

# Agency Theory, Corporate Governance and Dividend Payout in New Zealand

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## Abstract

This paper examines the effect of internal corporate governance on the likelihood and the level of dividend payout in New Zealand. We find a positive relationship between the level of dividend payout and internal corporate governance. Interestingly, our results also support a non-linear relationship between dividend policy and beneficial director ownership levels. We find evidence to suggest that lower dividend payout coincides with decreasing agency costs arising from increased director-shareholder alignment for beneficial director share ownership less than 26%. The relationship becomes negative when ownership exceeds 56%. The high levels of ownership invoke managers to invest surplus cash to maximize firm value, with dividend policy acting as a substitute for director oversight. Entrenchment exists for ownership levels between 26% and 56%. We also find that external ownership combined with strong board governance may mitigate agency problems.