: 652–655).

According to Michael Jensen the agency conflict in a company intensifies as free cash flow increases (Jensen, 1986: 322–324). When management invests free cash flow in unprofitable projects or uses it to meet their own needs, for example, in the form of remuneration and benefits in cash or in kind, this may generate costs for shareholders. Current dividend payments may limit the freedom of management boards to use free cash flow in the future. If this strategy is adopted, the company's executives are compelled to act effectively to provide funds for dividend payments because shareholders expect that a particular level of these payments will be maintained (Kowerski, 2011a: 79).

Dividends that are used to control agency costs that are generated by salaried executives ensure the possibility of implementing an ownership-based income strategy for non-corporal shareholders, who can directly use free cash flow in a company by means of dividend payments. By controlling the amounts and regularity of dividend payments, non-corporal shareholders can conveniently monitor and 'properly motivate' the company's executives. This method also reduces agency costs and conflicts.

The dominance of a company's salaried executives over its shareholders, which is manifested in increased agency costs, can be referred to as the inflation of salaried executives' power in the company. A wide spread of share ownership is conducive to this type of inflation. This inflation causes conflicts between a company's managers and shareholders. Salaried managers pursue their own interests which are related to maintaining and extending power in a company, as is the case with every bureaucracy. For example, an increase in a company's size, which is not necessarily beneficial for its shareholders, means a higher position in the hierarchy regarding posts, remuneration and prestige within and outside the enterprise for members of the 'technostructure'. With this end in view, salaried executives may reinvest free cash flows in expanding the scale of the company's operations.

The inflation of salaried executives' power within a company allows them to be highly conservative in making investment decisions. For example, when managers aim to retain their positions, which they could lose due to company bankruptcy, they may prefer lower-risk investments and employ lower financial leverage. Similarly, they may make short-term investments because then they can see the effects of their actions more quickly, even though long-term investments would bring more profit to the company. Also, executives may not react quickly enough, or they may completely refrain from using new investment opportunities. Their conservative attitude to carrying out investment policy is often caused by a desire to keep a whole range of bonuses involving high-standard working conditions, luxury consumption, as well as access to the company's health care schemes and pension plans, etc.

This conflict leads to increased agency costs for shareholders. Such costs include, for example, investment opportunities that are lost as the result of conservative policy carried out by executives. These are also costs of an overdeveloped, and therefore often ineffective management structure as well as losses caused by the bad decisions of salaried managers. Agency costs result from limited possibilities of directly monitoring executives' actions. Executives know more about a given company's current functioning and financial condition than average or even majority shareholders.

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The dominance of salaried executives over shareholders in terms of power within a company makes it more possible for salaried executives to implement a remuneration-based income strategy. The growth in the hierarchy of positions may translate into the amount of the executives' basic salaries. An increase in the scale of their activity makes it possible for the value of variable remuneration components to grow, for example, in the form of a commission on increased turnover. A conservative management method, which protects the continuity of employment for salaried managers, especially under conditions of the spread of share ownership, allows them to increase fringe benefits.

The subordination of a company's salaried executives to corporal shareholders in a company can be referred to as the deflation of these executives' power in the company. This deflation leads to transferring agency costs to the other shareholders, particularly those for whom capital gains and dividends constitute the only economical method of using the company's property. A situation whereby a company is managed in an authoritarian way by a dominant owner is very conducive to such deflation.

An agency conflict arises between such a corporal shareholder and those executives who are subordinate to this and other shareholders. The deflation of a company's salaried executives' power allows this corporal shareholder to capture free cash flows and carry out his/her own investment policy. The other shareholders bear the costs of his/her management of the company. As is the case with the inflation of salaried executives' power, these costs are made up of the costs of monitoring and limiting the possibilities of making decisions that would not be optimal from the perspective of the other shareholders. If non-corporal shareholders are not able to oppose the decisions made by the dominant owner, 'voting with their feet' and leaving the company by selling their shares is the only form of pressure they can exert. Agency costs can also be generated by an overly expansionary investment policy that is implemented by the dominant shareholder who manages the company. This policy is manifested in the lack of or a significant reduction in dividend payments.

The deflation of salaried executives' power within a company may increase the possibility of implementing an ownership and remuneration-based income strategy by corporal shareholders. The dominant shareholder who directly manages a company can use several methods to limit potential financial losses caused by his/her misguided investment decisions. Such a shareholder can earn income in the form of property income components in a way that excludes other shareholders, for example, by transferring the enterprise's assets to the companies he/she controls.

A dividend's function related to breaking down information asymmetry

At the integration level, investor activism contributes to the system of influence exerted by executives. A company's executives can persuade the existing shareholders to maintain and expand their holdings in the company as well as attract new shareholders. They try to convince investors that making a capital contribution to the company will bring them economic benefits. For this purpose, the management of a company produce information that performs the function of positive intentional sanctions encouraging investors to buy the company's shares.

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A company's non-corporal shareholders, especially individual ones, are most vulnerable to the effects of information asymmetry between themselves and executives who are the decision makers i.e., corporal owners and salaried managers. This asymmetry is not broken down by the legal obligation for companies listed on the stock exchange to publicly present their financial results, statements of operation and investment plans. This kind of information is often beyond the perceptual abilities and understanding of the 'average' shareholder. Even though a given company is transparent, only specialists can fully understand the information that it publishes, creatin information asymmetry between the company's executives and a large number of shareholders, as well as potential investors, when the trade in shares occurs on a massive scale.

When there is an equilibrium among the parties to a contractual relationship at the integration level, dividends help overcome the information asymmetry between a company's executives and shareholders. Information about dividend payments is much simpler and clearer than the other messages concerning a given company because it allows investors to immediately assess the company's condition. (Asquith and Mullins, 1986: 35–36).

A dividend payment is a clear signal about a given company's financial condition, for non-corporal shareholders, in particular, and especially those who are not represented by salaried managers in the company.

This method of exerting influence on investors is relatively resistant to manipulation. Since dividends depend on the company's net profit, they do not constitute inexhaustible resources.

Dividends (as well as an increase in their value) attract investors to a given company, which should be reflected in an increase in the prices of the company's shares. In the opposite case i.e., if dividend payments are stopped or the value of dividends declines, shareholders expect lower dividend payments in the future. Dividend signaling theory has been empirically verified many times. For example, Asquith and Mullins concluded, based on their research on the US market, that when dividend payments were made for the first time or when dividend payments were restarted after a long break, the prices of a given company's shares rose within 2 days from the announcement date (Asquith and Mullins., 1983: 85–87, 1986: 29).

The signaling effect of dividends is also an important factor in implementing an income strategy that is available to non-corporal shareholders. When there is an equilibrium between the parties to a contractual relationship at the integration level, the signaling effect of dividends is connected with a strategy that protects non-corporal shareholders from agency costs — a dividend can be a means of overcoming information asymmetry and properly motivating executives.

The attracting of investors to companies by publishing information that raise their expectations about an increase in share prices and capital gains can be referred to as the inflation of the influence exerted by executives. The profit game is an example of this type of inflation. Here, financial reports reflect the wishes of management and do not provide a real picture of a given company's economic condition.

Different kinds of financial experts, who express their opinions about the state of the economy, particular industries or companies in the mass media, can also contribute to exacerbating this type of inflation. Swedberg (2010) refers to such expert judgments as

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intermediary signals. These signals are particularly important for those investors who do not have direct access to information about a particular situation, especially when they do not have enough competence to fully understand such information. The inflation of influence exerted on a company's shareholders provides an opportunity for executives to increase their income from the remuneration system, at in the short term.

The situation whereby a company's information policy is implemented on a limited scale can be referred to as a deflation of the influence exerted on investors. The benefits of protecting knowledge about a company can be an important factor in the process of deciding to remove a joint-stock company's shares from the stock exchange. This deflation can be fully used in an economical manner by the corporal shareholders of such a company to implement an ownership and remuneration-based income strategy. The obligation to make all important information about a given public company reduces its competitive advantage.

A dividend's function related to maintaining a stable composition of shareholders

At the level of common values in a contractual relationship, investors' preference for dividends as an income source constitutes these investors' contribution to a company's dividend policy. When understood as a common value, a dividend can perform the function of a negative intentional sanction which stops shareholders from withdrawing from a company. The dividend policy implemented by a company's executives shapes their ability to retain a particular type of shareholder in the company.

When there is an equilibrium between the parties to a contractual relationship at the level of common values, the dividend policy pursued by a company's executives serves the purpose of retaining shareholders who prefer this kind of income.

For example, executives ensure a stable dividend payout ratio, which is expected by those shareholders who follow the 'bird in hand' strategy when making investment decisions. This strategy is chosen by those investors who prefer dividend payments because they carry less risk than capital gains (Lintner, 1956: 99–100).

A company's executives can use the so-called clientele effect by retaining investors who accept their dividend policy, and this is how they influence the composition of their shareholders. This is because there are shareholders who are interested in receiving cash systematically, in the form of dividends. Dividend catering can have a similar effect. Executives adapt to investors' demand for dividends. This effect is called the dividend premium (Baker and Wurgler, 2004: 1160). Executives can retain those non-corporal shareholders who are mainly interested in receiving regular dividend payments but who are also less likely to suddenly withdraw from a company by selling its shares.

Various forms of monopolising dividends can be referred to as the inflation of dividend policy. This type of inflation leads to replacing shareholders who prefer this kind of income by shareholders who enjoy dividend privileges.

Such privileges can be based on special types of shares. For example, in Poland, preference shares that are prioritised over dividends ensure income which is increased by up to half of the amount of income from ordinary shares. Non-voting shares ensure up to 150% of the dividend one is entitled to. In this way, a company's founders provide

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themselves with the opportunity to gain economic benefits to a greater extent than other shareholders when the company's net profit is distributed in the form of dividends.

A total or partial exemption from the tax on dividends for certain types of shareholders leads to the inflation of dividend policy in a company. State tax regulations may differentiate among different types of shareholders regarding income from dividends. Some non-corporal shareholders i.e., certain types of institutional investors, can be privileged in this respect. Tax regulations serve to protect the economic interests of such institutions' shareholders and beneficiaries. For example, in the United States, pension funds, universities, trade unions and professional associations are exempt from dividend tax. Their contribution to the company's market capitalisation is large. They are often the main clients of companies that pay dividends, and therefore they gain an advantage within these companies' ownership structure over those shareholders who do not get tax relief on dividends.

An inflationary dividend policy increases the potential use of one of the property income components by selected shareholders. Among such shareholders are those who hold preference shares that are preferred as to dividends. Shareholders who are granted tax exemption get opportunities to increase their income from dividends that are unavailable to the other types of shareholders. Such tax exemptions constitute an important means of exerting a direct influence on the composition and stability of companies' share ownership structure for state officials.

A practice of pushing out those investors who prefer company dividends can be referred to as the deflation of dividend policy. A more favorable taxation of capital gains is conducive to such deflation. In this situation, those shareholders who stay with a given company accept zero dividends or dividend payments in the form of shares. Those who are oriented towards capital gains treat the allocation of funds to dividend payments as a mistake in the management of the company. The deflation of dividend policy has been the dominant trend in the United States. The exception was the New Deal period in the 1930s, when a high tax was levied on profits as a remedy for the economic depression. Otherwise dividends were taxed more heavily than capital gains. This situation lasted until the 1980s. In the United Kingdom (UK), dividends were taxed much more heavily than capital gains in the years 1947–1987.

The phenomenon of companies paying dividends despite unfavorable tax regulations is referred to as the dividend puzzle (Black, 1976). This puzzle can be partially explained by the fact that a selected group of institutional investors, especially pension funds, were exempt from dividend tax. For example, individual investors' share in the market capitalisation of the London Stock Exchange dropped from 66% in 1957 to 18% in 1993. During this period, the contribution of pension funds increased from 3% to 30% (Bank et al., 2004: 18). Company executives' deflationary dividend policy was replaced by the inflationary approach. However, this approach leads to privileging some institutional investors relative to a given company's other non-corporal shareholders.

The deflation of dividend policy increases the possibilities of implementing income strategies by a company's executives i.e., both its corporal owners and salaried managers. The lack of dividend payments makes non-corporal shareholders i.e., both individual and institutional investors, seek capital gains because this is the only use of companies' property that is available to them. Tax preferences for this form of income are conducive

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to these investors' turnover. By carrying out a deflationary dividend policy, a company's executives can influence the spread of the company's share ownership. This is how they create conditions that increase their chances of maintaining power within the company. Turnover of shareholders who are solely oriented towards capital gains makes it difficult for minority shareholders to form both formal and informal coalitions, for example, for the purpose of appointing members of companies' supervisory boards by voting in separate groups or voting on resolutions.

The purchase of shares in one's company is a new way in which companies' executives can implement an income strategy which is related to the deflationary dividend policy they pursue. While dividend payments do not directly modify a company's ownership structure, the purchase of shares changes the number of shares in circulation and, consequently, also its shareholding structure. As for corporal shareholders, the purchase of their own shares can protect them against a hostile takeover. For salaried managers, share purchases can provide a defence against the entry of an investor who mnay deprive them of the possibility of employing existing methods for using components of remuneration as well as fringe benefits or deprive them of these sources of income by dismissing them from their posts. The purchase of own shares does not provide signals that are sent by means of traditional dividend payments. The regularity of dividend payments causes a company' shareholders to expect that the company's executives will further develop the company and deliver increasingly higher financial results in the future. Dividend payments can reduce the surplus of financial resources in a company by lowering agency costs or preventing these costs from being transferred to non-corporal shareholders. This effect cannot be achieved by purchasing own shares because such a purchase may reduce funds that are allocated to dividend payments. By purchasing shares in their own company, executives not only protect their existing sources of income, but they also gain new resources for implementing their own income strategy. The acquired shares, when resold, generate cash that can be captured by executives. Corporal shareholders as well as salaried managers obtain the possibility of using capital gains, which are a property income component. For example, they can purchase shares in their own company when low-priced and sell them during a period of stock-market prosperity, thus generating cash.

Outside the United States the practice of purchasing own shares encountered many obstacles. For example, this practice was legally limited in France, Germany, and Japan until the late 1990s. In the UK it was forbidden until the beginning of the 1980s and limited by means of unfavorable tax treatment relative to dividends until the mid-1990s. However, these trends have been reversed. For example, in the US, the average proportion of companies buying their own shares was 41.6% in 2001–2006, being outstripped by Japan (59.1%) and Portugal (44.7%) (Kowerski, 2011b: 47–48).

The purchase of own shares can constitute an important means of implementing a deflationary dividend policy by a company's executives. Instead of paying dividends, they can force through this practice as a means of providing capital gains to shareholders. These methods have different consequences for the relationships between executives and shareholders.

First, both a dividend and the purchase of own shares can eliminate the surplus of current financial resources in a company. However, while dividend payments lead to a

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reduction in agency costs generated by executives, the purchase of own shares gives executives additional resources, which may cause an increase in agency costs. An increase in executive-generated agency costs leads to allocating funds, which could otherwise be used to pay dividends, for purchasing own company shares. Further, when these shares are resold during a period of stock-market prosperity at a higher price, this generates cash flows which can be captured by the executives.

Secondly, unlike a dividend which performs the function of a negative intentional sanction that prevents at least some of a company's shareholders from leaving the company, the purchase of own shares gives executives the opportunity to push out unwanted shareholders. Such a purchase can counteract the threat to their position within the structure of power within a company that is posed by other investors who aim to gain a dominant share in the company's shareholding structure. Unlike dividend payments, the purchase of own shares directly changes the company's ownership structure in favojr of its existing executives i.e., both corporal shareholders and salaried managers, thus ensuring that they will be able to implement their own income strategy.

Tax regulations play an important role in breaking down both inflationary and deflationary dividend policy trends. On the one hand, such regulations can be a means of limiting the advantage of those shareholders who get tax relief on dividends. Activities that are aimed to equalise tax rates on this form of income directly serve this purpose.

In Poland, a tax on capital gains has been adjusted to the amount of personal income tax on dividends and it is currently equal to 19%. As a result, capital gain tax preferences have been eliminated. In the Polish so-called double taxation system, the corporate income tax (CIT) is an important factor in strengthening a company's dividend policy. The rate of this tax decreased from 40% in 1992 to 19% in 2009. According to Kowerski's estimates, this means that a company can allocate 35% more funds to dividend payments to its shareholders while maintaining the same gross profit and the same dividend payout ratio (Kowerski, 2011a: 105–108). Regulations of this kind increase the possibility of implementing an ownership-based income strategy by non-corporal shareholders.

Conclusion

The findings that have been made so far make it possible to identify the following roles of dividends in implementing an ownership-based income strategy:

1. A dividend payment is a form of participation of a company's shareholders in the distribution of the company's net profit and it can provide them with regular income, the amount of which can be predicted.
2. By reducing the increase in agency costs for a company's shareholders, dividends may ensure that the company will generate net profit, which is the source of shareholders' income.
3. Dividends reduce the investment risk that results from information asymmetry between a company's executives and shareholders.
4. Since dividend payments contribute to the maintenance of a stable composition of shareholders, these payments may reduce the threat that the value of the company's shares will fall sharply as a result of a sudden sell-off of these shares.

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Dividends cannot replace capital gains. For most shareholders, they will remain the main incentive rewarding them for their capital contributions. However, dividends can influence the way in which a company is managed. Since dividends must be paid regularly and in an amount that is accepted by most shareholders, the implementation of an ownership-based income strategy is among the top priorities of company executives.

The dividend matters. The sociological approach, based on Parsons' social system theory, allows considering not only its income aspect, but also power (agency), information (information symmetry), shared values (contractual continuity). The analysis of dividend policy can provide a reference point for other types of economic relations.

The regulation of capitalism as an economic and social system should not occur only at the level of macro-structures e.g., bailing out banks at risk of failure, as in the case of the great financial crisis of 2008. Regulation cannot ignore contractual relations, especially at the level of microstructures (individual investors, employees, consumers, borrowers), protecting the parties from excessive agency costs, information asymmetry, loss of trust. On the contrary, different types of resources may become subject to exploitation by entities with a stronger bargaining position in contractual relations. This is a situation in which investors are deprived of income due to the increase in agency costs and information asymmetry. Employees, owing to the uncertainty of employment in a given company, cannot reproduce their human capital and consumers make poor purchasing decisions as a result of information asymmetry.

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ORCID iD

Przemysław Wechta https://orcid.org/0000-0002-2031-6948

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Author biography

Przemysław Wechta is a lecturer in the Sociology Faculty at Adam Mickiewicz University, Poznan, Poland. He works in the area of critical social theory and economic sociology. His research interests include social stratification, innovations, entrepreneurship. He is currently working on the concept of managerial social responsibility (MSR).

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