The type of agency conflict can affect the choice between Outcome and Substitute model. Barca, Becht (2001) in their book record a high concentration of control of corporations in many European countries with single blockholders frequently controlling more than fifty per cent of corporate votes, in contrast a majority of US listed companies have no blockholder with more than six per cent of shares. Thus, the classical conflict between managers and shareholders is an issue for the US economy, not the European companies. Pindado et. al (2012) investigate dividend policy of European family firms and show the importance of taking into account the identity of large shareholders. They show that distributing higher and more stable dividends is used to overcome agency problems between the controlling family and minority investors. Du Boys (2017) studies the influence on conflicts between managers and shareholders and between majority and minority shareholders and identifies their relationships with payout. Through the study of French firms he shows that in France payout is not used to regulate conflicts between majority and minority shareholders, but rather to limit free cash flow risk or conflict between managers and shareholders. The author shows that among other corporate governance practices the majority of board characteristics do not affect dividend payouts, while institutional characteristics do. The idea behind this result – is that different governance practices have limited efficiency to control different types of conflicts. For instance, board efficiency is limited by the fact that managers are founders of the company or a large ownership (Randall et al., 1989). The extension of legal protection with external instruments can defend the interests of minority shareholders from both risks of expropriation by managers or controlling shareholders (Du Boys, 2017). For instance, market control through audit or debt holders activities can be efficient for companies with concentrated ownership while antitakeover provisions can be a good corporate governance mechanism in firms with dispersed ownership (Denis, McConnell, 2003).

We consider if we can associate various dimensions of ISS corporate governance index with two major types of agency conflicts.

As an aggregate measure of the corporate governance quality we use Quality Score developed by Institutional Shareholder Services (ISS). This score has been used in several previous studies to examine the impact of corporate governance on dividend policy (Jiraporn P., 2011, Chang, 2018). It is based on more than 220 qualitative and quantitative factors, which reflect both internal corp­orate mechanisms and the quality of the political and institutional environment in the region. It accounts for regional heterogeneity by allowing set of factors and their weights to vary across countries. Because of this feature, Quality Score can be used to compare companies from different markets and countries without controlling for legal regime or other proxies for the country-level investor protection[[1]](#footnote-1).

Besides Quality Score as a general measure of corporate governance quality, ISS provides scores for more granular categories: Board Structure, Compensation/Remuneration, Shareholder Rights, and Audit and Risk Oversight. This allows us to analyze different types of agency conflicts in the company. Board Score is based on the classical measures of supervising managers’ decisions and the board ability to act in defending shareholders’ interests. However, the board efficiency can be limited by the fact that the directors are appointed on the annual meeting of shareholders. Thus, blockholders can influence board’s decisions even if it is formally independent. Compensation Score is also focused mostly on the conflict between managers and shareholders, as it helps to control managerial opportunistic behavior and does not deal with blockholders’ expropriation. Audit Score can cover both types of conflict by external monitoring of the company performance. Shareholder Score, by the definition, is focused on the defending shareholders’ interests, so it should cover both types of conflicts.

1. Besides, Mitton shows that corporate governance and country-level investor protection work as complements for investor protection. [↑](#footnote-ref-1)