Intra-firm dividend repatriation policies of German Multinational Enterprises

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Abstract

This paper analyzes the empirical relevance of the Lintner model for cross-border intra-firm dividend payments of wholly-owned foreign affiliates in the manufacturing sector to their parent companies in Germany. Thereby an emphasis is put on the isolation or "true state dependence" as well the impact of various determinants of repatriation policies not considered in the basic Lintner model. Firm-level data from the MiDi database of the Deutsche Bundesbank are used for the period 1999-2005, resulting in approx. 3500 firm-year observations. Results derived based on correlated random effects Tobit estimator signal that the estimates of the target payout ratio and of the degree of dividend smoothing are relatively low once time-invariant unobserved heterogeneity is modelled. These results are in line with the view that for the parent-subsidiary sphere dividend payments are less relevant for signalling and controlling aims. Other instruments like detailed information on balance sheet positions or internal reporting systems and suitable incentive schemes (e.g. internal job promotion) are available to parent companies to monitor and influence the performance and the behaviour of their affiliates' managers. Dividend smoothing and target payout ratios should be lower for cross-border intra-firm dividend decisions. Moreover, we find that dividend policy is significantly influenced by taxes, debt, growth opportunities as well as a host county's level of political risk.

Keywords: Dividend Policy, Lintner Model, State Dependence
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